Date: November 18, 2024

To,
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400001
Scrip Code: 544256

To,
National Stock Exchange of India Limited,
Exchange Plaza, C-1, Block-G, BKC,
Bandra (East), Mumbai – 400051
Symbol: PNGJL

Subject: Transcript of Conference Call

Dear Sir/ Madam,

Pursuant to Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of audio call of the Conference Call held on Wednesday, November 13, 2024, at 11:00 A.M.

The details are also available on the website of the Company at https://www.pngjewellers.com

Kindly take the above information on your records.

Thanking You,
For **P N Gadgil Jewellers Limited**

HIRANYAMAI CHAITANYA DESHPANDE

Digitally signed by HIRANYAMAI CHAITANYA DESHPANDE
Date: 2024.11.18 14:55:54 +05'30'

Hiranyamai Kulkarni
Company Secretary & Compliance Officer

"P N Gadgil Jewellers
Q2 FY25 Earnings Conference Call"
November 13, 2024

MANAGEMENT: MR. SAURABH GADGIL – CHAIRMAN AND MANAGING DIRECTOR– P N GADGIL JEWELLERS LIMITED
MR. KIRAN FIRODIYA – EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER – P N GADGIL JEWELLERS LIMITED

MODERATOR: MR. NAVEEN TRIVEDI – MOTILAL OSWAL FINANCIAL SERVICES

Moderator: Ladies and gentlemen, good day and welcome to P N Gadgil Jewellers Q2 FY25 Earnings Conference Call. As a reminder, all participant line will be in 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Naveen Trivedi from Motilal Oswal Financial Services. Thank you and over to you, sir.

Naveen Trivedi: Good morning, everyone. On behalf of Motilal Oswal, I am Naveen Trivedi would like to welcome you all to the P N Gadgil Jewellers Q2 FY25 earnings conference call. From the management today, we have Mr. Saurabh Gadgil, Chairman and Managing Director, Mr. Kiran Firodiya, Executive Director and Group CFO. Since it is the first conference call after IPO, I would request management to give some background and introduction about the company and their future plans. I hand over the call to the management for the opening remarks. Over to you, Saurabh and Kiran.

Saurabh Gadgil: Thank you, Naveen and good morning, everyone. Like Naveen said, it's our first conference call, so we start with a brief on the company. PNG Jewellers draws its legacy from 1832, from the city of Sangli, that's where the company started from. In 1958, the company further expanded to the city of Pune. And then from there, it's been a journey all over Maharashtra. Today, PNG Jewellers is one of the oldest legacy brands in the country, having more than six generations of family members.

Today, having more than three generations of karigars with them, having more than 30-40 lakhs of dedicated loyal customers. Along with that, today, PNG Jewellers is, as of September 30th, present in 39 cities in Maharashtra and Goa, out of which 28 are company-operated stores, and 11 are franchisees, which is a FOCO model. PNG, as of September, had a top line of around INR3,600 crores, with EBITDA of around INR130 crores and a PAT of around INR70 crores. PNG draws its legacy from a deep understanding of the jewellery market.

It's a unique example of an organized family jeweller, where on one side, it functions like a family jeweller when it comes to customer flexibility, customer orders, being like a family doctor to a jeweller. At the same time, it's a very strong process-driven, system-driven organization. We have a lot of highlights when it comes to the peers, which our CFO, Kiran, will touch upon. We are on a fast road track.

Post IPO listing on September 17th, in the month of October, during Navratri, for 9 days, the company started 9 stores, which itself was a big feat. Today, the store tally is at 48 stores. Going ahead, the company has plans to further expand in the state of Maharashtra. The IPO goal was to be the largest player in terms of the number of stores in Maharashtra. Today, we are at number

2. The plan in next year is to be the number 1 player in Maharashtra, both in terms of number of stores and in terms of the top line and the business.

Now, I'll pass the mic over to Kiran to talk a bit on the financials and other USPs compared to the market peers.

Kiran Firodiya: Good morning, everyone. This is Kiran Firodiya from PNG Jewellers. In continuation with what our managing director, Dr. Saurabh Gadgil, just now informed you about the company and whatever we have demonstrated post IPO. The results are now with us, and we have demonstrated the revenue growth of almost 40% on year-on-year basis, as well as we have demonstrated the EBITDA margin also increment by 41.92%, and that has straightway maintained the PAT also by 59.28%.

At the same time, there is an improvement in the cost of goods sold, that is also by 0.5%. We have improvised as compared to last H1. This is the same strategy what we have committed to all our investors during their roadshow and IPO journey. That is what exactly we have demonstrated. As far as object laws of our IPO is concerned, we are keen on utilizing the funds for expansion purpose, as there is no investor that time also.

And today, the end utilization of funds, we have committed to open 9 stores by March 25, which I think Dr. Saurabh just now mentioned that we have delivered in less than 30 days. At the same time, we have discussed also that we will restructure the bank borrowing so that there will be reduction in the finance cost. So, we have successfully completed our IPO on 17th of September, and that is hardly just 2 weeks closer to the Q2. But having said that, we have utilized the funds to swap the existing bank facility. Now restructuring will be in the pipeline and that definitely we will update to you once that has been restored.

So, there are the object laws, the status of the object laws is that we have opened the ninth store that is the commitment for March '25, and utilization of the funds for restructuring of the bank borrowing that entire debt has been reduced drastically and restructuring is in the pipeline. So, this is with respect to the commitment which we are giving at the time of IPO as well as the current financial status.

Saurabh Gadgil: And gentlemen, just to continue ahead, when it comes to revenue per store, when it comes to revenue per square feet, we have the best performance in the industry. Our revenue per square feet is upward of INR6 lakh per square feet. Our revenue per store is upward of INR95 crores for the half year ended September. Our ROCE, ROE both are attractive. Our growth for the last 3-4 years combined CAGR has been upward of 40%.

When it comes to employees, when it comes to longevity, we see a very low labour turnover. Our company is known for its strong bonding along with its customers, with its karigars and also with its employees. We have one of a unique model where almost 50% of our entire sales come from made-to-order business and this helps us to work with lean capital as compared to the competition.

So, my store investment in capex and opex is almost 40%-45% lower than compared to the market and this gives us higher stock turns than the industry. Our stock turns today would be upward of 5 on a company level. Along with this is a strong understanding of the jewellery market, being in the market for almost 20 decades, understanding customer collections, understanding customer needs is what the company takes pride in. Madhuri Dixit has been the brand ambassador for the brand for the last 10 plus years and it's a very successful association.

I can also proudly say that the company enjoys a very strong footfall to conversion ratio. Out of 100 footfalls, more than 93% are converted into actual customers. So, this gives us a very high conversion ratio and does enable us to work with medium-sized stores as compared to competition. And these medium-sized stores give us an edge when it comes to operating costs and when it comes to having a high turnover of stocks. So, the company is today professionally managed.

Our CFO, Mr. Kiran Firodiya, has been a veteran for more than 25 years in the industry. Along with this, our purchase team, sales team, HR, marketing, e-com, all are professionals, each with the company for almost 10 years and cumulatively have experience of more than 20 years-25 years individually. So, it's a very strong professional management team.

We are a great place to work for the last 3 years in a row. We are a great place to work in the retail category by India. We are in the top 10 for the last year. So, the company is focused on growth. The company is focused on delivering its results, focused on efficiency, and the IPO has helped the company to reach a different platform with more resources and a bigger playing field to further fuel its dream and achieve further growth. Thank you, Naveen.

Moderator: Thank you very much. The first question is from the line of Semanto Saini from HS Securities. Please go ahead.

Samantho: Yes. Hi, sir. Thanks for providing the opportunity. So, basically, on the cut of the custom duty, what is the impact of that in our inventory?

Kiran Firodiya: Thank you for the question. This is Kiran Firodiya. The custom duty impact, which has been, you know, on the 22nd of July, the Government of India has decided to cut down the duty and basis of that and the impact of the reduction in the custom duty is INR18.5 crores reduction in the profit.

Samantho: Okay. So, is this only for this quarter or will it be carried in the next quarter also?

Kiran Firodiya: No. This has been done in the same quarter only, that is in Q2. At the same time, we have done the replenishment model aggressively. But if you say the cumulative effect, then there will be only INR3.31 crores is the net impact. But purely if you are asking me what is exactly the impact of custom duty on reduction of the duty, then it is INR18.55 crores.

Samantho: Okay. And as you said, are we planning to expand outside Maharashtra also or like we are looking for the market leader in Maharashtra and then we are looking for expansion plan?

Saurabh Gadgil: Yes. So, to answer your question, the first phase is to be the leader in Maharashtra. So, we are close to that. We had said that we want to be around a 55 to 60 store company in Maharashtra. Today, as we speak, we are a 48-store company. We will be adding another 5 to 6 stores in Q3 and Q4. So, that way that will take the tariff to close to 55. And then in the financial FY25-26, we will be further adding another 10 more stores in Maharashtra.

And post that, we will be looking at expanding in the neighbouring state. As we have mentioned time and again that we would want to follow the Peshwa route. And by that, I mean, post Maharashtra, we will be looking at Madhya Pradesh, Chhattisgarh, Bihar, UP as the state will further expand.

Samantho: Okay. And what was the stud ratio for this quarter?

Saurabh Gadgil: So, the stud ratio for the quarter was around 11%.

Samantho: Okay. And what we are targeting for the whole FY25?

Saurabh Gadgil: So, I think FY25 will be at, I think, around 11% only. Because there has been a diamond, and our study as a category was new to PNG, started only around 6 years back, which has shown very good growth. So, I think we are targeting in the next 2 years to reach the target of 15% for studded.

Samantho: Okay. Thank you. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Pranav from Pink Wealth Advisors. Please go ahead.

Pranav: My question is, sir, in the press release, you have given branch-wise profitability. So, what is that branch-wise, basically?

Kiran Firodiya: So, basically, as a company, by 30th September, we have 39 stores. And as a policy, we are keeping track on per branch. So, we are keeping track of, so there will be allocation of expenses properly, cost centre-wise. So, each store is a profit centre. So, we are allocating cost as per the keeping track on that. So, based on that, we are coming with the branch-wise profitability. With respect to overhead, their basis on revenue, their basis on the inventory, their basis on the manpower. So, accordingly, that revenue will split up. So, we are coming up with that and then the figure comes to branch-wise profitability.

Pranav: So, is it similar to per store profit?

Kiran Firodiya: That is, categorically, we are doing it per store-wise. And when we are talking about, in general, then whatever is my total profit, that we straightaway utilize my number of stores as a denominator to arrive at the per store profitability.

Pranav: Okay. And, sir, the revenue per store, which we have seen uptake in the H1 FY25, since we have opened 9 new stores, so do we see that further, this revenue per store, we are going to see an uptick?

Kiran Firodiya: See, to be honest with you, the same thing we also elaborate in our IPO roadshow also. Whenever we are opening a new store, there is a timeline which requires to achieve to a particular inventory level. So, first target when we open a new store is to reach to break even. And as far as our historical data, which is successfully demonstrated for quite a few stores, we arrive at minimum 15 months to 18 months required for each store to reach at break-even. And then post that, that particular store started contributing to the net profit kitty.

So, as far as new stores, which we have opened in Q3, because these stores open post-September. So, these stores will be definitely profitable in a year's time, because we have opened it before Diwali. So, again, there is a crack in that. If we open the store before the main festival, then chances are high that we can reach to break even in 12 months to 15 months also.

Pranav: And, sir, any update like how has been the response? It is as per your expectation.

Saurabh Gadgil: Yes, the response for the store has been as per expectation. Like we had said before, the stores are in Maharashtra. The stores are followed by a very diligent way of doing a market survey, doing exhibition in those cities and then opening stores. So, the response has been good. And being the festive season, being in the prime of the entire Dussehra, Diwali period, the stores have shown very good performance. And we are happy with the way each store has picked up right from the inception.

Pranav: And, sir, we are seeing some, you know, correction in gold prices. So, if this trend continues, let's say for one quarter, so are we going to see an inventory hit, like inventory loss in our books for the next quarter?

Saurabh Gadgil: See, to answer that, post IPO, we had said that we will be reducing the funds, loans and convert non-fund-based limits to use for gold metal loan. So, that is being done aggressively and we should be looking at hedging to a good extent in Q3. And along with our stock terms, which help us to plan our replacement very effectively, I don't see much impact, even if prices go down.

And the other effect would be that if prices remain a little soft for this quarter, considering the number of weddings which are happening in the country, this should give a big boost to consumption, and we could further enhance the top line and the sales. So, all in all, I think it would be a positive impact if prices remain low.

Pranav: Thank you, sir. Thank you.

Moderator: Thank you. The next question is from the line of Deepak Lalwani from Unifi Capital. Please go ahead.

Deepak Lalwani: Hi, sir. Thank you for the opportunity. So, my first question is on the festive demand. Can you just give a flavour of how the festive demand panned out for us and, yes, and on the industry in general?

Saurabh Gadgil: So, the festive demand has been good for us, considering that we have opened more stores and, you know, we are visible along with our new two collections we had launched with Madhuri

Dixit, the diamond collection ENA and the gold collection Saptam. So, the demand was strong. In terms of volumes, we would have grown around 7% to 8% over last Diwali, but in value we are up around 35% to 40%.

Bullion had been strong continuously in the entire period where it was seen to be primarily investment demand and the impact of Gold-Sovereign bond being discontinued. Natural diamonds have remained strong and there has been no impact of on the sale, which has seen a steady growth over last Diwali. All in all, if you look at its value-wise, we have seen a good Diwali and almost all the stores have shown good performance. So, I think overall it's been a good festive season.

Deepak Lalwani: Sure, that is good to hear. So, this 35% value growth, does it include the new stores, or the existing stores itself did 35% growth?

Saurabh Gadgil: So, if you consider new stores, the growth would be higher. What we are talking right now is Apple to Apple. So, talking of the, the 39-38 stores, before the opening of 9 stores. So, the value growth is in Apple-to-Apple comparison. Sure.

Deepak Lalwani: That's great to hear. And the new store economics, can you just share the revenue per store that we do on a steady state basis and how much are we at today for the new store?

Kiran Firodiya: So, new store, we are targeting to achieve 1.5 stock turn and that we are targeting to reach by first quarter of 26.

Deepak Lalwani: Okay. So, in revenue terms, what would that mean? 1.5 stock turns.

Kiran Firodiya: So, typically it will reach to around INR60 crores-INR65 crores. Because, because when we are opening new store, that time we are putting the inventory of around INR30 crores to INR33 crores, which with considering the costing aspect, then it will reach in the range of around INR50 crores to INR60 crores.

Saurabh Gadgil: Inventory level at our stores is a little lower than the competition. So, that's why we work with a lesser, more linear inventory level, because almost one third of my business comes from made-to-order business, which is completely customer-advanced based, and I don't need to have inventory for that. So, that's why at our store, when they mature, we reach around a 4 to 4.5 stock turn. But here, when we're looking at 1.5 stock turn, so that will be around INR60 crores-INR65 crores of top line.

Deepak Lalwani: Okay. And as they mature, what would be the revenue per store that we should pencil in?

Saurabh Gadgil: So, I think around INR120 crores to INR130 crores should be where we should be looking at when the store matures.

Deepak Lalwani: Got it, sir. And so, on the opex run rate today, we are at an INR80 crores run rate, INR27 crores employee and other expenses of INR54 crores. Since we have opened these new stores, our run rate will likely go up. So, if you can indicate what should one be budgeting in for this?

Kiran Firodiya: I agree with you, because the moment we open the new store, then there will definitely be increment in the salary cost, increment in the other expenses, as well as increment in the marketing cost. But having said that, we are keeping the same momentum and that is what we have demonstrated in our entire business plan also, that these stores will require minimum 1.5 to come at the breakeven. So, our main target after opening these stores is to reach to a breakeven so that cost can be compensated.

Deepak Lalwani: Got it. Okay. And so, on the restructuring of that part, what is exactly pending? You said that you had a pipeline. So, what is exactly pending and by when should that be completed? And after we do this, what should be the hedging percentage that the company will sort of continue with?

Kiran Firodiya: So that is really a good question. So, in terms of restructuring, first is that we repay the entire term loan and working capital and we have break the consortium because pre-IPO we are working in a consortium model, wherein the State bank is the leader in the consortium. Now, the consortium has break, we have repaid the entire amount. Now, the status is that we are really tied up in opening 9 stores and Diwali festival being the primary festival of our industry. So, we are concentrating on that festival.

At the same time, we are in talking terms with all the existing bankers to release our security, so that they have completely released the charge also. So, that modification charge is already in the pipeline. And we are hoping that by this Q3, all the banking activities can be restored. And we are definitely going ahead with the GML facility activated. So, right now, if you are asking me, as on, say, mid of the November, we are hedging through GML around 20%-25%.

Deepak Lalwani: Okay, so we have INR1,500 crores of inventory, out of that 25% orders through GML, correct?

Kiran Firodiya: No. Actually, after festival, the inventory per store has been reduced because these are my festival inventory. So, post festival, the inventory right now is to the tune of INR1200 crores, out of which we are utilizing GML for around 20%-25%. And aggressively, we are doing the replenishment of the gold bullion that is to the tune of 30%. So, that is also considering under the hedge. But considering that replenishment as well as hedge, then we are definitely in the range of 50%-55%.

Deepak Lalwani: Understood, got it. And so, do we follow any hedging mechanism on the MCX, through the MCX route also that we hedge through forward contracts?

Kiran Firodiya: Yes, we have, but that is not aggressively because considering the premium and considering the amount that is required for the particular purpose, we are right now not activated that aggressively because we are genuinely looking for GML. Because by going with the GML, then there are two benefits. One is that we can always take the benefit of hedging and at the same time, we can, you know, save the finance cost also. So, that is our primary focus that we will increase our GML portion first. And then in case required, we are going ahead with MCX. That portion we have already activated, but not that aggressively as we are looking for GML.

Deepak Lalwani: Sure, understood. And so, my last question is on your store expansion strategy. If you can break up the 48 stores today that we have into own stores and franchisee stores and going forward, in which format will we add stores and how many stores will we add?

Saurabh Gadgil: So, out of the 48 stores, 11 are franchisees. By franchise owned, I mean company operated and the rest all are company-owned stores. And in the phase one, when you are going to be the leader in Maharashtra, all the other coming stores ahead. So, another 5 stores in Q3, Q4 of this financial year and 10 stores in the next financial year would be all company-owned, company-operated.

This is the area of focus. Along the way, we may add 2, 3 franchises in smaller towns if a good opportunity comes up, but that will not be the focus area. So, we are looking at being around a 65-store company by the end of next financial year, being the number one player in Maharashtra in terms of number of stores. And post that, the journey will move to the neighbouring states.

Deepak Lalwani: Understood. And so, one question for Kiran, sir. We had a higher other income in this quarter. So, any one-off in that number?

Kiran Firodiya: Yes. So, now, that is also a good question because we have received the income tax refund from tax authorities. So, that refund has an interest portion. So, that portion is around 3.8 crores. So, that is the reason that other income has shot up.

Deepak Lalwani: Mr. Deepak, does that answer your question?

Deepak Lalwani: Yes, ma'am. Thank you.

Moderator: Thank you. The next question is from the line of Bala Murali Krishna from Oman Investments Advisor. Please go ahead.

Bala Murali Krishna: Hi, good morning. So, regarding the margins, everything is good. The return is good, and we have very good cash store sales. So, the margins are very low as compared to the competitors. So, when we can expect the margins to reach the competitor levels and what are the actions, we are planning to reach that level?

Kiran Firodiya: Yes. So, typically, we are working in a retail and non-retail model wherein our focus going forward is to increase the retail portion, wherein currently we are having almost 12% as a gross margin. But when we compare retail and non-retail, the margin slightly goes down. But when we are focusing on retail margin improvement, you are definitely going to see next quarter, that is Q3 and Q4. Definitely, there will be improvement in the margin, and we are in line with the competitors.

Bala Murali Krishna: Okay. So, we can expect a 7% kind of margin.

Kiran Firodiya: So, typically, we are planning to reach 10% to 12% gross margin in the next 2 to 3 quarters.

Bala Murali Krishna: Okay. And regarding hedging, what is the current percentage of hedging we have and after making these changes and bullion and this gold from the bank, we are going to borrow. So, after that, what could be the hedging percentage?

Kiran Firodiya: So, currently, we are doing hedging through GML is around 20% and through replenishment model around 30%. So, that is around 50% to 55% we are currently doing. Our target is to reach around 70% by March 25, because as we just now informed you that we are in the restructuring in the banker. So, hopefully, these restructuring will complete by Q3 and its real benefit you can able to see in Q4.

Bala Murali Krishna: Okay. And this is a follow-up on that. So, some media interaction told that we are going to get some inventory gains because of the hike in the gold, but this has not reflected in even Q1 or Q2 numbers. So, and as asked by the previous participant, if the hedging is 50%, so definitely we are going to take some inventory loss in the next 1 or 2 quarters if there is correction.

Kiran Firodiya: That is what. So, I am coming to that since we are not ahead. Right now, we are not able to book the profit of almost INR19 crores because the inventory which we are carrying in the books is at the rate of 7700. But as compared to the mark-to-margin, it is 7850. So, we are following the average inventory model wherein cost or market price whichever is lower.

If I am going ahead with the 100% hedging, then definitely my profit will be high and INR18.95 crores is the profit that I have parked for next quarter. So, if I have done the 100% hedging, then you will see the gross margin also affected that way. But since we have not hedged fully only 15%, so INR18.95 crores which is for Q2, that we are able to see the profit jump in Q3.

Bala Murali Krishna: But my question is that whatever the gold purchased in maybe Q1 mid or before Q2 at the lower price, maybe you would have sold at a higher price. So, there should be some gains. If you are hedging 100%, maybe there will be marginal gains. But if you are hedging 50%, that is what was told in the media interaction also.

So, we are going to see very huge inventory gains in the coming quarters. So, if you are hedging very less percentage, then it is the case. So, we will see the inventory gains. But even though if you are hedging 150% only, we are not able to see any inventory gains.

Kiran Firodiya: So, this quarter, which is Q2, there is no hedging gain for us. Means if you are saying that in your profit, what is the amount that is lying on account of hedging. So, there is no hedging gain, which we have observed in the Q2. In fact, we have shown the gross profit at actual. If we go ahead with the hedging, then there will be nullifying effect. But that effect of gain is all around INR19 crores, which we are definitely going to see in Q3.

Bala Murali Krishna: I am asking about inventory gain.

Kiran Firodiya: I am giving the answer for inventory gain only.

Bala Murali Krishna: Okay. And regarding this store opening, so listed around September 17 and the store opening started in October 2. So, we have consumed around INR280 crores of the store openings as per the chart. So, I think a company would have already invested this amount before our listing for store opening, because it is not feasible to open that many stores in those 15-20 days period. So, if they are already invested, then what is the purpose of utilizing these assets again for the same store?

Kiran Firodiya: Yes, you are right. So, whatever. So, at the time of IPO and during the roadshow also, we have clearly demonstrated, we have leave and license, we have all the agreements in place, we have identified the place, we have already signed up the LOI with the landlord. So, everything is in pipeline. We are only waiting for the IPO to complete and so that that fund can be utilized to infuse the inventory. So, the things are very well planned in advance.

It is almost 3 months exercise to rigorously follow up everything. And for particularly each store, we are utilizing around 1.3 to 1.5 crores as a capex. So, most of the capex initially like advance to landlord for 3 to 4 months rental. So, these things we have already taken before the IPO, when we got the NOD from SEBI and this stock exchanges.

Bala Murali Krishna: Okay, understood. Lastly, on this Q1 number. So, most of the competitors have posted good growth in the top line and bottom line. But ours is not the case. We have a decline in the bottom line. So, what is the reason for this one and what is the reason for the margin stop in the Q1? We have not conducted any call after Q1 release, but even though a lot of companies who came to IPO at your time, after releasing the Q1 results, they have conducted a conference call.

Kiran Firodiya: Yes, that is really a good question. So, to be honest with you, as we discussed in the answer to one of the questions, that we have completed the IPO on 17th of September. So, there is hardly 2 weeks to complete the quarter. Even though after completing the IPO, we are utilizing, and our keen interest is to focus on the object clause. Immediately, we cannot expect that margin will be improved overnight or kind of thing. There is some exercise which we need to do.

That plan has already been established sign off by the management and that is now in the deployment stage. At the same time, as I mentioned that due to reduction in the custom duty, we have seen the dip in the margin as compared to the tune of INR17.5 crores. So, these are the main reasons wherein we saw some slight negative returns in terms of as compared to Q1 versus Q2.

But definitely, sale is continuously happening because there is other side to the reduction in the custom duty that our sale has increased by 20%-25% after 22nd of July. So, when we see at the one side, there is reduction in the gold prices. On the other side, we also observe that there is increment in the 20%-25% sale as well. I think Saurabh will also want to add something.

Bala Murali Krishna: My question is regarding this Q1 numbers from the Q4 of the last year. So, there is some marginal improvement in the top line, but the bottom line declined significantly. So, what led to this?

Kiran Firodiya: No, I think our margins are intact. If you are talking about March 24 or even talking about Q1, then our margins and our top line, bottom line is intact.

Bala Murali Krishna: No, the bottom line in March 24, it is INR55 crores and when it comes to June 24, it is INR35 crores. So, the margins are rising...

Kiran Firodiya: Typically, this March 24 figure is a consolidation of 12-month figure. It is not only for 1 quarter. So, definitely, when we are in the beginning of the first quarter, in our industry, observe that first quarter and third quarter is really well. But in terms of first quarter, the Gudi Padwa and Akshaya Tritiya happens in the beginning. On first week of April, we are facing Gudi Padwa and on 11th of May, we are observing this Akshaya Tritiya.

Post that, there is totally 45 days silent period and during that period, we are also focusing more on IPO activity, road shows, our more focus is on to complete the compliance part. So, I totally agree that focus on business is rather than we are also doing some LOI activity, further expansion plan. So, these are the thing in the pipeline. But I will ensure you that next 2 quarters, you will definitely see a sharp increment in the bottom line.

Bala Murali Krishna: Yes, sure. Thanks a lot. All the best.

Moderator: Thank you. The next question is from the line of Vikrant Kashyap from Asian Market Securities. Please go ahead.

Vikrant Kashyap: Good afternoon and congratulations on good numbers. First of all, could you please highlight what is your goal sourcing mix? How much do you think 20%-25% is currently GML and where does the risk proportion come from, bullion dealers etc.? Where do you source gold from?

Kiran Firodiya: Yes, so good morning. So, right now, we are going ahead with almost 20%-22% through GML and that GML facilities predominantly we are able to utilize the IPO proceeding for getting the GML. At the same time, this proportion is definitely going to increase and reach to 50%-55% which is currently 20% once we seal the bank restructuring. So, there will be definitely increment in the hedging portion.

And the other portion is that with respect to sourcing, currently we are procuring gold from banks as well as IIBX and we have few vendors who are KYC compliant and with whom we have a very strict agreement in place as a bullion supplier. But first priority is to buy the metal through GML way and the second is by way of IIBX that is in the GIFT City.

Vikrant Kashyap: So, can you please give me the mix right now? What is the current mix in the last quarter?

Kiran Firodiya: Mix in terms of what, you are talking about gold, silver and diamond?

Vikrant Kashyap: I am just talking about gold sourcing. So, 20% is from GML. There will be some portion from IIBX, some from banks, some from bullion dealers. So, how is the mix? I am just trying to understand. What is the ratio?

Kiran Firodiya: So, you can say that typically 50%-60% we are buying spot by paying the upfront amount because there is a very heavy demand for us to open the 9 stores. So, inventory has to infuse in less than 20-25 days. So, 50%-60% of our entire gold procured spot from the vendor. Remaining we are almost 10%-15% we are procuring from…

Saurabh Gadgil: To answer your question, you are saying the mix of the entire gold. So, like Kiran mentioned, 25% is GML. Around 30% is old gold which we receive, which we recycle. And the balance

45% is what we purchase from the open market. Now, this is from bullion dealers spread across Mumbai, Ahmedabad or through GIFT City, IIBX.

Vikrant Kashyap: When you were talking about hedging, inventory gain and losses, so 45% of the inventory is on direct risk of market movement in gold prices.

Saurabh Gadgil: As of now.

Vikrant Kashyap: So, in the last quarter, we must have gained in terms of inventory. But looking at the gold prices and their volatility, if you are not hedging up to the mark, so you are in a big risk when the prices fall.

Saurabh Gadgil: We have also mentioned this pre-IPO that we will be hedging, we will be moving to the industry's handover of 75% to 80%. And like CFO mentioned that currently the non-fund-based limits with banks are being processed. So, the GML portion which is currently at 20%-25% will move to close to 50%. And then 30% would be my mix of old gold. So, that will ensure that around 75% to 80% hedge and in tune with the market. So, this will happen in Q3.

Vikrant Kashyap: Okay. And could you also give me the numbers of volume growth in the last quarter? You mentioned 7%-8% of the volume growth during Deepavali and what was the volume growth in the last quarter for gold in kgs and for diamond in carats?

Kiran Firodiya: So, if you are asking me only with respect to Q2, then Q2 as compared to last year Q2 that last year we have 1,142 kg against which current Q2 is 1,360 kg. So, that is 19.12% growth we are observing only gold. Silver is almost stable. That is, last year we have done the term is around 10,500 kg and that is more or less stable this quarter also. In terms of diamond, last year Q2 we have done 3400 carats and this year we have done 4400 carats. So, overall, there is improvement of 11% only with respect to Q2.

Vikrant Kashyap: Okay. That is really good to see. Most of the competitors have not grown in volume terms and it is good to see that our company is growing.

Saurabh Gadgil: Our operations are focusing on a state going deeper in that state and that is why we have seen our merchandising very strong; market understanding is strong and that is why we have been able to grow consistently year over years.

Vikrant Kashyap: And in terms of gold making, so you have your own Karigar, and do you also outsource to other large players?

Saurabh Gadgil: It is a mixture of both. So, we have in-house contract Karigar and also, we work with almost all the major manufacturers right from the industry players like Sky Gold, to players in Calcutta, to players in Jaipur, depending on the merchandise and depending on the need.

Vikrant Kashyap: Okay. So, one question on competition. So, everyone has highlighted that there has been rising competition and there has been offering on discounts on making charges even in gold exchanges.

So, do you see this is a risk going forward, as you are opening new stores every year to attain the ratio that you are selling? So, how will competition play into your planning?

Saurabh Gadgil: See, we look at ourselves, we benchmark upon what we have been doing in the past, we benchmark on it, we try to understand what the market is and how uniquely we can position ourselves. So, our entire premise is trust, our entire premise is transparency, honesty and we have the company never focused on discounts or we are not a discounted company and even going ahead we will be focusing on the same. So, we are rightly priced, we have fair value, and we ensure that we are with customers for decades and that has been our USP. So, discounting will never be a focus area for us. Okay.

Vikrant Kashyap: And one question, after seeing the sharp rising gold prices, have you seen a rising demand for 18 carat gold compared to 22 carats?

Saurabh Gadgil: 18 carat gold is already there in the diamond jewellery category which is accepted in Pan India. When it comes to gold jewellery, these are early days still, people are toying with it, people are experimenting, but it is not mainstream. Time will say whether it will be accepted and whether it will be used, but as of now it is still 22 carat which is being bought and sold.

Vikrant Kashyap: And our last question is with regard to lab-grown diamonds. So, in the western and northern parts we are hearing a lot of buzz about LGD, and everyone is looking at it very aggressively. So, do you have any plans to foray into lab-grown diamonds to your own store, maybe different formats or you are happy with diamond standard gold jewellery?

Saurabh Gadgil: We track the market; we always keep a tap on demand from our consumers and as of now there isn't any net demand for us to start Labro and Diamonds or go in that category. We are seeing growth in the natural diamond space, and we are happy with that. Our customers are happy with that. So, the company as of now has no plans to enter that space but like they say, never say never. If the market demands for that and if our consumers are demanding for that, the company can explore the options.

Vikrant Kashyap: Okay. Thank you. And last question on your customer base. So, you have a very strong loyal customer base. Can you show some numbers on how has it moved in the last 2 years-3 years?

Saurabh Gadgil: So, the customer base has been growing. We track the customer base very minutely. We have a very strong loyalty program and more than 2.53 million customers who are active customers in the program. So, we are in constant touch with them, and we categorize them as per their shopping pattern, as per their longevity.

So, it's a program which we really work actively on and like I mentioned before also that we believe in a lot of one-on-one communication with the customer, being in real-time touch with them and all our branches, all our people are really employed to undertake a lot of these detailed activities to ensure that the consumer outreach is properly done.

Vikrant Kashyap: Okay. Thank you for answering my question. Wish you very best of luck, Saurabh and Kiran. And I have one more question and I would like to connect with you later.

Moderator: Thank you. The next question is from the line of Arpit Shah from Stallion Asset. Please go ahead.

Arpit Shah: I have a couple of questions regarding the business. I just wanted to know what is the difference between the retail and the non-retail side of our revenues? Because in this quarter, I think we have put about INR2,000 crores of revenue and the retail sales have been around INR1,200 and INR1250 crores. So, what is the difference on that? What is the non-retail side of the business?

Kiran Firodiya: So that is really a good question because we are considering retail means the business we have carried out in across my stores and non-retail means my e-commerce franchisee, then my refinery sale. So, these are my sales which is not happening across the store. These we are considering non-retail. And this portion we are going forward, trying to reduce and we have more focusing on retail stores only.

Arpit Shah: Got it. So, refinery, you mean bullion sales? Is that the one?

Kiran Firodiya: Yes. That is the old gold which we have received from the customer that we have to recycle, and we have to get it a pure gold in the format. So, that is the way we are doing it, a refinery sale.

Arpit Shah: Got it. And if you can just split out the store economics, so let's say for FOCO and COCO. So, what kind of store economics do we have and what kind of store sizes, what kind of sales per store, inventory per store, how the e-commerce looks like and what is the ROC per store is you can give out between COCO and FOCO.

Kiran Firodiya: So, start with this FOCO store because typically we are planning to infuse around INR30 crores to INR32 crores of the inventory and 1.5 to 1.75 is the investment that we are doing in terms of capex. When we open the new store, that company store, that store size is around 3,500 to 4,000 square feet and the initial focus is on to reach to a break-even because 1.5 stock ton is required to reach to a break-even for newly open stores. So, our focus is when we open a company-owned store is to reach to a break-even.

Now, there are two ways to look at it. If we are able to open the store before our main festival like Navratri and Diwali, then we have observed based on our historical data around 12 to 15 months required to reach to a break-even and if we open the stores post Diwali, then it is taking 3 months extra that is 15 to 18 months to reach to a break-even and once that break-even has been completed, then definitely that particular store is also contributed to the bottom line. With respect to the gross margin that my retail store is currently working with 11% to 13% as far as gross margins are concerned and EBITDA, we are working with 7%.

Arpit Shah: Is it pre-industry or post-industry?

Kiran Firodiya: Post industry

Arpit Shah: So, what are the rentals after that?

Kiran Firodiya: So, rental is considered in that.

Arpit Shah: So, it is pre-industry, right?

Kiran Firodiya: Yes. And with respect to franchisee operation, so franchisee, they are operating with the space of around 1,500 to 2,000 square feet. So, they are almost one-third of the company store size and company store economic. So, they are carrying around INR11 crores to INR12 crores of the inventory and they are doing some INR0.5 crores or 0.75 crores on the capex part and they are typically doing 3 to 3.5 stock turn in 20 months to 24 months and that is how they are reaching to INR40 crores to INR42 crores with the turnover and they are also getting around 5% to 6% EBITDA.

So, that is how the franchise is doing and the first franchise we started in 2018. So, almost it is like 5 to 6 years. So, all rate gain is also with the franchisee, all expenses bear by the franchisee, only branch manager is on our payroll. So, entire remaining cost is bore by the franchise owner. There is no fixed commitment that company is giving to them with other competitor or few of the competitors are working. We are not working on that model. So, it is purely a plain business.

Whatever material we are transferring to this franchisee that is considered as pure cash sale for us. We are doing the entire business in advance. So, all the marketing is done by the company for the franchisee. So, the franchisee is getting around 8% to 9% as far as the returns are concerned and plus the rate gain is also lying with the franchisee. So, roughly 15% to 16% they are earning with us.

Arpit Shah: 18% to 19% percent means what sorry?

Kiran Firodiya: 15% to 18% they are earning with us.

Arpit Shah: That would be their ROC, right? 15% to 18%.

Kiran Firodiya: Yes, that is how the amount they have invested. See to be honest with your franchisee if they have their own source of funds then they can save on finance, they have their own premises then they can save on rental. So, slightly 2% to 4% deviation here and there but around in that range only all franchisees are earning with us.

Arpit Shah: And what kind of gross margin we make after selling it to franchisee?

Kiran Firodiya: So, it is around 2% to 3% we are getting. So, there are two ways to look at it. One is with respect to gross margin and other is that we are also charging some royalty and management recovery also from them. So, 0.5% by that way. So, 3% is the amount that we are gaining from the franchisee operation.

Arpit Shah: So, 2% to 3% is gross margin, 0.5% is royalty from the franchisee.

Kiran Firodiya: Yes. So, totality it is coming to 3% gross margin.

Arpit Shah: Okay. So, what kind of ROC do we do on the COCO, let us say after 2 years or 3 years?

Kiran Firodiya: So, COCO if you are asking me, then pre-IPO we are in the range of 28%. Now, post-IPO since we have offered shares, so I think the ROC and ROE ratios are a little bit hampered. But definitely in next 2 to 3 quarters once the business is settled and profitability is also settled then definitely it will again reach to that level.

Arpit Shah: So, on the peak sales you will be doing about 5x inventory, right? So, that is about INR150 crores sales. On that INR150 crores sales you will be making on let us say a margin of 12%. So, that would be around INR18 crores, and you will making EBITDA margin of 7%. So, about INR10 crores would be the EBITDA. Your capex would be around INR35 crores which is inventory plus this.

Kiran Firodiya: No, capex is not INR35 crores. capex is only INR1.5 crores to INR1.75 crores.

Arpit Shah: I mean capex meaning the building cost plus inventory. I mean that. So, that is around INR35 crores including the capex cost. So, you will be making INR10 crores on INR30 crores-INR35 crores kind of investment over a 2-year, 3-year period once the store is matured then that is how it starts. How will sales look like let us say year 1, year 2, year 3?

Kiran Firodiya: You are talking about sales?

Arpit Shah: Yes, sales.

Kiran Firodiya: So, sales if you are asking me last year H1 versus this year H1 then there is a growth of almost 33% and total overall growth.

Arpit Shah: No, I mean if you open a new store what will be the year 1 sale, year 2 sale and year 3 sale?

Kiran Firodiya: So, you are talking about the recent store which you have opened?

Arpit Shah: No, in the past let us say if you would have opened stores how the unit economics would have looked let us say you would have opened a store let us say in 2021 or 2020. What is the year 1 sales? What is the year 2? How would the maturity be increased once the store like hitting the highest inventory?

Kiran Firodiya: Typically, 2 years to 2.5 years the store will get matured in terms of, they are reaching to a stock turn of you know in the range of 3.5 to 4.5.

Arpit Shah: Okay, that is in 2-2.5 years.

Kiran Firodiya: Yes, roughly 30 months is the period which we consider as a period for getting it matured because by that time my employees settle there, they understand the surroundings, they understand the competitor, they can have a many BTL, ATL activities wherein they connect with the customer.

At the same time, we are also doing our pitching in terms of marketing aggressively. There are some events, there are some also there are new collection launch. We can also understand the nerve of the people who is staying nearby. So around 30 months-35 months the store will get matured and by saying matured it will reach to a stock turn of 3.5 to 4.5. Got it.

Arpit Shah: And how should we look at the growth let's say in FY25 and FY26 because this quarter it grew about 47% driven by gold prices as well as volume growth for us. So how should we look let's say FY25 and FY26 what kind of revenue growth are we targeting?

Kiran Firodiya: So, with respect to the top line we are targeting around INR8,000 crores for March 25 and around INR9,500 crores for March 26.

Moderator: Thank you. The next question is from the line of Dinesh from Finsight Ventures. Please go ahead.

Dinesh: Okay sir. First of all, thank you for taking my questions and you know really congratulations on a really great set of numbers. So, my question is, see I stay in Chinchwad, so I see quite a few you know jewellery stores nearby around. I happen to visit mostly the P. N. Gadgil & Sons there because that's the nearest one to my house.

My question is how do you differentiate between P N Gadgil, and you know PNG Jewellers and P. N. Gadgil & Sons there? Because I've been a frequent buyer of gold here and now and then every few years. I really don't see any differentiation between you know the two franchises. I mean they look very similar. How as a customer I should differentiate you know that I'm sure this is across most of the buyers in Maharashtra.

Saurabh Gadgil: I'll answer your question. For this I think it has been handled very long ago. Today buyers are very much aware primarily because PNG as a brand is only used by us. In all the communication, the other side only says P N Gadgil & Sons. So, the PNG logo, the PNG file lies with us. We are very differentiated, and the biggest differentiator is in the customer relationship, in design, in the store layout experience.

So, there's been enough, and more awareness activity is done and today I think when you talk to customer at large there is no confusion. Somebody may choose to go to his choice because of the convenience and distance but beyond that there is no other point which will really confuse the customer. Having said that there has been no growth from their side for the last 4 or 5 years. We a fast-growing company and we are there in all the relevant pockets of the city. So, I don't see this as being a challenge for us even now or in the future also.

Dinesh: Okay so are you seeing any competition among the two branches or the two groups?

Saurabh Gadgil: We don't track them separately. We look at them at any other competition and we always strive to benchmark and be even better than the competition. So that is how we look at them.

Dinesh: Okay another question like on the similar lines. I see I think Tanishq has somewhere around 65 to 70 stores in Maharashtra and you are saying that we will be the number one store in next maybe 2 years. [inaudible]

Moderator: Due to no response from the current participant, we will move on to the next participant. The next question is from the line of Sanjaya from Ampersand Capital. Please go ahead.

Sanjaya: Hi sir thanks a lot for the opportunity and you've already explained most of the things. I just wanted to reconfirm that you are looking at your gross margin to expand to some 11%-12 % over next 1 or 3 quarters. Is that correct sir?

Saurabh Gadgil: Yes correct

Sanjaya: And is it because of some that inventory loss which you had provided for in quarter that will reverse or what exactly it is?

Kiran Firodiya: There is no loss or anything as such but as we are planning to increase the studded portion, we are working on aggressively to increase the jewellery sale as we have added 9 new stores also in our total store count. So that is definitely going to increase the stock turns as well. So having said that this is collective effort on terms of sale at the same time we are planning to reduce the finance cost.

Because earlier we have a cost of debt is around 9% which we are planning to reduce to 5 to 5 and a 0.5% by going ahead with the gold metal loan and at the same time when we are procuring gold from IIBX then there is a reduction of almost 0.7% to 08%t on the total procurement cost. Also, we are we have started already negotiating with the existing Karigars to reduce the making charges also. So having said that collective efforts from all these segments will definitely improve my gross margin by you can say that next 1% to 2%.

Moderator: Thank you. Ladies and gentlemen due to time constraint we will take that as the last question. I would now like to hand the conference over to Mr. Naveen Trivedi from Motilal Oswal Financial Services for closing comments.

Naveen Trivedi: Thank you everyone for participating in the conference call. Thank you, Saurabh and Kishan, for sharing the insightful session. Any closing comments from Saurabh?

Saurabh Gadgil: So, I think Naveen thank you for organizing this. Thank you for all the participants for showing interest and being here in the conference and asking questions. If you need any further information, the management is more than happy to answer queries, and this was a great experience for us being the first conference in a post listing.

It was a wonderful experience. I hope you were able to answer questions but surely if you have any further questions any further clarification the company is more than happy to answer them. Thank you once again everybody.

Moderator: On behalf of Motilal Oswal Financial Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.