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Trading Symbol : KDDL

Scrip Code : 532054

Subject: Q3 FY21 Results Conference Call Transcript

Dear Sir / Madam,

Please find enclosed herewith a copy of transcript of Q3 FY21 Results Conference Call held on 16th February, 2021.

Kindly take the same on record.

For KDDL Limited

KDDL LIMITED

Brahm Prakash Kumar
Company Secretary

"KDDL Limited Q3 FY21 Results Conference Call"

February 16, 2021

MANAGEMENT: **MR. YASHOVARDHAN SABOO – CHAIRMAN & MANAGING DIRECTOR, KDDL LIMITED**
MR. SANJEEV MASOWN – CHIEF FINANCIAL OFFICER, KDDL LIMITED
MR. RAJA SEKHAR – CHIEF FINANCIAL OFFICER, ETHOS

Moderator: Ladies and gentlemen, Good day and welcome to KDDL Limited Q3 FY'21 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on beliefs, opinions and expectations of the company as on the date of this goal. These statements and 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. Yasho Saboo -- Chairman and Managing Director, KDDL Limited for his Opening Remarks. Thank you and over to you, sir.

Yashovardhan Saboo: Thank you, and good afternoon, and welcome to everyone for our Q3 FY'21 Earnings Conference Call. As usual, I'm joined by Mr. Sanjeev Masown -- CFO of KDDL and Mr. Raja Sekhar -- CFO of ETHOS, and SGA, our Investor Relations advisor. I hope everyone has had the chance to go through our “Updated Investor Presentation.”

During this quarter, we witnessed a strong recovery in business with the relaxed lockdown restrictions. Our manufacturing business almost reached last year Q3 levels. ETHOS revenue was a bit lower as compared to Q3 of last year which was a bumper quarter. However, we witnessed very strong growth in profitability in both manufacturing and in ETHOS business through cost optimization initiatives.

Let me start by giving you a “Brief Financial Performance Report on the Consolidated Basis for Q3 FY'21.” Consolidated total income for Q3 FY'21 stood at Rs.178 crores compared to Rs.204 crores in Q3 FY'20, down 13% YoY. Consolidated gross profit for Q3 FY'21 was Rs.70 crores as compared to Rs.79 crores in the previous year same quarter, down 12% YoY. Consolidated Q3 EBITDA this year stood at Rs.26.6 crores compared to EBITDA of 27 crores in Q3 FY'20, down just 1% YoY. We were able to largely contain fall in EBITDA with a strict control over operating expenses. Hence our Q3 of FY'21 EBITDA margins expanded by 170 basis points YoY to 14.9%. Consolidated Q3 FY'21 profit after tax stood at Rs.9.7 crores as compared to Rs.4.4 crores in Q3 FY'20 up by 121% YoY.

You must be aware that our financials are impacted by the application of IndAS 116 standards. Hence, our IndAS 116 adjusted financials are also published in the “Investor Presentation” for reference.

I will now come to the “Business Updates. “Our Manufacturing business comprises of Watch Components, Precision Engineering and Ornamental Packaging. In Q3 FY'21 manufacturing business revenue stood at Rs.40.8 crores as compared to Rs.42.3 crores in Q3 of last year. The revenue share of Watch Components and Precision Engineering business for the quarter was 70% and 26% respectively. EBITDA for Q3 this year stood at Rs.7.7 crores compared to EBITDA of Rs.6.4 crores in Q3 of last year up by 21% YoY. Profit after tax for Q3 FY'21 stood at Rs.2.9 crores as compared to profit of Rs.1.6 crores in the same quarter last year, up by 85% YoY.

Revenue from Watch Components business was Rs.29.3 crores in Q3 FY'21 as compared to Rs.30.6 crores in the previous year and Rs.25 crores in the previous quarter of this year.

Revenue of Precision Engineering business for both Q3 last year and Q3 this year was at Rs.10.8 crores, so almost exactly the same.

During Q3 of this year, the revenue of the company improved by 18% over the Q2 of the same year and we reached close to the pre-COVID levels. During this quarter, Swiss Watch exports worldwide remained impacted due to the second wave of COVID-19 in Europe and in USA. We expect markets to reach normal levels over the next two quarters. We also observe a clear trend of Swiss Watch demand growing at higher price points, while lower priced watches are declining. We are also realigning our product portfolio in the Watch Components business and moving up on price point with higher quality and higher product features.

We also witnessed a healthy recovery of demand from the domestic market and expect this to gain momentum as the vaccination program lowers the risk of COVID in the country.

Our Precision Engineering business, EIGEN, witnessed a revenue growth of 15% in the quarter and recorded revenue of Rs.10.8 crores compared to Rs.9.4 crores in the previous quarter. The EIGEN revenue is similar to the corresponding quarter of the last year as already mentioned.

The product portfolio and mix of different segments has undergone a major change as some sectors like aerospace and electronics continue to remain quite severely impacted due to COVID-19. And we expect these segments may reach normal levels only over the next two quarters or so. But meanwhile, we are witnessing healthy growth of enquiries and RFQs especially from the auto segment and the electrical segment. This trend mainly driven by the ‘China Plus One’ strategy of major global players.

We believe that the government initiatives of Atmanirbhar Bharat and the increased thrust on domestic sourcing will provide additional opportunities for EIGEN in the coming quarters.

The cost optimization initiatives undertaken by us during this period has yielded an improved EBITDA and PBT, evident from the fact that the company reported higher EBITDA and PBT despite the revenue being lower compared to the previous year in the same period. During this quarter, our EBITDA and PBT increased by 21% and 54% YoY respectively. We believe that with the normalization of market conditions, the profitability of the company will be much healthier and stronger.

A few words about ESTIMA AG, our subsidiary in Switzerland. During this quarter, ESTIMA reported a revenue of CHF369,000 and EBITDA of negative CHF 118,000, which is lower than our original estimation plan. This is primarily due to the impact of the second wave of COVID 19 in Europe and in particular in Switzerland. ESTIMA reported a loss of CHF183,000 during the quarter. Though the revenue during the quarter was higher by 8% compared to the previous year, but as the overheads approach near normal levels, the loss was a little higher than expected. However, the good news is that the revenue of the company for nine months period FY'21 was CHF1.25 million as compared to CHF1.2 million reported in the corresponding period of the last year. The EBITDA loss for the nine months is only CHF66,000 compared to a loss of 844,000 in nine months of FY'20. All these indicators clearly justify that our strategy and action plan to revive and turn around ESTIMA and record growth and development are in the right direction.

Now, let me discuss our Watch Retailing business, ETHOS. During Q3 this year, we witnessed a strong recovery at ETHOS, led by a good festive season and the end of the lockdown. Although footfalls are yet to achieve normal levels, and it is also important to note that during the last year, we had 55 stores operational at this time, as against only 47 stores operational this year. Yet, our revenues in the Q3 of this year were lower by only 14% as compared to last year. We have met the challenges of the current year with great agility. We have achieved significant cost cutting both temporary and permanent and focused on maintaining liquidity by rationalizing investment in inventory and other capital expenditure. This has helped ETHOS become leaner and more profitable with higher margins leading to 64% YoY increase in profit after tax.

The Financial Highlights of ETHOS for Q3 FY'21: Our billing for the quarter stood at Rs.154 crores as compared to Rs.179 crores in the last year same quarter and Rs.120 crores in Q2 of this year. Of these the billings for exclusive brands for watches, contributed Rs.38 crores in the Q3 that is 25% of the total billings for the quarter. Consolidated total income for Q3 FY'21 was Rs.138 crores as compared to Rs.159 crores in the previous year same quarter and Rs.107.6 crores in Q2 of this year. Consolidated gross profit for Q3 stood at Rs.40 crores compared to Rs.44.5 crores in Q3 of last year, down by 10% YoY. However, gross profit margin expanded by 130 basis points YoY to 29.3% in this year Q3 as compared to 28% in Q3 of last year. Consolidated EBITDA stood at Rs.22.2 crores as compared to Rs.22.6 crores last year Q3, down 2% YoY; however, through cost optimization initiatives, margins expanded by 200 basis points to 16.2% in Q3 of FY'21 as compared to just 14.2% in Q3 of FY'20. Consolidated profit after tax for Q3 FY'21 increased by 64% YoY to Rs.7.7 crores as compared to Rs.4.7 crores in Q3 of last year.

Stock at the end of the quarter was at Rs.188 crores, which is lower by Rs.30 crores compared to the stock levels at the beginning of the financial year.

A few words about our “Digital Strategy.” We are cognizant that internet-led sales is going to play an increasingly crucial role as many customers have now become comfortable to buy high end research luxury watches online. Such billings contributed to more than 40% of our billings in the nine months of FY'21 in December. Hence we continue to innovate and spend on marketing through digital medium to keep the overall engagement high.

During Q3, we have added one store at Lucknow while we have closed one store situated at the domestic terminal in Mumbai as a part of our store rationalization exercise. Hence, our total number of stores remain the same at 47 during the quarter.

Our strategy is very clear and consistent. We will invest money where we have the visibility of the returns and growth and take money off the table from places which are proving to be a drag on our profitability.

Our pre-owned business is being run through our website secondtimezone.com. This website has also witnessed increasing visitors in recent times. We believe that the business of pre-owned watches in the long-term has a good potential to scale up. With our strong team of technicians, watch experts and excellent aftersales service, we are confident that this business will scale up steadily.

To conclude, there have been many fast-moving changes for the good at ETHOS. Going ahead, our focus will be to continue building our business on the back of our omni-channel strategy, exclusive brand tie-ups, pan India network, high standard of watch servicing and aftersales service. We believe that with the economy now recovering strongly, we can look forward to a very vibrant growth in the coming quarters.

I now welcome your questions and participation.

Moderator: Thank you Ladies and gentlemen, we will now begin with the question-and-answer session. The first question that's on the line of Abhinit Kulkarni from Tequity Investing. Please go ahead.

Abhinit Kulkarni: One question I had on the recent CRISIL credit rating report wherein the company has said issuer not cooperating. So would you like to comment on the same?

C. Raja Sekhar: Actually we changed our rating agency. CRISIL was the rating agency a couple of years ago. And it seems as a part of the direction from SEBI, they need to monitor the company post change for the next three years. And this can be based on whatever information that they can fetch from the public domain. From our side, we have changed our rating agency to ICRA, and we can send you the ratings reports of the rating agency..

Moderator: Thank you. The next question is from the line of Isha Savla from Arya Securities. Please go ahead.

Isha Savla: As the online sales are doing well, do you plan to slow down on new stores opening? What was the revenue from pre-owned watch business in Q3?

Yashovardhan Saboo: As far as stores are concerned, we are certainly slowing down the opening of new stores. You can see that in fact, there's been a net reduction. And there are several reasons for this. But one of the reasons of course is the fact that internet led sales has become a larger part of the business. We are moving towards a higher price point where store presence is relatively more important. But once again good news is that even at higher price points, internet-led sales are quite vibrant. So going forward in the future, we do expect the slowing down in the expansion of physical retail space. And mostly, we will be concentrating on large stores which become destinations rather than near delivery points. So in Q3, the billings was about Rs.3.7 crores from pre-owned watches.

Moderator: Thank you. The next question is from the line of Prateek Poddar from Nippon India. Please go ahead.

Prateek Poddar: Can you talk about your cost cutting initiatives on the ETHOS side and how sustainable that is? Last year, we had a higher count of stores, now it's 47. But from an SSG perspective, this quarter, what would be the SSG growth?

Yashovardhan Saboo: So on a cost cutting, as I mentioned, there's been both temporary and permanent cutting. First came through rent negotiations which happened, but they were temporary, so most rentals are back to normal levels from this quarter. And of course, some cutbacks on salaries and stuff like that which also has been fully restored at the start of Q3. So those were the temporary cutbacks. Of course, there were other running expenses like traveling and a lot of other expenses, everything was examined in great detail and whatever could be slashed are slashed. Some of it of course has come back, some of them will come back as things normalize. But on the other hand, there have been some important permanent cuts also and these mainly come from closure of stores. So, the active closure of stores leads to cost cutting across the board, it cuts running expenses, it cuts stocking, it cuts your interest costs, it cuts store maintenance, depreciation and of course rent and manpower costs. So those are permanent costs. And the fact that in Q3, we are almost back to the same turnover. And in Q4, I'm reasonably sure that we will exceed the Q4 turnover of last year, for example, in January, we have been higher than last year at a lower cost base, seems to suggest that a lot of this cost efficiency is actually permanent. So that is on cost cutting…

Prateek Poddar: Just one more clarification; the rental costs were all normalized at the start of this quarter, just to get the context?

Yashovardhan Saboo: I would not say they are all normalized, because we did have some rental rebates continuing until the end of Q3, and some nominal reduction actually even continues in Q4. But the bulk of it happened in Q1 and 2, obviously, because that was the full lockdown period. Not completely normalized, but I would say by the end of Q3 definitely largely normalized, and by the end of Q4, it will be completely normalized. Now, same-store growth in Q3 has been (-16%), and for nine months, it has been (-31%). But you have to see that in same store, we count only a store which have had a full 12-month operation. So a lot of the new stores which came up last year are not really included in our same-store growth calculations.

Prateek Poddar: The strategy of analyzing stores is that now something which will continue going forward also, as it will be more calibrated with opening of stores and the delivery points we have defined in your presentation in terms of location as well as high footfall location, that stands right now?

Yashovardhan Saboo: Yeah, absolutely, as I mentioned in the previous question as well, the store strategy is rationalized to a large extent, we're very clear where we want to go and more clear on where we don't want to go. So it has to not only fulfill a strategic need, but we don't want stores to act only as delivery points, we want stores to become destinations. And therefore, a lot of our new stores wherever we are doing our flagship large stores, among the largest in the city wherever we are, first flagship store was opened in Hyderabad around June or July of 2019, and it has had a fabulous response because it has become the destination store in Hyderabad. Similarly, we opened a 3,000 square foot store in Kolkata, and that has become a destination store. Then we opened in Chanakya in Delhi, the luxury mall, that's a set of four stores, that complex is more than 2,500 square feet, and that again has become a destination in its own right. And the latest one is actually going to open now in Bombay, hopefully in March at the BKC, which is 2,300 square foot store, which will be the largest watch store in all of Bombay. So we are very focused on what kind of stores, where we are going to open them, and the role that they're going to play in the future.

Prateek Poddar: You have this focused approach of having very strong filters to open a store, then the number of stores will be very limited, right, in the sense, as long as the destinations don't become as you said in a very high reputed area, stands up even more, if that is not there, then you will not go and open store, which means that the number of…

Yashovardhan Saboo: We haven't hesitated to cut down stores which are not falling in line with our strategy and our growth, and we will not hesitate in future either. So, we were pretty rigorous on cutting down stores which are not performing or not growing. And instead, putting money in locations, brands and strategies which will deliver a return.

Prateek Poddar: Can you update on the rights issue? And there was a thought about acquisition from the rights given the challenging market if COVID negated, for other competitor?

Yashovardhan Saboo: You might be aware this question also was asked last time, and we wanted to clear that we are not doing the rights because we need the money right now for our liquidity, we have an extremely strong liquidity position, both in KDDL and ETHOS. So the rights are really planned because we foresee a lot of opportunities coming up. Some of them have been in the pipeline, the irons are in the fire, but because with this extended lockdown, particularly in Europe, in Switzerland, where we are under discussion for many of these so-called opportunities, we didn't feel a great sense of urgency on the rights issue. So that's why it has not been sort of completed. However, we are very close to now completing all the formalities at the board level and we expect to go through with the rights issue in the next couple of weeks.

Prateek Poddar: In your presentation slide 21, on billings and revenue there is a difference. I am just trying to understand why is there a difference between billing and revenue?

Yashovardhan Saboo: Billings is the gross billing including GST and revenues is net of GST.

Moderator: Thank you. We'll move on to the next question, that is from the line of Atul Kothari from Brock Wealth Securities. Please go ahead.

Atul Kothari: Just a couple of questions. So is it possible for you to quantify the cost reduction accrued to us due to the closure of stores? If you can let us know as to what are the gross margins in our pre-owned watch business?

Yashovardhan Saboo: On the total cost reduction due to closure of stores, we may not have the figure ready right here. But we'd be happy to get back to you and give you an indication about what has been the permanent cost reduction due to closure of stores. Gross margins in the pre-owned business is between 23% and 25%.

Moderator: Thank you. The next question is from the line of Ankit Agarwal from ARC Capital. Please go ahead.

Ankit Agarwal: The first question is about the Swiss watch markets. So, can you give us some idea about the current demand both abroad as well as in India?

Yashovardhan Saboo: The basic trend which is an unmistakable trend is that the higher price points, demand has revived and is likely to grow pretty robustly whereas at lower price points below $500 export price, those have been in continuous decline over the last six or seven quarters. So lower price points are declining, higher price points are going up. This is an ongoing trend which will further accelerate over time. The trend in India maybe not as sharp, but overall the Indian trends are following similarly, where we see faster revival in the higher price points and less of a revival at a lower price point.

Ankit Agarwal: Two more questions on the ETHOS business. So how many stores are you planning to open in the next one year or maybe close?

Yashovardhan Saboo: As of now one store opening is planned in this financial year probably in March provided the mall opens, that's the store in Mumbai at BKC and we are targeting another four store openings in the next financial year, three of which will actually be mono brand boutiques for very, very well-known and luxury brands. So these will be extremely important strategically as well as financially new stores that we will open and one will be a multi brand store. So, total of one plus four openings in the next, let's say 12 months or so. And we do have at least three closures which are planned. Every quarter we sort of review stores if they are marginal performance we try to improve it, and if it doesn't improve, we close it, but at least three stores are definitely slated to close when their agreements come to an end.

Ankit Agarwal: So what's the expected CAPEX in the manufacturing and ETHOS business for next one or two years?

Yashovardhan Saboo: In the manufacturing business, in the next let's say 15 months or so, we are expecting a CAPEX between Rs.12 crores and Rs.15 crores This is also because obviously this year there was practically very low CAPEX, even in the last fiscal year, we didn't do much, but we are seeing a very vibrant demand coming back. In our Watch Components business, we are seeing a lot of demand revival as well as in our Precision Engineering business because especially on export customer, there is strong evidence for customers adopting a 'China Plus One' policy, even if they are very dependent on China, they want at least one supplier outside China and that is helping us. And even for domestic players, I think there is a clear trend for reducing the dependence on China and sourcing more internally. So we are the beneficiaries of this tendency, and we want to be prepared both in terms of quantity, quality and infrastructure to cater to this demand.

Moderator: Thank you. Next question is from the line of Priyanka Singh from Atidhan Securities Limited. Please go ahead.

Priyanka Singh: I have two questions. The first one is whether the manufacturing business EBITDA margin is sustainable going ahead?. And also what is your total debt and cost of debt separately in our manufacturing and retail business? And has the cost of debt come down for us in the last year?

Yashovardhan Saboo: Yes, they are very much sustainable. In fact, they have been pretty much at these levels, and we believe these are sustainable for the foreseeable future.

Sanjeev Masown: In manufacturing, our total debt including working capital limits is around Rs.80 crores as at the end of December.

Yashovardhan Saboo: In ETHOS, we have a debt of about Rs.47 crores as of December 31.

Sanjeev Masown: Utilizations of working capital facilities are a little bit lower, but the overall debt has not gone up. It is broadly same or debt is down. And the cost of debt is coming down.

Moderator: Thank you. The next question is from the line of Abhishek Gupta from Asian Development Bank. Please go ahead.

Abhishek Gupta: I wanted to understand if we segregate your 47 stores by your vintage, how many stores would be more than three years old, and how many stores today which are opened in the last three or two years? The second question was, I understand that China T mall has come up with a luxury eCommerce platform where they have listed watches as well. So how do you see the trend going forward of let's say, a luxury eCommerce platform coming up, whereby these watch retailers will be interested to sell these watches online?

Yashovardhan Saboo: Of the 47 stores, we classify them as mature and non-mature; mature stores which have completed two years and non-mature are those which have not yet completed two years. So out of the 47 stores, 31 are mature stores, that means they are two years old or more, and 16, are new stores non-mature, they've been two years or less. I don't have to break up for three years. On the question of portal for luxury watches in China, there are several portals in China for luxury watches. And typically, some brands also sell watches directly. We believe that in the field of luxury or premium watches, anything above the price point of 50,000, 60,000, something like this, it is highly unlikely that people will just buy watches directly from the net without actually having the chance to look at them physically. As watches become more and more expensive, this is true. So people may research on the net, people may compare on the net, but finally before they put the money in, maybe they have shortlisted two or three watches, they'd like to physically see the watches, try them on. And that is why we believe that the predominant mode of buying will actually become omni-channel which means essentially a seamless connection between the digital and the physical world, people will research on the net, come to the store, look at the watch and buy it there or they may look at a watch at our store, maybe somewhere else in the world, take a picture, finally come back and buy it digitally. But I think this combination of physical and digital is very, very important. And this is really the platform that we have chosen. We believe that this is going to be the single most important. I don't think that for the sale of premium and luxury watches a pure eCommerce play, will be very successful at least not for the next foreseeable five to 10 years.

Abhishek Gupta: Just one follow up question, in terms of the eCommerce that we classify that around 40% of our sales, how do we classify eCommerce sales -- is it depending on the payments made online and the purchase made online, how do we classify eCommerce versus non-eCommerce, sales?

Yashovardhan Saboo: eCommerce is actually internet-led sales, which means the query or the start of the transaction is done on the internet through our information center. After the dialogue has been completed at the internet level, then in some cases, they may buy directly through a gateway mechanism, in most of the cases, they are directed to the convenience store, where the watches are shown to them, they make their final choice and then it is transacted at the store. Sometimes, of course, they ask for home delivery or office delivery, which is also usually done personally. It is just not sent through courier.

Abhishek Gupta: Out of your mature centers, which you said 31 centers, can you give a sense of how many are profitable and how many are not profitable at an operating level?

Yashovardhan Saboo: At operating level I can't say for sure during this year, but in general they were all profitable, and those which are not profitable, and there was a clear plan to make them profitable, we actually close them down. The current year has been a challenging year, after central office expenses, 23 of the 31 are profitable.

Moderator: Thank you. The next question is from the line of Ahit Shah from Vibrant Securities. Please go ahead.

Adit Shah: First question is on the store footprint, I understand the number of stores have come down, but what would be the square feet reduction or will it be same or higher? On the pre-owned business, you said that we have done around Rs.3.7 crores in this quarter. Last quarter was around Rs.2 crores if I am not wrong. So may I know typically how much time does it take for us to sort of sell these watches basically inventory days, is it one month, is it two months, is it 15 days that would be helpful to understand? Then I would like to know that within the exclusive brands which we have for example, say Oris, I was looking at some of the other retailers like with Swiss Time House from Kerala I believe, even they were selling. So is it that we are the sort of distributors and we have given some stocks to Swiss House or some other retailers, so the question being, do we also allot certain stocks of these brands to the retailer or is it more than one people who have been permitted but in numbers, so we call them an exclusive or is it really exclusive to us only, that is the clarity I want to know that?

Yashovardhan Saboo: So let me answer that question straightaway. When we call a brand exclusive, it is exclusive, that means we are the exclusive importers. There are only two exceptions of brands; it's Frederique Constant and Movado, which for historical reasons, we work jointly with Titan, and between us we agreed that it will be exclusive to Titan and ETHOS. So two brands, Frederique Constant and Movado, we call it exclusive, but it's exclusive between Titan and ETHOS. All the other brands are exclusive to ETHOS. Now, you might find on some other websites or some stores some residual stock, for example, Oris. Before it became exclusive for us three years ago, or it was going through a distributor in India. And at that point, they had about 18 to 20 retailers or points of sale. So typically, there might be some residual stock which might be lying around with some retailers, which they might be putting up on their website or in their stores. But this is very, very marginal and it doesn't really matter. So when we call something exclusive, it means we're the only ones who have. A good way to test is take maybe some recent release of Oris, and ask the retailer whether you can supply that and I'd be surprised if any of them says yes. He's just selling some residual stock where he might be adding. To your second question on pre-owned watches, we currently have about two to three months of stock, we usually count for pre-owned watches. On the square feet question, previous year this time, I am talking about carpet area was 47,900, which has gone down to 42,750.

Adit Shah: Can you split the gross profit between exclusive and non-exclusive brands in absolute rupees? Historically, we give the split of the gross of ETHOS between gross profits of house brands and the other brands.

C. Raja Sekhar: House brands gross margins accounted for about 45% of the overall gross margins of the company.

Adit Shah: Sales for house brands was Rs.38 crores in this quarter?

C. Raja Sekhar: Yes.

Adit Shah: This is with respect to ETHOS again. What I see is that after the accounting change, let us compare the pre-Ind AS, I see that gross profit has also changed for some reason, meaning the margins look higher in the current quarter which is interesting to me. So, is it because of that returns are not accounted in the top line level, but below the top line level, do you have any particular reason for that, why the gross margins are higher in IndAS for ETHOS?

C. Raja Sekhar: Under IndAS, the rent waivers are accounted for as other income as a part of overall revenue. Therefore it is added to the overall gross margin, whereas when we remove that these one off reduction in the rent on the expense side, that's the gross margins would be lower.

Adit Shah: Now, more long-term questions. I think two years back we had a meeting in Bombay, wherein you had said that the vision for ETHOS was 1,000 crores billings and 10% EBITDA margin. I understand a lot of things happened in between. But today, how do you look at ETHOS as a business, how do you think it can evolve over the next say two to three years, if you have any thoughts on that will be very helpful? And second, like the same commentary for the EIGEN business because again, we had very high hopes from that business, much larger opportunity size compared to the watch segment, but that also has not scaled up as we had expected. So, if you can just throw some light and your own sense on those two businesses will be helpful sir?

Yashovardhan Saboo: Let me first talk about ETHOS. It is a wonderful question because I believe that we are now getting into a mode of very strong growth. Why am I saying this? We can of course say that there is one problem or the other, but actually it is true. If you see even the overall India growth story over the last two, three years, whether it was let's say from the middle of FY'19 onwards, growth has faltered, there have been changes which have happened, of course, COVID was not expected at all. But last two years, we've got this gap. If I remove these two years, our plan was to reach this goal of Rs.1,000 crores and 10% EBITDA by the calendar year ‘22, '23. We are still very much on that track. It is still our goal that leave these two years, these are gap years. In the next financial, we are going to be back on track fully. Generally, people are expecting in the watch business that what revenues for Swiss watches as well as other terms will largely come back to the revenues of FY'20. That will have a full recovery in the next year. However, we believe that at ETHOS we will go significantly higher than FY'20 figures, not only will we come back on track, but we'll be back on strong growth, and in two years after that, we can still hope to achieve close to 1,000 crores number with a strong growth in EBITDA. Our target is still the same; EBITDA 10%, top line Rs.1,000 crores with a two-year gap instead of '22-23, we grow it by '24-25 that's still the goal. And I think we are going to be on track, you will see it in the coming quarters, you will see that trend getting defined. I am assuming that from here on at least COVID will subside. And I'm very excited about the new budget and what it will do to the macroeconomics in our country. The fact that there is no tinkering in tax rates and so on. Assuming that we will have a stable regime and a good macroeconomic base here onwards, I believe we can look forward to a very strong growth, back to our target of 1,000 crores and 10% EBITDA on ETHOS. And this is underline with a lot of strategic inputs, strategic both in terms of where we're going to invest the money, how we're you going to make sure that it is invested which gives us the right kind of return, avoid some of the errors of judgment that we might have made in the past and really focus on the learning for the future. As far as EIGEN is concerned, you're right, it has taken longer than we expected it to turn around. I think the areas in which we are expanding, the kind of customer base that we are building up, is extremely strong. What has happened is that in this business the amount of time we need for business to build up with some of these five star customers that we have, that is taking a lot longer than we thought. So, whether it is a customer like a large customer like Pattonair in Europe or, whether there are other European customers, whether there are strong customers in India building up now in the auto segment players or the electronic space or the aerospace, the gestation period is taking longer. But I think in another call sometimes, we can share with you the kind of customers and the nature of enquiries and the potential of this enquiry is extremely exciting. And this gestation is taking longer than expected. But otherwise, I think we will have an extremely strong customer base and a strong base on which we will see a huge growth in the years to come. It may still take another year before we can start to really see the takeoff happening in terms of sales growth. We expected it to happen this year, but obviously due to COVID two, three things happened. First of all, all projects, infrastructure or these kind of projects, auto segments, definitely, aerospace, all new projects and as a new vendor we get new projects, all have been postponed. So that is one thing. And second thing is of course that a large base on the aerospace side has been particularly postponed. So, we are reviving that and I believe we will see that growth coming back in the next fiscal year.

Adit Shah: So there is no change at the team level?

Yashovardhan Saboo: No, the team is still the same.

Adit Shah: One is on Estima The run rate is below CHF2 million which was the revenues for 2018. So when do you expect that to ramp up and how are things shaping up there, do you want to comment? And second question was on the rights issue, against the use of money. I think you have not pinpointedly said where we will use the money, suppose you have said, you're using retail primarily maybe to buy out some brands, if you can give more colors if you are comfortable, I will be happy?

Yashovardhan Saboo: It has been particularly challenging for ESTIMA because the whole rationale before starting ESTIMA is to get to the higher price point in the watch components business in Switzerland. And we are starting to do that. But as you see, the Swiss watch business was down 35% in this year. So if you look at the balance sheets or the reports of the two big groups, they will all show a sharp decline, overall Swiss export has declined by about 35% in this year. Now in this situation, the first and most difficult situation is for new vendors. ESTIMA, we are trying to gain entry into let's say three or four high end brands. If they are cutting back on their production and volumes, they are not going to hire a new supplier at this stage. So it has been a particularly difficult year for ESTIMA. But I am extremely happy to note that actually our loss during this year has been substantially controlled through cost control and so many other things. Again, we've built up our pipeline of contracts, and projects which hopefully will fructify this year. Our goal is actually to exceed not only a 2 2 million, our goal is to get to about a 4 to 5 million mark over the next two to three years. And we hope that in FY'22, we will see a substantial turnaround also in ESTIMA. But again, this really depends on this lockdown in Europe and Switzerland, ending soon. Right now they've gone into a third wave lockdown. Germany has declared lockdown up to end of February. Switzerland is more or less similar. So that doesn't help. If there's a lockdown, half the factories are not working, that's a bit of a problem. So that needs to get sorted out pretty soon. So that is the basic point. And on the rights issue, my point is that mainly from the purpose of channeling it into ETHOS. And in ETHOS, the opportunities are really is what brands in the luxury segment are going to gain ground in India, and to gain a strategic tie up with some of these brands. It's too early to say which brands we're talking about. But I think the fact that we are going to be more ready than anybody else, some of these opportunities are already being discussed, and over the course of the next two quarters, I think you will see some of this panning out.

Adit Shah: So in a sense, I believe that this money will primarily go towards buying out the stocks, right, when we are sort of launching in India, right?

Yashovardhan Saboo: And to establish locations and exclusive partnerships.

Moderator: Thank you. The next question is from the line of Abhishek Gupta from Asian Development Bank. Please go ahead.

Abhishek Gupta: Is there any update on the demerger of ETHOS and the manufacturing business?

Yashovardhan Saboo: As I had explained to you last time, it's a structural issue, SAIF partners being a shareholder in KDDL, and while they are there, demerger with them getting part of the shares is really not possible. However, we are continuing our discussions to find other options if they are possible, including an option that SAIF partners may offload their shareholding or any other options that may come up which will allow such a demerger to happen.

Abhishek Gupta: Any timelines on this one?

Yashovardhan Saboo: I think a lot depends actually on how SAIF partners are going to deal with it. But we have given them several options and ideas which are being discussed from time-to-time. All I can say is that we are very cognizant that the demerger is an important prerequisite for the value discovery to happen for the businesses to recover to show up on their own value. Both in terms of management at a board level and as promoters, we are keen to let this value discovery happen. So, you can rest assured that we are working on it to get a solution as soon as possible.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Yasho Saboo for his closing comments.

Yashovardhan Saboo: Well, thank you, everybody, for joining on the call. And I hope we've been able to answer most of your queries. In case there are still unanswered questions, please contact SGA, our Investor Relations partners. With that, I wish you a good afternoon, and all the best. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of KDDL Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.