"Ethos Limited Q3 FY16 Earnings Conference Call"

February 09, 2016

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Moderator: Ladies and gentlemen, Good Day and Welcome to the Ethos Limited Q3 FY16 Earnings Conference Call. This Conference Call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Yashovardhan Saboo – Chief Executive Officer from Ethos Limited. Thank you, and over to you, Mr. Saboo.

Yashovardhan Saboo: Good afternoon and a very warm welcome to all the participants at this earnings call. I am joined at this call by my colleagues Mr. Sanjeev Masown – CFO of KDDL and Mr. C. Raja Sekhar – CFO of Ethos, our Retail Arm, we also have with us representatives from SGA, our Investor Relations advisors.

The Financial Results and Presentation is uploaded on the BSE website as well as our company website. I will now give you a brief update on the Business followed by a Commentary on Financial Results.

Let me begin with the consolidated results. In nine months of FY16, the company registered revenue growth of 12% growing to Rs.342 crores from Rs.304 crores with an EBITDA of Rs.26 crores and EBITDA margin of 7.7%. The net profit after minority interest has grown by 33% to Rs.8.4 crores. The net profit margin is at 2.5% expanding by 40 basis points year-on-year. Cash PAT for the year is at Rs.17 crores, a growth of 12% compared to the same period in the previous year.

Coming to standalone results for the nine months FY16 standalone revenues were at Rs.88 crores EBITDA was at Rs.15 crores an EBITDA margin at 17%. The profit after tax stands at Rs.4 crores. As we can see it has been a tough quarter, as we have been conveying over in our previous calls, our manufacturing business has been impacted by the overall sluggishness in the manufacturing sector coupled with a softening of demand for Watch Components in the global watch industry. The Swiss Watch industry exports during 2015 to major markets have witnessed a significant downtrend and this is for two main reasons. The first is a decline in China and Hong Kong markets, the two leading markets for the Swiss Watch industry caused by a lower Chinese economic growth, a curb on luxury products by the Chinese government leading to an amassment of inventories in the area and with brands.

The second is a decline in other important markets like Russia, Eastern Europe and Middle East due to decline in commodities including oil prices. We believe that the Swiss Watch industry will be back to a normal level in about next two quarters post corrections of the pipeline inventory.

Our Precision Engineering business has also been impacted by the overall sluggishness in manufacturing sector wherein the manufacturing growth has been the lowest in the domestic market in the last two years and the customers have deferred and delayed many of their projects. The existing flow or RFQs and leading indicators are on an uptrend and we expect that the Precision Engineering business will also witness healthy growth from the next quarter onwards.

Overall we feel it to be a temporary phenomenon and an upturn will start from the next quarter and we will soon be back on a healthy growth trend. With the objective of capitalizing on our Precision Manufacturing capabilities in our Eigen project we are expanding this business division with a new facility at Bengaluru, Karnataka where we plan to add to our existing capacity of precision stampings and progressive tooling and also had new capacity for injection modeling, machining and electro plating to cater to the specialized demand from high growth, high margin industries in various segments. The land for this project has already been allotted to us and work is progressing as scheduled. The project cost will be approximately Rs.25 crores spread over a 2-year period and we will finance it primarily with debt financing and internal accruals. The plant will be operational in phases starting at the end of FY17. This plant will enable us to emerge as a strong player in the organized sector for Precision Engineering components. We expect the manufacturing business will again start witnessing revenue and profitability growth in the next few quarters.

I now come to discuss on Ethos - Our Retail Arm. In the nine month ended 31st December, 2015 the company ended this period with 41 stores across the country, 8 Summit Stores, 4 Duty Free Stores, 2 Duty Paid Airport Stores and 27 Ethos Stores comprising in this 41.

Our focus continues on the rationalizing and optimizing our physical presence in India together with the Online Channel creating an effective Omni-Channel Retail business. During the quarter we have added a store at Mumbai Airport New Domestic Terminal D2. We are also glad to share the Store in Gurgaon which was shut down temporarily due to fire incident has resumed operations and is back to full strength.

During the quarter closed the island Store at Delhi International Airport Terminal 3 Duty Free. This is a small store which was created as an island ,this has been closed down. We continue to run our main store at the Duty Free area at Terminal 3 of Delhi International Airport. We have also closed one of our stores at Inorbit Mall, Mumbai in January 2016 which brings our store count to 40 as on date. Our quarterly revenue continues to grow at a healthy double-digit growth year-on-year this quarter was a special one as the company achieved a coveted milestone revenue across Rs.100 crores for the first time in a single quarter.

During Q3 FY16 the revenues grew by 18% year-on-year on the back of healthy same store growth of 15% which compares quite favorably with the retail business in India in general and to watch segment in particular. Our continuous emphasis on reaching out to our customers through online platform is continuing to bear strong results. We witnessed highest ever visitors in a quarter, more than 2.17 million visitors on ethoswatches.com. Revenue from online lead generation grew by 55% year-on-year to Rs.35 crores thus constituting about 30% on our revenue in Q3.

For nine months of FY16, revenue was at Rs.252 crores growing by 23% over previous year and Rs.206 crores in the same period Y-T-D. Same store billing growth was healthy 17% online platform contributed about Rs.82 crores that is 29% of sales.

The growing proportion of revenue from online platform is enabling us to capture benefits of operating leverage, the combined front end expenses of employee cost have reduced as a percentage of sales from 12.0% to 11.3%. We continue to invest in advertising and branding initiatives. In past few months we have run several half page ads in leading newspaper such as Times of India in collaboration with the brand. Currently we are also running the Trust campaign on online and offline channel to educate the customers and to create awareness about several risk and malpractices in watch purchasing. These initiatives are garnering very positive feedback and top of mind recall from our customers.

In the nine month FY16 EBITDA was Rs.11 crores and EBITDA margin at 4.2%, net profit for nine months FY16 is at Rs.1.2 crores and cash PAT at Rs.4 crores. Now clearly you will noticed that the EBITDA margin for the current year have been lower than that of the previous year, this is a matter of immense concern for us. The decline has been on account of two issues. A lower gross margin percentage in higher cost, the lower gross margin has been on account of the depreciating rupee and its consequent impact on margin. While the depreciation of the rupee is usually followed by an increase in the MRPs of brand, the brands have been decisively circumvented an increasing MRP due to the overall softening of the global demand for luxury watches during this period. If the rupee continues to stay at the present levels, an increase in MRP is expected in the near future. We have also had some very successful sales which we conducted in this month while these sales promotions yielded a good growth in terms of sales this has to be at the cost of higher then targeted discounts.

In addition to this, we have also had to step up our marketing spend by about 0.6% of sales and this has an impact on cost. The benefits of these spends will be long-term in nature, these spends have had an impact on EBITDA for the current quarter. The additional provision for bonus as per the new rule have also had a significant impact on the EBITDA.

Our inventory carrying months was at 8.9 month in this period, at the nine months of FY16. And important development recently has been the notification of the rule requiring the quoting of our Pan numbers for transaction of higher than Rs.2 lakh. Since the substantial portion of our sales happen at a price point higher than Rs.2 lakh this will have an impact on our sales in the short run. We have already seen the impact of this in the first month after the notification that was in January. However, it is our belief that this impact will be short lived in nature as the use of Pan Card for such transactions becomes wide spread and more accepted. The demand for luxury products will reemerge notwithstanding the Pan Card. We are emphasizing to all our customers the benefits of using Pan Card and we are confident that within one quarter or two quarters we will be back to full strength on this.

We are also seeking to expand our offering to customers by introducing the concept of rental of watches similar to what exists for luxury car and designer wear. We are currently putting together the system and processes for this purpose to put together a pilot project and also to study all the legal ramifications.

With this I would like to thank you for your patient listening and would like to open the floor for questions and answers. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Aditya Iyer from Dimensional Securities.

Aditya Iyer: I had a couple of questions. One as of today, what would be the rough differential on an apples-to-apples comparison between a price of any of your products at your Duty Paid Stores in India versus say a customer who flies down to and gets the same product from Dubai or Singapore? And the second would be could you elaborate a bit more on the rental, the rental business that you plan to start on?

Yashovardhan Saboo: Right. So the rough price differential Aditya, it really depends on brand to brand but the fact is that post discount so let us say street price today India is probably one of the most economical or the most competitive places to buy luxury watches. Typically, between Dubai, Singapore and India, post discount street prices you would probably find India to be between 0% to 5% cheaper or in some cases 0% to 5% more expensive but it is plus minus 5%. In some brand it is actually cheaper by more than 5%. As far as the rental model is concerned I think we are basically putting together pilot project where we are offering customers the ability to rent watches for a certain period. This model is something which has worked very well working very well in the U.S. and it is actually also combined with the possibility of offering certified pre-owned watches and this is the combination thing what we have been talking about, thinking about for some time and we want to roll it out on a pilot basis to see how it is going to perform.

Aditya Iyer: And so would this also help like monetizing the inventory of watches that you have as of today which you mentioned stands at about nine months?

Yashovardhan Saboo: Not really, you know the inventory at nine months at the end of December is actually pretty normal the last year it was about the same and the inventory overall has been declining and it will continue to do so. Typically, at the end of December it is at a peak and then it decline however, the rental model is not really for that, the rental model is actually to make some watches more accessible to people who want to wear it for a certain time but not purchase it and as I said this model was proven quite well in the U.S. and some other countries especially when it is used in conjunction with sale of certified pre-owned watches.

Moderator: Thank you. We will take the next question from the line of Abhishek Ranganathan from Ambit Capital.

Abhishek Ranganathan: This respect to Pan Card. Just wanted to get a sense of what is the kind of push back you are seeing from the customer's card and who much of the revenue is prior to this was coming from cards or basically the non-cash portion?

Yashovardhan Saboo: Can you just repeat that question, it is not very clear.

Abhishek Ranganathan: My question was that what is the kind of push back you are getting on Pan Card from customers whether customers who are using or willing to use Credit Card are unwilling to give a Pan Card or it is just the cash position which is suffering?

Yashovardhan Saboo: So I will not be able to give you very exact data on this but we know that about 40% our business is above Rs.2 lakhs and in cash so obviously there is push back, there is a pushback for people who are buying on cash and are now hesitant to give the Pan Cards there is certain resistance from customers who are buying through Credit Cards and even then we are obliged to ask for their Pan Card. We are actually representing as part of the watch federation to at least not ask for Pan Card when Credit Cards are used because the whole KYC process is in place. The customers have a certain view that okay I am giving you my Credit Card why do you want my Pan Card as well. Some of customers have raised privacy issue and some worries on that front which we are taking up with the government so, there is a feedback for customers even when they are using a Credit Card. However, we are seeing that over time customers are also getting reconcile to the idea we are sharing with them a protocol that we carry out to ensure the confidentiality of their Pan Card detail and I think this is part of the overall trust that is trust equation we have with our customers. We expect that this worry to give Pan Card is going to decline over time. We also believe that the use of Pan Card is going to become more and more wide spread so the indications are this limit of Rs.2 lakh is going to go down to Rs.1 lakh and eventually perhaps go down to Rs.50,000 so use of Pan Cards is going to become very common in India. And I think businesses, us included, have to be able to work on a protocol to convince customers that the Pan Card are not going to misused.

Abhishek Ranganathan: Yes and in the event or for the matter actually till the time dust settle down in considering the fact from bills at Rs.2 lakh to Rs.3 lakhs or Rs.4 lakh substantial portion. That said the market because this will be very just very venerable because of the purchases can be mad outside and the amount of cash one can carry outside India what I mean when somebody is travelling?

Yashovardhan Saboo: Abhishek, your voice is not very clear but let me try to answer that question. Of course there will be an impact there is no doubt these questions had come up even before the Pan Card rule was introduced and we have been consistent in our view that there will be an impact that the impact will be short-term so for example in this quarter we had a significant impact in January we already see that in February it will be lesser and in March hopefully it will be even lesser. We believe that this quarter there will be an impact but the impact will probably only compromise the growth, our goal is that we should be achieving at least last year's figures which is good news and going into the next quarters we expect that the Pan Card impact would become lower and lower. Of course customers will try to look at other options people are not comfortable giving Pan Card or people who want to use their cash. One of the opportunity is to buy unofficially may be some customers will do that we are educating customers against doing that. I do not think much business for us is going to go overseas because look at it like this so a customer wants to buy a Rs.4 lakh watch and he says look I do not want to give a Pan Card I am going to Singapore or Dubai and buy that, so how you can going to get that Mumbai in Dubai. If you are going to transfer Rs.4 lakhs - Rs.5 lakhs is that really worthwhile, if you are going to take the risk of carrying that cash in I bag I mean that is a huge risk if he is going to anyway use to bank transfer then he might use it here. While many customer sort of react and say yes, but then I prefer to buy abroad when they actually when they actually thought through it, it is not worth it. Let us just get over with it and you live so much easier you got a watch officially, you have got the bill, you got everything, you can travel anywhere with that watch, you can get it insured, you can get the watch serviced without any issues. Overall customers are starting to understand this Abhishek.

Abhishek Ranganathan: Last thing on the inventory levels in the industry which you have mentioned, if you take about two quarters for the inventory to clear this would how does this impact because do you see that overall this puts out a pressure across markets especially in the market of Dubai and Singapore which might cannibalize our sale for the short-term and if the problem continues can we see a reprising from the brands which will bring down or bring up discount or bring down the prices in India so that there is cannibalization doesn't affect the Indian sales.

Yashovardhan Saboo: So that is one of the reasons which I mentioned that the gross margin in quarter three got impacted, it is true there is an inventory floating around in China, there is excess inventory floating around in Dubai and Russia these are the three market of Dubai means UAE these are the three markets where is excess inventory floating around. Now what does that do for us: a) the brands do not want to increase prices typically with the exchange rate where it is today brand should have increased price, they haven't done that. What they also do is look I want to cut so their own because of the exchange rate their own margins are going down brands which are imported into their subsidiary so they start to cut back on some bonuses year end bonuses and so on. India not that important market where they would push to make more sale, we are still number 15 on their list. So what it means is that our margins are taking a bit of pressure, I do not think it is going to get to a point where they are going to decrease price. these brands never decrease their prices, what it means that margin will be down for some time they are not going to increase their prices it will take I would say between this quarter and the next quarter for this excess inventory to play itself out. The point is that the consumer listing has not impacted as much, there is a greater sense of sort of worry of additional inventory and brands are obviously starting to cut back production that has already happened six months ago and over the next two quarters are going to play itself out. We will experience margin pressures for this period.

Moderator: Thank you. We will take the next question from the line of Sangeeta Triphati Mishra from Sharekhan Limited.

Sangeeta Triphati Mishra: First and foremost I would like to understand from you, you said that you are quite confident that going forward from the next quarter onwards the manufacturing business and more so the precision engineering will be doing goods so what are the indicators that makes you so confident I wanted to understand that.

Yashovardhan Saboo: Okay. So is there other question? We like to finish your question and then answer all of them.

Sangeeta Triphati Mishra: Sir to start-up this is the question and then probably there is something on Ethos.

Yashovardhan Saboo: Okay. If you have been at the earlier calls both watch component and the precision engineering business they are all manufactured to order and therefore we have very valuable leading indicators and the leading indicator are essentially projects and we are getting new projects that we are getting indication and forecast that we are getting. Already in the middle of the last calendar year all this leading indicators were starting to look down so the fact that quarter three turned out to be so low was not entirely a surprise it was tougher than we expected no doubt because the leading indicators we expected them to start reviving but that has continued and essentially I think the Chinese markets and the oil impacted markets is something that we didn't sort of foresee in the June and July of 2015. However, that said we are starting to see the upturn in the leading indicators by way of RFQs and request quotation in the view of new projects which are coming up very importantly domestic supply of watch components that was severely impacted and the customers that we have. We are starting to see a revival there and also on the export front we are starting to see a revival of the RFQs and the new projects request for samples, request for quotations, now there are two important fairs coming up one for the watch business one for the precision engineering business and again the activity that we see for them is stronger then what we saw 12 months ago so this gives us reason to believe that from the next quarter onwards you will start to this impacting on our top-line.

Sangeeta Triphati Mishra: Okay. So you mean to say what I understand in read through probably we will not be seeing more declines coming in the next few quarters because in the last two quarters to three quarters we have been seeing a constant decline in the manufacturing business performance probably a part of it has to be because of the export incentive that has got cut and then again it got restored at a different level. But is that the kind of guidance that we seek?

Yashovardhan Saboo: Yes, please carry on. So you are absolutely right so in a word if you want to say has the bottom been hit yes, the bottom has been hit.

Sangeeta Triphati Mishra: Okay. And secondly on Ethos wanted to understand I mean this quarter also we have seen a decline in the gross margin as well as on the operating margin despite we have been talking about a lot of operating leverage that will be visible probably you explained the reason because of the depreciating rupee and brands not hiking the prices. So in the light of the changed circumstances and plus there is Pan Card rule that came up in the wake of this revised scenario or changed circumstances. Would you like to revise your guidance as far as the top-line and the margins for Ethos is concerned in the medium-term perspective?

Yashovardhan Saboo: So Sangeeta let me tell you, in the case of Ethos we still expect one more challenging quarter depending on the Pan Card rule perhaps two challenging quarters. However, let us also understand despite the challenging quarters we have grown at a 17% same store growth, this quarter the growth will definitely be less of the Pan Card but we expect this to revive to that level around that level from next quarter onwards. I think the operating leverages will kick in which is a temporary kind of a decline that has happened, I do not think this is going to continue. Let also add that there is a strategy that we had spoken about a more active strategy to work with brands when we have higher margin and the discounting is lower. The building blocks of this strategy are being put in place and you will see it starting to impact in the next financial year. A much larger part of our sales progressively will come from brands where we have higher vendor margins, higher gross margins and working on a point where we are not impacted by competitive discounting. So there may be a short-term impact but I do not see a reason to revise outlook for the medium-term.

Sangeeta Triphati Mishra: So we standby over 20% top-line growth for Ethos in the medium-term perspective?

Yashovardhan Saboo: Yes, we do.

Sangeeta Triphati Mishra: Okay, sir. Lastly a data question what is the total debt on the consolidated books right now…

Yashovardhan Saboo: Just the consolidated book, the debt on consolidated is about 120 crores.

Sangeeta Triphati Mishra: And this 25 crores expansion that we are doing in the precision engineering that is financed through what? Debt will be taken, how it will be financed?

Yashovardhan Saboo: Yes, it will debt and internal accruals.

Moderator: Thank you. We will take the next question from the line of Rohit Balakrishnan, who is an Individual Investor.

Rohit Balakrishnan: In our Ethos sales in terms of concentration of our sales any major contributing or a few brands contributing to a majority of sales?

Yashovardhan Saboo: When you say a majority of sales does that mean more than 50% then answer is no, if you say are there some brands which are contributing more than others, yes.

Rohit Balakrishnan: So what is the concentration of let us say the top five brands if possible?

Yashovardhan Saboo: So I would say that the top five brands would probably constitute about 50%.

Rohit Balakrishnan: And within these top five is there anybody let us say who is above 15% to 20% anything of that, you do not need to give me brand name?

Yashovardhan Saboo: The biggest is not more than I would say 20% I am giving you a thumb rule figure here and the top five after all will be around 50% which is pretty usual in this business.

Rohit Balakrishnan: Got it. Just secondly, just in terms of competition, I understand I have been listening to your calls earlier as well and you have been saying that online retailers are not really a competition because of the category but amongst the offline players, there are local players so how do you sort of differentiate from them? What is your differentiating factor for a customer?

Yashovardhan Saboo: That actually is quite a pretty long answer but and I think the essence is in the fact that a) it is based on a different degree of transparency and trust. I will explain that shortly. B) it based on reach and convenience through the omni-channel platform I think these are two things that offer something unique from local competition. What is not something that we are better at than the local competition is we are not always the cheapest but that is not something that we are uncomfortable with. Let me go the first – I think this whole issue of transparency and trust is something on which Ethos has been firmed. A simple example, from the day one Ethos made public the MRPs of every product. It was in our stores and now it is on our website. Even today when you got to a lot of stores we do not find an MRP displays even though it is legally required on the website. The reason is that some retailers want to quote a higher MRP and then give a higher discount hoping and often succeeding that the customer actually falls for the higher discount. That is the reason why so many customers today actually come to our website and we are talking about 8 million visitors last year to our website with the basic purpose of using it as a reference point so what is the real price of this watch? People also come and willingly pay us 2% or 3% more because they know that on our website what they are buying, what they see is what they get. They are not going to get a pre-owned watch masquerading as a new watch or a watch which is differently priced from what it should be. That is I think reason number one and that is also the reason why we have continued to grow at 20% to 25% and taken market share whereas, no other competitors probably double-digit growth. Second reason is convenience and the omni-channel platform. Today most customers be at any price point want to use the net for researching watches before they buy. If you go to our website you will see that a) the most informative b) the most easy to use and the most pleasant experience to use. It is full of articles, a lot of original content, and a lot of information about watches and when you want to connect you immediately are connected to a watch expert who will guide you through your questions and eventually it is the store which will sell to you. A lot of competitors are sort of coming up with their website but I will let you go to them and our website and feel the difference. Also because we have this large chain on our website we are able to feature 400 models of Omega, just as an example. You walk into any shop you will see only 70 models why? That gives you an immense width and depth of brands and products to research and then eventually choose that watch with a single visit to a store.

Rohit Balakrishnan: Got, it, that is very helpful. So just on this online model I have a couple of more questions. So one you mentioned that our online sales lead generation is about 30% at this point of time, so do we also track what are the direct sales from online?

Yashovardhan Saboo: So we are actually doing a very little direct sales from online and the reasons is that we do online sales directly only with brands that allow that. I would not have a very precise figure but it is certainly a low-single digit which is a direct sales. It is growing fast but as of now it is very low. In the future we expect more brands to embrace it. However, we are also conscious of one thing which is very important to share sometimes with some brands we actually started to do direct sales and the sales actually feel when we went direct because we realized and a lot of customers want that human intervention and they want someone to talk to about a brand and get advice. We believe that at price points above Rs.25,000 at least for sometime this human intervention is going to be extremely important. His ability to converse with specialist to discuss and decide together what will be an ideal watch that is important.

Rohit Balakrishnan: Got it. And just as a continuation to the online model so I mean in general because you are expanding on the online front and that is growing I mean on an overall EBITDA level do you see any impact because from an online point of view there will be more cost on the tech side from hiring point of view or from cost customer acquisition, etc., so, do you see any impact on the EBITDA that we are looking at, at an Ethos level at 8%-10% that we are aspiring to be over the next couple of years or three years to four years?

Yashovardhan Saboo: So that is something which is part of the budgeting that we have done. We do expect marketing cost to go up. We do want to stay two years or three years ahead of the competition on the whole digital experience and that does require resources into tech management and all of that and you know marketing but that is part of the budget that we have already taken.

Rohit Balakrishnan: So if I were to ask what is the customer acquisition cost that you have at this point of time.

Yashovardhan Saboo: So Rohit that is an information that I cannot share with you please.

Moderator: Thank you. We will take the next question from the line of Vikram Suryavashi from Phillip Capital.

Vikram Suryavashi: I missed your comment on sales promotion and marketing update in this quarter on nine months which has impacted the margins also.

Yashovardhan Saboo: Marketing expense as a percentage of sales have gone up by 0.6%.

Vikram Suryavashi: Okay, got it. And how is the strategy for this jewelry distribution and Montblanc.

Yashovardhan Saboo: So we going ahead with Montblanc accessories and with Chopard accessories. It is taking a bit of time because there are new products. Some old products are being phased out and at the forthcoming Watches Fair in Basel, I had mention that this is one of our most important projects there to launch multiple locations with these brands and we are in touch with them. Jewelry is an area which we had talked about but we are going slow on that because we are not sure if really an asset-light effective model is possible at this moment in jewelry especially a model that differentiates us. We currently are more confident about accessories and that is what we will be launching soon. The launch has already been done. In two of our stores Montblanc accessories are already being retailed and striking a very-very good growth rate over there and in one of our Bengaluru store, Chopard accessories have been launched already. We are just monitoring how it is going and we are going to take a bigger step forward in March.

Moderator: Thank you. We will take the next question from the line of Jeetu Punjabi from EM Capital.

Jeetu Punjabi: So a couple of quick questions. One is can you articulate your thinking of the whole smart watch movement that is happening which is growing so sharply and are you thinking of wanting to have these in our stores overtime and also the implications on the shift and demand if any that you anticipate overtime due to this?

Yashovardhan Saboo: So Jeetu, obviously the smart watch is a phenomena what is here to say, it has not impacted the markets in the way what we had foreseen that Apple is going to change the watch world completely. You would agree that that has not happened, Apple is a great company, they create great products but I think the Apple Watch currently have been underwhelming. There are other watches which are entering the market starting to take a little bit of space but I do not think there is a major impact on the traditional watch business. That said, we are also not of the view that it is not going to have an impact. Future generation of these watches are going to have an impact the and the traditional watch brand are also sitting up and taking notice. You saw the new smart watch introduced by Titan. Before that there was Frederique Constant which was our partner brand and Tag Heuer which was introduced at a higher level. So what is going to happen is there is actually going to be fusion. If you remember what happened in the 80s when the Quartz Watch came in, the Swiss brand sort of traditionally thought that Quartz Watch is not going to do anything, they suffered but eventually they adopted Quartz and today Quartz Watch is a part of the business and Mechanical Watch is another part. I think this time the similar thing is going to happen except the watch brands are not as naïve as they might have been in 80's. They know that the smart watch will be incorporated, there are different ways of incorporating it, right. You can incorporate in the bracelet, you can incorporate in the watch so, I think it is going to take certain share of the market, certain brands are going to suffer but overall I do not think the market is going to change fundamentally that is our view. That said, we are taking a position with smart watches in some of our stores. We have introduced the Samsung Gears, some of the big ads of Samsung you will see Ethos there. We do want to monitor which way it is going. We want to be a part of this market when it comes but as I said I do not think it is going to affect market above Rs.50,000 or Rs.1 lakh at this moment.

Jeetu Punjabi: Okay. And the other two quick questions are – one is can you just talk a little bit about where we are in inventories relative to normative levels and where do you expect that to go? And the second question what is the mix of sales as more expensive watches become a larger share of the mix other way around and just talk a little bit about what is happening to the mix of sales and watches.

Yashovardhan Saboo: Okay. So on inventories our goal of steadily reducing inventories especially paid inventories. I think we are on track over there, you will see a figure for the end of December, it is 8.9 months that is pretty much on track. We had announced and we have been on track to have better or a reduced inventory in terms of months of sale as at the end of year. With the Pan Card I must say that this is something which will be become difficult to achieve because temporarily the Pan Card does make it more difficult to sell very-very expensive watches. So we will see a decline in the sell of very expensive watches and by very expensive watches I mean price points of above Rs.10 lakh and above Rs.25 lakhs. There will be a decline in these quarter in the sales. We expect, these to sort of start moving gradually over the next two quarters. However, that said we are experiencing a better stock turn in general on price points which are lower and the inventories will get lower and lower over time. Eventually our goal of six months on inventory on paid stock to be achieved over the next three years. There is going to be a temporary hit because of this Pan Card business that is for sure. As far as higher brands are concerned I do not think there is any big change in the trend. Growth rates have been higher on price points above let us say $1,000 then below but all growth rates for us have been healthy across the price points. We do believe that in future the price points above Rs.25 lakh and Rs.10 lakhs will come down and therefore our stocking and purchase of these price points will also come down as a result of the Pan Card and we will be relatively more bullish on price points below Rs.10 lakhs and in the price point between Rs.1 lakh to Rs.3 lakhs - Rs.4 lakhs. The price point between Rs.2 lakhs and Rs.3 lakhs - Rs.4 lakhs even though it requires a Pan Card we expect that impact to go away pretty fast at that price point people will be willing to give Pan Card without too much problem.

Moderator: Thank you. We will take the next question from the line of Saket Lohiya from Kanav Capital.

Saket Lohiya: Sir, I just wanted to understand some question of Ethos sales, the number of visitors you had on the 2015 the whole year?

Yashovardhan Saboo: So in nine months it has been about 57 lakhs, 5.7 million.

Saket Lohiya: 5.7 million, so just to understand the number of calls you guys had of these 5.7 million numbers.

Yashovardhan Saboo: No, these are visitors to the website.

Saket Lohiya: Okay. The number of calls roughly just to understand how many people registered and how many calls you had?

Yashovardhan Saboo: Saket, we will not be able to share that information.

Saket Lohiya: Just a rough number.

Yashovardhan Saboo: No, I am sorry, we are not going to share that information please.

Saket Lohiya: Okay, I will leave that. Sir, just to understand are you going to increase your product range so as to mitigate the risk of this Watch segment? You have been selling watches online are you going to introduce any other products as well so as to just mitigate the risk of watch selling if the downturn happens?

Yashovardhan Saboo: We are introducing new products as I mentioned started with accessories so Chopard and Montblanc is world class in the field of small jewelry, writing instruments, accessories so that is something which has already started and you will see that more and more a part of our offering. However, that is not to mitigate any risk in the watch industry. We are extremely bullish about the watch industry. We do not believe that the watch industry is going to go through any prolonged prices. We believe that the opportunity in India is still huge and as a result of everything is happening right now we are impacted far less than the competition, I am referring to the Pan Card which I have been saying in the last year also it will have an impact on us but the impact on us will be far less than the competition. We see this as an opportunity in fact to step out and grow faster than the competition. We are already working on plan to actually use this as an opportunity to go faster into larger flagship stores in the key cities because we believe that over the next 6 months to 12 months the competition is going to be impacted. They are going to take a step back and this is an opportunity for us to actually go more aggressively. So we are going into new products but not because we have any fears about the watch industry, we are very-very confident about that.

Saket Lohiya: So just to understand on the Ethos website part, the lead from website the revenues were somewhere around 33 crores you mentioned in the con-call?

Yashovardhan Saboo: It is about 29% of the sales and therefore it is about 82 crores.

Saket Lohiya: 82 crores and the expenditure maintained on the website front.

Yashovardhan Saboo: No, sorry, we would not be able to share that information Saket.

Saket Lohiya: I just wanted to understand how much we are spending on the overall website. There are a lot of leads, how are you managing, how will you manage from going forward from here? I have been following your website for a very long time sir and it is a very good platform.

Yashovardhan Saboo: I know so a lot of our competition is keeping a very close watch and using our website for benchmarks and that is something which we have decided to keep confidential.

Moderator: Thank you. We will take the next question from the line of Apurva Mehta from KSA Shares & Securities.

Apurva Mehta: Sir just wanted to ask about this 25 crores investment which we are doing in this high quality precision stand component. So when it will be operational and what is the expected peak turnover from that?

Yashovardhan Saboo: The investments are planned over the next two years. Actually they have already started and it has been acquired and the building work is going to start. Some of the equipment what we mentioned that is already in the pipeline. The implementation the actual roll out is going to be done in phases. The first phase which should be operative in by the end of next financial year so that is going to be done. We believe that with this project we should be able to grow to a turnover of about 100 crores over the next four years.

Apurva Mehta: So this 25 crores investment will lead us to a 100 crores turnover and roughly what will be the margins in this roughly?

Yashovardhan Saboo: Again you can refer to some of our past things. We are pretty much on the line as we are going along we expect EBITDA earnings which are there currently in this business which is currently about 16% to 17% that will be maintained and gradually to go up.

Apurva Mehta: Okay. Sir, another question just wanted to ask are, we planning to have financing part in this high cost watches because recently we have seen the consumer durables are really going very well for this financing part.

Yashovardhan Saboo: Yes, we are in discussion on financing for high-priced watches. It has been in place for watches up to Rs.1.5 lakhs, we are now trying to push the limit up to somewhere around Rs.5 lakhs we are in discussion with some institutions to allow that.

Moderator: Thank you. We will take the next question from the line of Aditya Wagle from Aequitas Capital.

Aditya Wagle: Just wanted to have your comments on Titan-Montblanc JV so like in what steps would we be taking to maintain our market leadership?

Yashovardhan Saboo: Well I do not really think I can comment on the JVs at Montblanc and with Titan that is fact. My understanding is that it is a JV in which Montblanc is a 51% partner. they are going to manage it directly and the main point is going to be that the Monobrand Boutiques of Montblanc will be run by this JV. The presence of Montblanc at multi-brand stores which is really our play that will continue to be managed by Montblanc directly and we are in touch with Montblanc directly. We are not working with the JV.

Aditya Wagle: Okay. And sir, like they have a store target of around 50 stores in five years, do we have any internal target like that?

Yashovardhan Saboo: Who has a store target of 50?

Aditya Wagle: This JV.

Yashovardhan Saboo: Okay. I am not sure where you are getting, I cannot confirm this figure. My understanding was that it is not less but I cannot confirm this figure.

We believe that over the next couple of years they would be about, we estimate about 50 stores in our chain which would be amendable for the offering of high price accessories be it Montblanc, be Chopard, be it other brands and we believe that these would be the stores that would get active. We do not believe it is to be done at every store by the way. The omni-channel platform actually becomes efficient if you do it in your few stores and use your internet platform to leverage your presence in few stores across greater geographies.

Aditya Wagle: Okay. And sir, are you sharing the average sales value from online versus offline?

Yashovardhan Saboo: It has been pretty steady. We have shared in the past it continues to be online lead generation average price continues to be about Rs.1 lakhs and the overall average continues to be around Rs.55,000

Aditya Wagle: Okay, fine, sir. Yes, sir one just follow-up this Rs.100 crores precision engineering revenue that you mentioned is from the overall segment, right or only from the expanded capacity?

Yashovardhan Saboo: No, it is the overall.

Aditya Wagle: Overall, yes and in how much time and in how many years?

Yashovardhan Saboo: Four years.

Moderator: Thank you. As we there are no further questions in the queue, I would now hand the conference over to Mr. Yashovardhan Saboo for closing comments.

Yashovardhan Saboo: I would like to thank everyone for joining on the call. I hope we have been able to respond to your queries adequately please feel free to get in touch with SGA our Investor Relation Advisors, if you need any further information or ask any further questions. Thank you all very much once again.

Moderator: Thank you. On behalf of Ethos Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.