"KDDL Limited Q3 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the KDDL Limited Q3 FY2018 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 risk 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Yashovardhan Saboo, CMD - KDDL Limited. Thank you and over to you Sir!

Yashovardhan Saboo: Thank you. Good morning everybody and warm welcome to you for our Q3 and nine-month FY2018 KDDL Earnings Conference Call. I am joined by my colleagues Mr. Sanjeev Masown, CFO of KDDL and our investor relations partner, Strategy Growth Advisors, and Mr. Raja Sekhar, CFO of Ethos Limited, he is on leave for a family commitment, but is available on phone.

I hope everybody has had the chance to go through our investor presentation uploaded on the exchanges and on our company's website.

Starting the discussion with the consolidated performance for the last quarter, the consolidated revenue rose by 13% to Rs.142 Crores from Rs.126 Crores in the previous year same quarter. Growth was contributed significantly by the retail arm of our business Ethos Limited, which we shall discuss in detail in the second part of the presentation.

Gross Profit increased by 20% from Rs.45 Crores in Q3 last year to Rs.55 Crores this year in Q3, Gross Margin improved by about 250 basis point. EBIDTA stood at Rs.17.9 Crores for the quarter up by 96% year-on-year, margin improved by about 534 bps to 12.56% year-on-year.

Profit after tax for this quarter increased by 345% to Rs.9 Crores from Rs.2 Crores in Q3 of last year and the cash profit increased by 146% to Rs.12 Crores.

Similarly, total revenue for the nine-month period of the current financial year stood at Rs.364 Crores a growth of 4% from Rs.350 Crores for the same period last year. EBITDA stood at Rs.30.1 crores a growth of 42% from Rs.21.1 Crores and profit after tax after minority interest stood at Rs.10.9 Crores, growth of 356% from Rs.2.4 Crores year-on-year.

Now I come to our standalone business, which is the manufacturing business. Revenue grew by 20% to Rs.35.4 Crores in Q3 from Rs.29.5 Crores in Q2FY17; gross margin also grew by 20% reaching Rs.27.4 Crores compared to Rs.22.8 Crores for the same quarter last year. EBITDA grew to Rs.6.7 Crores from Rs.5.3 Crores in Q3FY17an increase of 28%. Profit after tax after minority interest saw a growth of 171% to Rs.4.2 Crores from Rs.1.6 Crores on year-on-year basis.

The global watch industry continues to show signs of this improvement which is evident from our revenue growth. The domestic watch segment has revived even more sharply, which has been very encouraging. Revenue from our watch component business witnessed a growth of 14% to Rs.25.1 Crores from Rs.22.1 Crores same period of last year. For the nine-month period ended December 2017, our watch component revenue grew by 8% YoY to Rs.79.6 Crores from Rs.73.8 Crores.

Our precision engineering business is also witnessing a very healthy revenue growth of about 37% from Rs.6.5 Crores to Rs.8.9 Crores for Q3 and for the nine-month period ended December 2017 revenue grew by 42% to Rs.25.4 Crores compared to Rs.17.9 Crores in the same period of last year. We expect to close with a revenue growth of around 40% in precision engineering segment this year.

The performance of our retail arm Ethos has been especially encouraging in this quarter with strong growth in revenue and profitability. Ethos net revenue for the quarter rose to Rs.106 Crores a jump of 14% from Rs.93 Crores for the same quarter last year. The growth in billings has been even better at 24% Y-o-Y. The net revenues for Q3 has seen a steep growth of 94% on a QoQ basis. Gross profit increased to Rs.26 Crores from Rs.22 Crores for Q3 FY2018, a growth of 20% with gross margin of 25%, an improvement of 113 basis points over the same period last year. EBITDA for the quarter stood at Rs.11 Crores, an increase of 183% from Rs.4 Crores Y-o-Y, EBITDA margin has more than doubled from 4.3% in Q3 FY2017 to 10.6% in Q3 FY2018, and profit after tax has improved by staggering 553% to Rs.6 Crores from Rs.0.9 Crores in Q3 FY2017.Cash profit stood at Rs.7 Crores growth of 277% Y-o-Y.

We can cite several reasons for this positive change. GST rate revision from 28% to 18% led to reduction in prices of watches making India the most competitively price market in the world for watches. Our marketing campaigns created a lot of dissemination of this information, which fueled demand in an already robust festive and wedding season. We witnessed a clear shift of people buying in India versus shopping abroad. GST also helped to reduce our operating expenses in the form of service tax which is now subsumed in GST rate. An equally important reason is the change in our business model on which we have been working for the past 18 months, the fruits of which are now starting to show.

Allow me to elaborate this vital point.

Soon after the regulatory changes about two years ago requiring pan cards for high value cash purchase, we anticipated that purchase of such watches with very high values would shift overseas away from India. So, we decided to reduce our focus on ultra-high-priced watches that is above Rs.10 lakhs while strengthening our portfolio in the price segment from Rs. 50,000 to Rs.5 lakhs. It has taken as about 18 months to make the changes but now the impact is seen in better margins and better working capital efficiency.

We also embarked on exclusive brands strategy which has yielded us great results in the form of better vendor margins and lower competitive discounting. About eight quarters ago such exclusive brands accounted for a mere 4% of our revenue; they now contribute nearly 13% of the revenue, but over 22% of the gross margin. Our goal is to increase the revenue shares of our exclusive brands from 13% this year to about 25% in the next 10 quarters with corresponding positive impact on margins directly leading to improvement in net profit. It is pertinent to mention that the increased share of revenue on exclusive brands will come from a lower share of the high-priced product and the very high-priced product as mentioned earlier, but also from eliminating some low-price segments that is a segment below Rs.10000 which is not as profitable. We have a full pipeline of other exclusive brands that are keen to be a part of Ethos and we expect our portfolio of such brands to be continuously reviewed so that non-performers are weeded out and high performers get a better share of our marketing and stores space.

The collaboration with exclusive brands has proved the success also because of the very effective use of our digital communication platform with joint marketing investment by the brand and by us at Ethos. Especially after demonetisation we increased our focus towards the digital platform and close down stores which are not making a reasonable ROI, which has allowed us to keep a lean cost structure and improve our inventory days. Our billing contributed through the online platform, which was Rs.76 crores two years back has increased significantly to Rs.116 crores by the end of the last year. Clearly operating leverage is also paying out now with cost per rupee of sales starting to fall and important cost saving has been marketing cost with increased share of market coming from partner brand as the agreed goals are achieved.

While the fruits of some of the strategic changes and directions are now starting to show, there are more in the pipeline. Pranav Saboo who has been the main architect for successful digital marketing strategy and our only channel platform and has also led exclusive brand strategy, will takeover as CEO of Ethos from April 1, 2018 supported ably by a highly motivated and fast-growing team of professionals combining energy, experience, and passion. I will continue as a Chairman and Managing Director focusing on mid and longer term strategic matters and opportunity.

The business of preowned watches has been large worldwide and has been growing steadily as watches become collectables and gain value. India too has a good potential for the business of buying and resale of preowned watches; however, the business in India is almost completely unorganized as of now. We have launched a pilot project to better understand the relevant regulatory issues and to set off the required processes. We are hopeful that with the better understanding of regulatory issues, the bridges will be crossed, and this will be a unique and rewarding new dimension in the organized watch business in India.

We have also entered into JV for after sales service with an experienced service center organization with a view to establishing all India networks of service centers in collaboration with the best service partners. We believe that such strategic collaborations will be more effective then doing the service internally.

We have also created a digital marketing subsidiary which will work to intensify our understanding and practice of digital marketing for all our brand partners in the watch segment, and also other related segments that we are eyeing in the future.

Finally, we have also set up division to distribute some of our exclusive brands to select other retailers, this being helpful to grow the brand awareness in India, obtain larger marketing supports and funds from the brand and also to become a more important global partner for respective brands. Above all, it will also earn us distribution margin adding to the overall net profit of the company. We have already reached the distribution arrangements with an important global brand and some other brands are likely to follow soon.

You might have noticed that the recent budget included a decision to increase the import duty on watches from 10% to 20%. I must admit that this has been disappointing, and we hope to be able to convince our government with strong arguments and the reasoning to reverse this. This increase neutralizes a part of the benefit of GST reduction in watches, which came a few months ago but our main thesis of strong continuing growth, improving margin, improving capital efficiency, and operating leverage stands unaffected.

On the other hand, the higher duty might encourage lower price brands to assemble watches in India which will provide handsome boost for our watch component manufacturing. However, I do wish to add that our manufacturing of watch and precision component has grown in an era without the clutch of protection and we are confident of our global competitiveness.

Before ending I will also give you the nine-month financial highlights of Ethos. In the nine-month ended December 2017 total revenue increased by 4% to Rs.260 Crores, gross profit increased by 6% to Rs.60 Crores Y-o-Y with a margin of 23%, EBITDA for the period stood at Rs.10 Crores growth of 146% Y-o-Y with the margin of 3.8% an improvement of 220 basis points Y-o-Y. If we consider normalized EBITDA which excludes one off expenses of foreign expense and credit written off, then our EBITDA for nine-month ended FY2018 increases to Rs.11 Crores as against Rs.3 Crores for the nine-month of the previous year. Similarly, normalized EBITDA margin shows a further improvement of 303 basis points to 4.45 Y-o-Y.

During the month of January, we have close down a store at Terminal 1 at the Delhi Domestic Airport, but at the same time opened two new stores in new catchment area, one is a Flagship Rolex Boutique at The Chanakya Mall in New Delhi, this is being the first only boutique for Rolex in the whole of north India. The other new store which we opened last week was at The Oberoi Mall in Mumbai. With these, our store count of premium and luxury watches stores now stands at 41 stores. Over the next six weeks we plan to open two more luxury monobrand boutiques at The Chanakya in New Delhi and a multibrand store at Indore first in the city. We plan to close here with a net of 44 stores. I will now welcome your questions and participation. Thank you.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. We will take the first question from the line of Pratyush Mittal from Mittal and Company. Please go ahead.

Pratyush Mittal: Hi Sir. This is a wonderful set of numbers. Sir I would like to understand more about the digital marketing and marketing changes that you mentioned. There were few changes where we were doing all the advertisements earlier and now the partnering companies for marketing so, what is the change and how much will it be in the amount?

Yashovardhan Saboo: Sorry Pratyush your sound is not very clear can you just repeat that in brief?

Pratyush Mittal: Sir can you talk more about the marketing changes that earlier we were doing the marketing, now the brands are doing the marketing, what is the quantum of this change?

Yashovardhan Saboo: So, let me put it like this. As part of the exclusive brand strategy, the arrangement with most brand have been that, that a lot of margins spend will be focused on digital in fact exclusively on digital communication. So, we are using the platform to do that and the marketing contribution is shared. In the past, many of the nonexclusive brands would advertise on their own and we have to advertise on our own cost whether it is in the digital field or wherever. Now especially with exclusive brands a lot of the marketing is happening through the digital platform and the costs are shared and of course some of the sharing is also subject to achieving mutually agreed targets whether it is of sales or achieving some marketing goals, . So, we got a good share of our marketing cost coming from the brands, number one. Number two, the marketing itself we find it to be much more effective, let us say the kind of sales we were able to generate for a rupee of marketing done on the digital media versus traditional media. So that shift has also led to let us say a better efficiency on the marketing for rupee that we spend.

Pratyush Mittal: So how much cost non-digital and how much will be the digital now as a percentage of whole marketing expense?

Yashovardhan Saboo: I could not give exact figure here for how much it could be, but I can tell you that most of our exclusive brands have more than 80% of the spends on digital whereas with nonexclusive brand who still do not have the same confidence in digital marketing, this ratio is much less.

Pratyush Mittal: And does digital advertising lead to more online or is it does the target more still towards the brick and mortar stores?

Yashovardhan Saboo: The way our digital marketing works is that we essentially focus on creating leads, leads comes to our information call center; we have a team of more than 50 people over there. Now at lower price points, we are already seeing a direct e-commerce sale online whereas for higher price point essentially our call centres engage with the customers. At the first engagement we ask them to research the watch and direct the lead to a convenient brick and mortar store, which is classic on the channel platform I think this is future of retail - a seamless connection between physical stores and cyber whatever we are doing on the internet space. I think our model has sort of anticipated that and that is the reason we are seeing the big structure.

Pratyush Mittal: Okay wonderful Sir. I will join back in the queue. Thank you so much.

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

Jeetu Punjabi: Hi Yasho Ji. Great to see these numbers and pretty much all the hard work you put in over the last few years is finally playing out and I am really happy to see that. Now I have a couple of questions, one, it seems pretty clear that you have drawn down inventory. Do you have number to tell us where we are and directionally where that is going?

Yashovardhan Saboo: As on December end let me get the figure we are down from around 8.5 month previous year to about 7.7 months. December end is usually a time when inventory peaks because it is the year end for most brands, it is the period when we have to achieve the annual targets of the brand so we end up a little bit of overstocking in December. So, December really peaks. I believe we are very much on line with our targets to bring this inventory down you will see a better figure at the end of March in terms of number of months and if you remember I have said that over the next three years our goal is to bring this down below six months, I think we are well on course.

Jeetu Punjabi: Correct okay great to hear that. The second thing is can you give us a bit of colour on what your seeing in post GST world in terms of demand side. You obviously reduced your high-end brand sales and you focused on the particular segment of the market and that strategy is working wonderfully, but what is your sense on the market. Is the market looking better or worse and how are you seeing customer segments playing out besides the wedding season as well?

Yashovardhan Saboo: We are seeing… so Jeetu I will also cover on another question which I see coming. We are seeing a revival of consumer sentiment, there is no doubt about that. Yes of course the GST going up to 28% was a huge dampener and we saw what it did to our Q2. However, the fact on macro was that there was an underlying robust, I would not say robust but we could feel the sense of underlying growth and the moment GST reduced from 28% to 18% and that happened to be in the middle of a pretty robust festive and wedding season and we saw this pertinent demand. I do not think that is a flash in the pan. I think demand is growing, we are seeing that across product category especially at the bottom of the pyramid, but even at the top I think consumer sentiment is improving. I believe that the greatest growth in demand will be in the segment of Rs.50000 to Rs.5 lakhs, which is our chosen segment. I also believe that for the very high price segment people will continue to buy abroad, not all people, but I think there will be a shift from buying in India to buying in abroad but this again is not going to be permanent shift. People are coming to terms with the pan card with having to pay taxes so while there will be some people who no matter what happens they will buy abroad. But people are coming to term with buying in India. I wanted to cover this point about the increase in import duty at this point as we are going up. Our import duty got increased in the budget from 10% to 20% completely a big surprise not at all anticipated. 10% was the maximum rate as per the international tariff and trade agreements. There was no reason for the government to actually increase it, we have been competitive, we will remain competitive, there is no reason to do it, but for some reason the government has done it. Yes, it takes away some of the benefit of GST because it will lead to a price increase and let us not forget post GST prices in India for all these watches came down by about 8% across the board. Even before that when GST had gone up from VAT of 12.5% to 28%, there was no increase in the prices not a single brand increased their prices at that time and the reason is this that no brands wants the price in India to be non-competitive with the world. So, we were competitive with the world even when the GST was 28% when GST was reduced to 18% because of the strong anti-profiteering drive every brand and we recommended strongly if you remember from very first at mid night 1201 hours we pasted it on our website that the entire benefit will be passed it to the consumers which it was done. So, prices came down by 8%, so that means India was cheaper than the world by 8% to 10% even cheaper than Switzerland which is the home country of most of the brands, which was unprecedented. There was difference of 15% to 20% between India and Hong Kong an example of place, now with this increase in duty, prices will be up. So, may be the difference in prices will be less, India prices will still remain competitive. Buying is happening in India, yes perhaps we will not see the growth of 40% to 50% which happened, which I think which was exceptional but our basic thesis for growth of 20% to 25% remains intact because that is not really based on India becoming 10% cheaper than the world. All we need in for India to remain competitive, our regulatory environment has to remain predictable and stable and I am convinced of the power and the momentum being generated in the Indian economy for the next four to five years.

Jeetu Punjabi: Okay superb. Thanks so much Yasho ji and good luck with the new leadership at Ethos, we are supportive of whats happening. Thank you.

Moderator: Thank you. We take the next question from the line of Deepan Shankar from Trustline PMS. Please go ahead.

Deepan Shankar: Thank you for the opportunity and great set of numbers Sir. Just continuing with the previous question, so as you explained very well so currently at what position Indian watch prices as against now global, so earlier you told us that we are from 10% to 12% below the global prices level, so how are we positioned currently?

Yashovardhan Saboo: As I mentioned if you start from the period pre-GST more or less prices in India for most brands were in line with international prices it is plus or minus 5%, it is difficult to go because brands have different prices across the world, they have different duty so plus or minus 5% variation it is always possible. There are some countries like Japan, China, their prices are may be 10% higher, but generally across the world we are plus or minus 5%. Post-GST, GST went up to 28% obviously with higher taxes, there was a thinking or there was sometimes feelings that all the prices are going to go up, nothing went up. Because we impressed along with a lot of retailers, to the brands and we said please do not do this. We are continuing to lobby with the government to reduce the GST, but please do not increase the prices because India needs to be competitive, the brands also agreed with this and no price was increased. So post-GST and with no prices increase India remained competitive. GST came down to 18% and entire benefit was passed onto the consumer. Across all brands, there was a price reduction between 7.5% and 8%, okay India became competitive with the world by about 7% to 8% okay in some cases we were 10%, some cases we were 5% but let us take on average 7.5%. Now obviously with this duty increase, there is a cost increase, there has been no price increase in India for the last two years, so it is logical that there will be a price increase in watches but I do not expect the price increase to be more than 7% to 8%. So we are going to be back to a situation where we are not 10% cheaper than the rest of the world or 8% cheaper than the rest of the world, but we are competitive with the rest of the world. So I think we are back to the same thesis. I am very confident that with the benefits of buying in India with people getting used to giving pan card and buying in India, there is no change in our growth thesis.

Deepan Shankar: Okay, so the demand, as we put up like this, the demand will not be robust as Q3 but we can still be growing at 20%-25%?

Yashovardhan Saboo: Yes you are right. Again it is difficult to say, Q3 is always a funny quarter, Q3 combines festive season, wedding season and this time we are combined with the GST sort of turbocharge also. However, I do believe which is if you remember four quarters ago on earnings call I said that in the last quarter of 2017 which is the quarter that we have just seen, I expect a very good festive season and I am saying here and now, In 2018 last quarter festive season, we will have an another record performance of the festive season so I expect that the growth will continue mainly powered by the momentum of India’s growth and increase in income and lifestyle spending.

Deepan Shankar: Okay so how confident is our luxury watch industry that we can bring that custom duty back to 10% levels?

Yashovardhan Saboo: Sir that is a very difficult question. I think our arguments are very sound, we are saying we do not need protection. Make in India will happen not because we get protection at least in the watch business, but because we have ease of doing business. We are competitive today. We have already established that, so we do not need that protection, on the other hand if the duty comes down, the growth will be faster and actually the government will get a better revenue, so our main argument is going to be that. I do not know what is the reason for this thing having been done but I believe as our Prime Minister mentioned that at WEF in Davos, I do not think we have a country that it is counting or depending or leaning towards protection. We have confidence to compete and if the industry themselves say we do not want this protection why should the government give. We are saying we will do make in

India, we will compete with the rest of the world. We do not need protection. My argument with them is going to be, I want to export from here to all the global brands, why should I stop them from exporting to India let them export to India and we will export from here. Let there be free trade. See it takes time with the Government of India nothing happens overnight, but if we are consistent, if we are confident about our arguments then I think I have confidence with the Government of India that you can get across to them.

Deepan Shankar: Okay Sure Sir. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Rohit Balakrishnan from Individual Investor. Please go ahead.

Rohit Balakrishnan: Many congratulations on fantastic set of numbers. Sir I had a couple of questions so you already answered the question on inventory and import duty so that is very helpful so one was on your exclusive brands right so while at a gross margin level they are higher, but even at an operating level given, we have to spend some marketing expenses as compared to the earlier model would that also be higher than what we were doing for the other brands?

Yashovardhan Saboo: Rohit, it depends brand to brand. See in initial stages with any new brand obviously we have to invest marketing money into that and in the initial stages if you take the marketing money also as an expense, you will see that it is not as good as a brand where you are not doing any spending. However, as the brand starts to grow and you achieve some kind of critical mass, obviously it starts to get much more profitable. That is one of the main reasons why we are seeing the change in the figures. Also, do not forget that with the exclusive brands, they are actually contributing to the marketing whereas with the nonexclusive brands, they have their own marketing programmes. With some of the brands actually we have to contribute that, if it is a very, very well known brand or very strong brand then part of event is we have to contribute to their marketing, of course it helps to build up the brand but it does not really build Ethos exclusively whereas in these brands. A. we are spending money the way we want it with our database, with our search parameters, so it is very focused, they are contributing definitely a large part of it in some cases almost 80%-90% of the marketing spend. So very soon after the brand gets established it even after taking the marketing spend that we are doing on the brand, it is more profitable.

Rohit Balakrishnan: Okay got it Sir. And Sir on the margin side so Ethos reported around 10% in this quarter which is phenomenal but just wanted to understand in terms of sustainability given everything and any import duty is still reasonable, just more on a longer-term basis we have been saying that at a corporate level 7% to 8% so I mean 10% was a pleasant surprise just want to see are we upping our guidance also on that front or we are staying with that?

Yashovardhan Saboo: So yes that is a great question because so obviously we are excited about what we have seen and we have sort of achieved thing that we usually put on excel sheets and then we have same because excel sheet is easy to do, but let us actually do it on the floor of the store.. What this 10% in this quarter does is, I think it gives us very convincing way to believe that 10% overall for the year for the company is a possible figure. So, I am no longer am prepared to believe that we have to cap it at 8%. I think we can achieve 10% EBITDA overall. I believe the improvement will happen from where we are at the rate of about 1% to 1.5% improvement every year so if we are let us say saying that this year would be let us stay 5% to 6% we are probably looking at three years within which we should start to hit somewhere close to 9% to 10% EBITDA. A lot depends on how growth is happening, but I guess this is definitely a foreseeable target.

Rohit Balakrishnan: Got it. Thank you, Sir and just last two questions, in earlier some of the calls you talked about the opportunity on sort of accessories so have we put some thoughts around it or anything that you would like to share?

Yashovardhan Saboo: Rohit we have sort of examined that we have looked it at, we have started with something but frankly if you ask me, probably in the future we will add accessories as we go, but as of now we are seeing that the opportunity that exits in the watch space because there is no other scalable model competing with us. We can double our market share in certain period whereas accessory like pens or eyewear and so on when you add it, it does not move the needle much. A good eye wear store, will add some Rs.1 Crores and Rs.1.5 Crores per year on the topline. As I said, the store in Indore, will add Rs.5 Crores and it will be profitable. The same thing is going to happen in the Guwahati, and in Indore, and of course it is already happening in Pune, we are strengthening our position there, in Bhuvaneshwar, in Mangalore, in Jaipur we see it happening, there is huge scope as our country revives and a lot of it comes in this aspirational price segment from Rs.50000 upwards.

Rohit Balakrishnan: Got it and Sir last question you mentioned that there is a distribution that we are doing for some of these exclusive brands for other retailers can you just give your thought process on that?

Yashovardhan Saboo: So one of the deals on the exclusive brands is that they have presence in 30-40 points of sales eventually with Ethos it will go to 70 points of sales. But in country like India especially if it is a price point of Rs.30000-Rs.40000, they are keen that we would like to expand to a larger base eventually and then the talk comes that why do not you distribute to other retailers, initially frankly we were a little hesitant because we said we want to keep exclusivity however we realized that for some brand it makes sense to do that for a couple of reasons. Number one, if there are more points of sales, the brand will invest more in the marketing we can push that and brand awareness in the country will go up. The issues with many of these exclusive brands is that they are still not as well known in India as let us say an Omega or Rado or Tissot brand but with more marketing spend we can get from the brand over the years, the brand awareness can be higher. Number two, we have the distribution and retail margins to ourselves. We will share the retail margin with the retailers and we will be able to control because if the retailers starts to give the exclusive discounts, the right is with us whether we want to continue with that retailer or not so while maintaining an overview on the brand and its performance. We also earn distribution margin. The brand gives us more money to build brand awareness and if we become 5%, 10% of the brand's global market share; we become a significant partner for the brand. Currently the problem in India is that many brands do not take India seriously because the market is still very small. But as they become more and more important for the brand, they will divert more spends, more attention, more focus on India. Going forward for example, we are saying we want some limited edition exclusive watches made only for India. Okay to suit some India taste, now if the market is very small then they hesitate to do it. But if we are growing, we can do these exclusive products for India and there is a huge scope for that because a lot of people who want to buy products that are exclusive limited edition and if you know the watch business, it is a very large part of it, so with all these reasons we are engaging with selected brand and very, very selected retailers to set up this distribution. This has actually has been under discussion for several months, but now we are in process where we have actually finalized agreement with one brand and other brands are under discussion.

Rohit Balakrishnan: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Vikram Sooryavanshi from Phillip Capital. Please go ahead.

Vikram Sooryavanshi: Congratulation for the really good performance, I just missed what was the growth in precision engineering business for nine-month and absolute number?

Sanjeev Masown: For the quarter it was 37% and cumulative growth is around 40%.

Vikram Sooryavanshi: In Crores was how much?

Sanjeev Masown: In Crores, for the nine-month it is Rs.25.4 Crores.

Vikram Sooryavanshi: Okay how is the progress at this new facility?

Sanjeev Masown: In the new expansion facility which we are creating, we shared in the previous discussion that partial operations started, we are already having two other operations in Bengaluru, one facility has been shifted there, another the main unit which we had we will be shifting by the end of the year. The new set up of electroplating has already commenced operations and then once everything get stabilized and consolidated at one level, then from the next year onwards we will see the full benefit of that.

Vikram Sooryavanshi: Next year means from next financial year?

Yashovardhan Saboo: Next Financial year?

Vikram Sooryavanshi: From April onwards?

Sanjeev Masown: From April onwards.

Vikram Sooryavanshi: Okay got it and most of the questions were answered, just a small clarification if you look at our store expansion plan which was pretty aggressive post the cut in GST rate but now it is import duty will that stay on will there be a material change in expansion plan as well?

Yashovardhan Saboo: Vikram I do not think any plan of change because of this import duty. Even if the import duty stays at 20% I think the opportunity in India has not really changed and our strength vis-à-vis competition is only increasing so we believe it is the time to actually grow faster and increase our market share and at the same time, I am actually confident that within the reasonable period of time, this import duty of 20% will come down.

Vikram Sooryavanshi: Okay got it. Thank you very much Sir and all the best.

Moderator: Thank you. We will take the next question from the line of Hiren Ved from Alchemy Capital. Please go ahead.

Hiren Ved: Good morning and congratulations on fabulous numbers. I just want to understand from you what is the opportunity set that you see in the precision engineering business, how big can this business be let us say three to five years down the line and what new opportunities are we pursuing in that area? I mean there is a lot of work happening in aerospace, in defense in a lot of areas, are you seeing any new opportunities then, just want a sense of how big this business can be?

Yashovardhan Saboo: So, Hiren the business in the precision component is actually massive and we are not only looking at India. Even today our direct and indirect export is actually more than 50% of the business. So, the opportunities are really, really, really massive. It is difficult to sort of put numbers over there because if you start to put the numbers then it quickly goes into sort of billions, but we believe that we should be able to grow this business at a CAGR of about

40% over the next couple of years and our first target is to hit Rs.100 Crores and from there on look at building into something in between Rs.300 Crores and Rs.500 Crores. Obviously the opportunities lie in several fields, I mean precision engineering is very, very general term, so there is aerospace, there is medical, there is instrumentation, there is automotive then there are electronic goods, so there are five or six main segments. There are some segments which are easier to enter and there are some segments, which are more profitable but take a longer time to enter, typically aerospace is a segment, which is highly profitable, highly specialized but it has a long gestation period. We have already started the process in terms of you getting necessary certification, making the right contacts and so on and of course the low hanging fruit, whether it is in the automobile business or some electronic business that is what is increasing most of our growth right now. But I think we have got this strategy worked out, that what is going to led to the growth in the next let us say 6 to 18 months and what is going to start adding to that growth in more strategic segments like aerospace 12 months down the line, which will also increase the profitability. So this is the huge segment we have to pick and choose where we want to specialize, Some of that has already been done, so in technical terms for example our main strength has been precision tooling and stamping. We have added electroplating which is a difficult thing to deal with, but a lot of value addition is there so we have added electroplating. One more thing which we added is precision injection moulding because injection molding and stamping they work together to create subassembly, so these two goes together. Finally, which we have not done yet but perhaps over next year we are going to add machining which adds more value. These are the four kinds of verticals in terms of technologies that we are going to concentrate on. Eventually going on to higher and higher, more complex production in let us say larger products in more high-value industry.

Hiren Ved: Just one question on the watch business I am sorry if this has been answered because I was just away while the call was on for a few minutes. So if you let us take Rs.2 lakh watch let us say retail price pre-GST what would it be post-GST and now for the same watch what would it be post the new custom duty hike, I am just trying to understand what was the net benefit and how much of that benefit actually has gone away because of the new custom duty hike?

Yashovardhan Saboo: So let us go with Rs.1 lakh as an example. So Rs.1 lakh let us say MRP pre-GST was Rs.1 lakh. GST came in at 28%, MRP remained Rs.1 lakh. No price was increased of course our margins and any importers, there was a reduction in margin by 'X' percent points. Now the GST was decreased on 28% to 18%. If you do 118 divided by 128, you will see that the difference is 7.8%. According to anti-profiteering drive amount should go back to the consumer.

Hiren Ved: Right but you also get a set-off, right?

Yashovardhan Saboo: Across the broad prices went down by between 7.5% and 8%, people did different calculation but let us say 7.5% so that means is Rs.1 lakh watch now MRP become Rs.92500. Now this is where it stands today, today the price of Rs.1 lakh watch is Rs.92500. Now the import duty increased from 10% to 20% what we expect most companies to do is, they probably want to revise this pricing by between 6% to 10%.Let us also understand one thing that the exchange rate meanwhile especially Swiss Franc many of them are imported from Switzerland. From six months ago, the Swiss Franc has increased by about 4% or 5% it used to be Rs.64, Rs.65 today it is about Rs.68. So combining the Swiss Franc as well as import duty most brands are likely to opt for something like let us say between 6% to10% that is 8% so on Rs.92500 you increase the price by 8%. You will still be below by Rs.1 lakh. So the MRPs are still likely to be below the pre-GST period.

Hiren Ved: Understood.

Yashovardhan Saboo: Does that answer your questions Hiren?

Hiren Ved: Yes absolutely.

Moderator: Thank you. We will take the next question from the line of Harshad Mukadam from Vibrant Securities. Please go ahead.

Harshad Mukadam: My first question is on Ethos, I think we have seen strong operating leverage in this quarter, but I was looking at the other expense number which has surprisingly gone down in spite of we have been opening new stores, so can you just throw some light what exactly was the reason for that fall?

Yashovardhan Saboo: One of the significant falls is in marketing as I mentioned that there has been a significant sharing of marketing cost compared to previous year and also previous quarters with the exclusive brand partner. So that apart from some reduction in rent which we are seeing because some stores were closed down, but I think the most significant contribution comes from a reduction in the marketing cost.

Harshad Mukadam: This is on account of marketing related to the exclusiveness or the other brands or both?

Yashovardhan Saboo: Mainly relating to exclusive brands.

Harshad Mukadam: Okay, so they are putting more share?

Yashovardhan Saboo: Yes.

Harshad Mukadam: Okay and that is driven by positive results or exactly can you throw some more light on that?

Yashovardhan Saboo: Yes, I mean in the sense obviously it is you see what happens is there is a marketing spend which is related to activities that you do and then as any brand would do and we are willing to play that game to say that okay, but we also need to see some results, you want to see some results in terms of leads, in terms of profiling, in terms of actual sales that has been achieved which is usually calculated towards the end of the year. So which is the reason why also a large part of the sharing actually sort of fructifies towards the end of the year.

Harshad Mukadam: Okay.

Yashovardhan Saboo: But the fact of the matter is that we do have a lot more of cost sharing from exclusive brands then we have from the common brands let us say the brand which are available with everybody.

Harshad Mukadam: Okay, the reason I asked is that from Rs.12 Crores to Rs.13 Crores which is the usual quarterly expense which we have in the other item, it has come down to Rs.9 Crores now, which is a sharp fall of around Rs.2 Crores to Rs.3 Crores. So can this be taken as a one time thing or do we foresee this continuing?

Yashovardhan Saboo: I may not be able to comment on the exact quantum, but we will see a sharing of marketing cost continuing to happen, we will see that continuing to happen. We will also see the effect of operating leverage continuing to happen. I will just give you one example. I will give you one very, very direct example. If you have traveled through Delhi Terminal 1 of the Airport you would have noticed that you had a great store over there, we decided to close it down. You know it is not something that I wanted to do, while it was the store which was paying extremely high rent and with traffic going down, they have opened a terminal 2 and with share of wallet going down because a lot of retailers opened, we realized that this store is never going to be profitable. We closed down that store; we were paying a revenue share of Rs.18 lakhs to Rs.20 lakhs per month over there. At one time, three years ago, this was Rs.7 lakh to Rs.8 lakh, but the new terms became so high that when the contracts expired we closed it down. This closed down on December 31; we are going to see the impact of that. Because the positive impact of that reduction is in leverage. Today for example you will see that our rentals overall is about 7%, add this store it will be 14%. The other important thing is, let us not forget the service tax benefit very significant, post GST the service tax that we were paying on rental marketing expansion now gets subsumed that is the benefit as well.

Harshad Mukadam: Okay, understood. Secondly in terms of retail marketing I think you said we are going to build a different team or company I could not get that… for digital marketing?

Yashovardhan Saboo: So digital marketing we have set up a separate subsidiary which is going to be focusing on digital marketing for our partner brand in the watch segment, but also in for other related product groups because I believe they have synergies between that, earlier digital marketing, our digital marketing was being done by digital Company. Now brands like to participate on digital marketing with a digital marketing company and some of them said we would rather work with the digital marketing company which is specialized and focused on that rather than work with Ethos as per some of their guideline. So this is something which we have done that we set up a digital marketing subsidiary which will encourage actually a lot of brand to do digital marketing with some others and to work now internally with our team.

Harshad Mukadam: Okay, does it have any material impact on the number as such?

Yashovardhan Saboo: Not really.

Harshad Mukadam: Okay, thirdly you said that you are in the pipeline talking to more brands; can you throw some more light on that in terms of number of brands or some light on that?

Yashovardhan Saboo: Currently I think we have 13 exclusive brands not all of them are performing well. However, if we have to get exclusive brands to be a 25% of our business and our business itself growing at 20% to 25% right, we need to add to the portfolio of brand across price points. So we need brands in the price point 25000, 30000, 40000 also exclusive brands and we need some in the price point of Rs.2 lakh, Rs.3 lakh, Rs.4 lakh also. So we anticipate that every brand that we start may or may not be successful. So there will be some review, some weeding out, some churn happening over there, so we have to have constantly work on a pipeline which will give us the ability to weed out non-performing brands, to bring in new brands, to test them and to establish them, so that pipeline what I am saying is there is robust standard is full so we are never going to run out of situation now we cannot grow because we do not have enough exclusive brands.

Harshad Mukadam: Okay and is this mutually happening in the sense that we approaching brands and even them approaching us or is it like one sided?

Yashovardhan Saboo: As I mentioned I think a lot of independent brands which are not yet present in India or which are present but not doing well, they are looking at what we have done. I will give you an example. Corum which is a very, very well-known brand in the luxury space, it was not exclusive; it was with 16 different retailers. One and a half years ago they decided to come exclusive; because they were not getting the kind of success they wanted working with multiple retailers. Today they are extremely happy, and others have seen what has happened. They are suddenly saying that oh, Corum is all over the place and doing very well, they are seeing advertisement, they are seeing PR coverage, , they are seeing more and more stores coming up right, so brands are looking and they are coming to us of course we are also approaching some brands which we want to be exclusive with and while I do not want to give you names prematurely, but I think you will see an addition to this portfolio almost on a quarterly basis going forward.

Harshad Mukadam: Okay, understood. Thirdly on I think in the last quarter we had mentioned that KDDL might put more money in Ethos I think around Rs.30 Crores, Rs.20 odd Crores I do not remember exactly, any update on that?

Yashovardhan Saboo: So that is the enabling resolution that had been done and those investments will be made.

Harshad Mukadam: Okay, that is it. Thank you.

Moderator: Thank you. We will take the next question from the line of Rajat Patiya from Verdri Capital. Please go ahead.

Rajat Patiya: What kind of gross margins do you think are doable from nonexclusive brands?

Yashovardhan Saboo: Sorry?

Rajat Patiya: What kind of gross margins do you think are doable from nonexclusive brands?

Yashovardhan Saboo: From nonexclusive brands?

Rajat Patiya: Yes.

Yashovardhan Saboo: Rajat I may have to get back to you and I have to ask Sekhar because the reason is that nonexclusive brands also sort of cover from very, very different segments, so there is a luxury brand segment where turnover is high, but margin is lower, we have the fashion brand segment on nonexclusive basis, where the margin is higher, but turnover is lower then we have core brands which is brands like Omega, Rado, Tissot and the margins there are different from each other, let me just get back to you on this.

Rajat Patiya: Sure and Sir did you mention that the exclusive brands while they contribute 13% to the revenue, their contribution to the gross margin is 22%?

Yashovardhan Saboo: Correct.

Rajat Patiya: And this is for the latest quarter or the nine months?

Yashovardhan Saboo: This is for the nine-month period.

Rajat Patiya: Okay, so that means we are kind of doing around 35%, 40% kind of gross margins with them?

Yashovardhan Saboo: I do not think it will be 40%; it will be closer to 35%.

Rajat Patiya: Alright, got it and Sir just one very small question. The difference between billing and revenues would be what I mean, billing is what?

Yashovardhan Saboo: Billing is what we billed, the difference between billing and net revenue is basically the GST.

Rajat Patiya: Got it. Thank you. That's it.

Moderator: Thank you. We will take the next question from the line of Nikhil Vora from Six sense Ventures. Please go ahead.

Nikhil Vora: Many congrats to you. Just a couple of things, one, is obviously we have got extremely formidable base of customers of almost 2 lakh members right now, one is how do we really tap this more aggressively, because this in the TG which is completely ours, cannot really thing of many companies or businesses in India which have TG, which is almost over 50000 bugs as potential customers so which we completely own that is one. Second is on the used market opportunity which possibly is maybe 7, 8x potentially, how strong are we making an entry point into this category and is there a plan to actually create membership model in this category and third if I can just say right now is that each of the businesses seem to have their own journey of growth and visibility from here on, how do we create enough opportunities for each of these businesses to grow independent of KDDL?

Yashovardhan Saboo: So Nikhil we are constantly working and we realize that actually one of our most valuable assets is this group of customers in the HNI space, buying expensive products, interested in expensive products, lifestyle product and one of the things which is already happening you can see through this is that the traffic no our website, the organic traffic on our website is increasing which is actually leading, which is also contributing to a lower cost, so we do not have to spend that much in generating lead and so on. Second important point which is leading to, in the field of marketing and Pranav sort of understand this in more specifics than I do but the days when you can sort of send e-mails and people open e-mail those are over, e-mail opening rates are plunging right. The days when you can put a catalogue on your website and people will come basically to check the catalogue I mean it has gone everybody is doing it. The reason why people would come to a website is to engage with researching products, getting interesting insights about product which is tickling their imagination which is creating addressing higher need than just to check the price and the fact that we have a large target base whom we can address directly and drive them through social media marketing or whatever to our website and to whatever other communication which we are doing I think that gives us a huge power to us that is what is giving us the confidence today to say here. I know Guwahati is going to be success, we have signed up a store in Guwahati, we have signed up a store in Indore, and we have signed up a store in Bhubaneswar because I know the traffic which is coming from there, I know my customers who are there, and these are only increasing with every day that is one level at which we are working. I think the ability to target this customer base with more planned sort of intervention that we are doing for loyalty program that is the huge area of opportunity and as we strengthen our marketing set up for that I think that will happen as well. There is a large opportunity I think which may still can go to in addressing this target group.

Nikhil Vora: Okay.

Yashovardhan Saboo: So your second question was about used this trading in and of watches, pre-owned watches and so on, I agree with you I think it is a great opportunity, in India nobody likes to throw away anything and we always want to check if I can get something or the other for it. Beside the fact that there are collectables and people are starting to collect watches. A bit of a challenge is the regulatory environment, we are still trying to get clarity on what GST rates are applicable, we cannot obviously do this business in cash which is the way the unorganized business is being done right now and third is on the membership programme, people are interested to sell but they have expensive watches which they might a purchase either abroad and brought them into India or they might have bought it in cash but they are not willing to sort of tell who is the owner of the watch. So that is a bit of challenge as to how we can do that. We are going to examine this area of can we create a community which connect with each other and if they wanted to trade in watches, they do the trade from A to B directly and we facilitate the trade and we get benefit out of that, so that is part of the thing that we are setting up. We are working with some consultants to help us on the regulatory side and I think within couple of months we should know much more and if we do not sort of hit some terrible road blocks, I think this is the great area to build on. Your third question was all these businesses, how are we going to take them in future that are a very valid point. At a macro level I think the business of manufacturing and the business of retail these are very, very different businesses and in the past, we have spoken about restructuring the company so that these businesses will sort of start to fly independently I think those discussions are happening and sooner rather than later we should start to see some developments in this front. On the retail side, there are different businesses I agree whether we should structure them all into completely different companies, all work through subsidiaries or divisions. I think that something as and when we get to know what is the size of the business, the opportunity, I think we are on the same thinking here that where it needs a separate team, separate monitoring it might be beneficial to structure it in a way that allows them to be monitored and to grow independently I think that is the believe. We need to make sure that we balance the costs and the benefits appropriately.

Nikhil Vora: Fair part, so my only submission was that we have got a fantastic user base which you will remember that we have I think what possibly the toughest part in this business which is trust of all the customers who have been part of the ecosystem for almost a decade and market opportunity which seems to be obscenely large, so if we crack those used market opportunity, I think that could be fairly interesting to look out for.

Yashovardhan Saboo: Points taken Nikhil and thanks very much. You have been a great motivator always.

Nikhil Vora: Thanks a lot Sir.

Moderator: Thank you. Next question is from the line of Darshan Patne, Individual Investor. Please go ahead.

Darshan Patne: I have two questions Sir. There has been an import duty hike Sir, so where will you increase the prices Sir?

Yashovardhan Saboo: Darshan what is your second question let me just go and answer both of them.

Darshan Patne: How much funds you will require to open three stores?

Yashovardhan Saboo: The import duty hike has happened typically price increases are actually to be done by the brand and we expect price increases to be announced between now and April 1. Brands may either declare a price increase just covering up for the duty increase or many brands have not taken any increase over the last 12 to 18 months, exchange rate of Swiss Franc has also increased, so some brand may want to sort of bundle all of it together and take one price increase, but between now and April 1, we expect most brands to announce some price increase. Second question was relating to the investment in the stores, two luxury stores probably having investment of about Rs.1.5, Rs.2 Crores each and because it is a monobrand boutiques remember that and the multibrand store in Indore is probably about the same, it is going to be about Rs.1.5 Crores.

Darshan Patne: Okay this means that you have not increased your prices now?

Yashovardhan Saboo: As of now, as we speak now no prices have been increased. I believe some brands have communicated yesterday but brands will tell us the price increases effective from which particular date.

Darshan Patne: Okay, Sir. Thank you.

Moderator: Thank you. Next question is from the line of Harshad Mukadam from Vibrant Securities. Please go ahead.

Harshad Mukadam: Thanks for the opportunity. First question is on we have merged Satva Jewellery with ourselves correct?

Yashovardhan Saboo: Yes.

Harshad Mukadam: Similarly also we know another three subsidiaries and I believe that most of them have very insignificant scale of operations I think, am I right?

Yashovardhan Saboo: Some of them yes, you are right.

Harshad Mukadam: So do we plan to merge them also in the future?

Yashovardhan Saboo: I think it is case-to-case basis we may be deciding as far as Kamla International is considered, there is no plan of immediately merging that. In case of the domestic company, we may be evaluating that and may be merging some of the company.

Harshad Mukadam: What the Kamla does by the way if I may ask?

Sanjeev Masown: Kamla International that is SPV especially for investments.

Harshad Mukadam: Okay and we also have company called Pylania which is into manufacturing of hand dials is it?

Yashovardhan Saboo: Yes.

Harshad Mukadam: Any progress on there in terms of business, revenues?

Yashovardhan Saboo: Pylania was set up in 2007 or 2008 essentially for taking up manufacturing of dials in Switzerland following the change in Swiss regulation, so change in Swiss regulation did not happen until 2017, so in the middle we had suspended the operation in Pylania because we incurred a lot of loss over there.; However, now with the regulation in Switzerland having changed, we are seeing encouraging sort of demand coming for Swiss-made products produced in Pylania of course on a limited basis. So we have revived the operations there and you will see it in the increased revenues and of course losses have been stemmed; now it is profitable, so you will see that in the Pylania report which is part of our annual report every year. Pylania is active again.

Harshad Mukadam: Okay.

Yashovardhan Saboo: Active and profitable.

Harshad Mukadam: Okay, also you mentioned in the openings comments that we have seen revival in the Indian watch market also for manufacturing part I am talking about, so can you throw some light on that?

Yashovardhan Saboo: The revival of demand is for watches in the Indian segment, I am talking about watches produced in India brands like Titan, brands like Timex, and Fossil group is also assembling in India. For these, there is a sharp increase in the market and we are seeing that, so in the sales of our watch components, we are definitely seeing that and you will actually see that reflected in the results of Titan also.

Harshad Mukadam: Correct and I think Fossil you said that has also started assembling in India, is it correct?

Yashovardhan Saboo: Yes, they have.

Harshad Mukadam: And can we expect our watch component growth also to be in double digits going forward?

Yashovardhan Saboo: I think we are projecting double digits, so it will be lower double digit I do not think the watch segment given the base that we have already established, so I do not think we are going to match the precision engineering business or the watch retail, but yes double-digit growth I think is foreseen.

Harshad Mukadam: Finally, one last question on Ethos, so I think margins of late have become a bit skewed because the revenue base has come down because of the net revenue which is showing, so if I look at the margins as a percentage of gross billing, I mean if you look at that still we are at a 20% gross level which was historically at 23 odd %, so do you think that has a potential to go up to the historical levels?

Yashovardhan Saboo: Of course, it has and I can tell you as a percentage of billings in Q3 what you are saying is probably not correct.

Harshad Mukadam: So if I tell you the numbers just give me a minute?

Yashovardhan Saboo: I will get back to you on this, but I am very sure that gross margin as a percentage of billings is up in Q3 and I believe this will be up to whatever historically net sales was 26.7%, but so on net sales it will be back to 25%, 26% very clearly and frankly now the net sales figures are going to be comparable to what we had in the past and this will be reflected in the gross margin on billing as well.

Harshad Mukadam: Okay, so in the current quarter on the gross billings, the margin is 20.3%, on a Y-o-Y obviously it has increased 18 to 20, but if I look at the long term last three, four years, it used to be a 22%, 23%, 24% and 20% still is below that level, so that can again go up that would create a huge impact in the operating margin as well, so I just want to know whether that is possible.

Yashovardhan Saboo: So on net sales quarter was 23.9%, YTD was 22.6 so the quarter is significantly higher and previous year was 22.8%, so we are seeing that I think going up on net sales and we will probably see this on billing as well, I do not have that currently.

Harshad Mukadam: No issues. Thank you.

Moderator: Thank you. We will take the next question from the line of Sanjiv Patkar from SBI Funds. Please go ahead.

Sanjiv Patkar: Just on the overall margin picture when you were saying earlier that you know over next two, three years you look at margins of 9%, 10% against historically we have been first looking a target of 8%. What is driving this improving outlook from your side, any particular segment that you think margins are likely to be far better and what you have…?

Yashovardhan Saboo: Sorry can you just repeat the question, I did not catch up.

Sanjiv Patkar: In terms of overall margins like you are saying over next two to three years we should achieve 9%, 10% of consol margins against earlier estimate of 8%, so what is making you believe that or what is driving this increased confidence in terms of margin achievement any particular segment?

Yashovardhan Saboo: This was the figures that you are talking were relating to EBITDA in the retail business not on consol basis.

Sanjiv Patkar: Yes Sir.

Yashovardhan Saboo: EBITDA in retail earlier we were projecting we will get to about 8% and the question really was that having achieved 10% EBITDA in Q3, are we relooking at the target of 8%, to which I said yes I think we can and we are encouraged to relook at that because it gives us the belief that it is possible. I maintained our growth in EBITDA to be of the order of 1% to 1.5% every year helped by operating leverage as well as some margin improvement, so therefore in a period of three years we should see this increasing by 4% to 4.5% and approaching 9% to 10% in about three years.

Sanjiv Patkar: Okay that is all from my side. Thank you very much Sir.

Moderator: Thank you. Well that seem to be the last question.

Yashovardhan Saboo: If there are no further questions then I would like to end this conference, with thanks to all the participants and to my colleagues who have been with us. Thank you.

Moderator: Thank you very much ladies and gentlemen. On behalf of KDDL Limited that concludes this conference. Thank you for joining us and you may disconnect your lines now. Thank you.