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Trading Symbol : KDDL

Scrip Code : 532054

<u>Subject: Q1 FY2021 Earnings Conference Call Transcript</u>

Dear Sir / Madam,

Please find enclosed herewith a copy of transcript of Q1 FY2021 Earnings Conference Call held on 28th August, 2020.

Kindly take the same on record.

For KDDL Limited

KDDL LIMITED

Brahm Prakash Kumar
Company Secretary

"KDDL Limited Q1 FY2021 Earnings Conference Call"

August 28, 2020

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

Moderator: Ladies and gentlemen, good day and welcome to the KDDL Limited Q1 FY2021 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 date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Yashovardhan Saboo, Chairman & Managing Director, KDDL for his opening remarks. Thank you and over to you, Sir!

Yashovardhan Saboo: Good morning everybody welcome to our Q1 FY2021 earnings conference call. I hope everybody around you and your families are safe in this extraordinary situation. I am here today with Sanjeev Masown, CFO of KDDL and Raja Sekhar, CFO of ETHOS and SGA, our Investor Relations Advisors and I hope everyone has had the chance to go through our updated investor presentation.

Quarter one this year has been as expected severely impacted by the COVID-19 situation and the lockdown that was in place for a significant part of this period, the results that I will share are to be seen in this context and are therefore strictly not comparable with those of other periods.

Let me start with the figures on a consolidated basis for the quarter. Consolidated total income for the quarter was Rs.53 Crores in Q1. Last year in Q1 it was 153 Crores, consolidated gross profit for Q1FY2021 was 24.8 Crores, this was 68 Crores in quarter one previous year.

Consolidated EBITDA loss for Q1 FY2021 was 6.3 Crores, this was 17.9 Crores positive in Q1 FY2020. Consolidated loss after tax for quarter one this year stood at 15.6 Crores as compared to a profit of 0.1 Crores in quarter one last year.

You are surely aware that our financials are impacted by the application of Ind AS 116 accounting standard which impacts EBITDA and PBT to some extent and our Ind AS 116 adjusted financials are published in the investor presentations which you may go through if you so wish.

I now come to the business wise updates. Our manufacturing business comprises of watch components, precision engineering and ornamental packaging business. Our manufacturing business revenue was Rs.21 Crores as compared to 48 Crores in the previous year quarter one. The revenue share of watch components and precision engineering business for the quarter was about 72.4% and 23.1% respectively.

EBITDA loss for quarter one this year was Rs.1.3 Crores compared to EBITDA profit of 8.2 Crores last year for the same quarter. Loss after tax for quarter one this year was 4.8 Crores as compared to profit of 2.9 Crores in quarter one last year.

Revenue from watch components business stood at 15.7 Crores in quarter one this year compared to 35.8 Crores in quarter one of FY2020 and the revenue for precision engineering business stood at 5 Crores this year in the quarter as compared to 10.6 Crores in quarter one last year.

This quarter was severely impacted by COVID-19 lockdown all over the world. Watch manufacturing activity not only in India, but in Switzerland was practically closed, impacting the demand for our watch component business. In the last four months however the market is recovering, we expect an improving trend to continue as different countries and markets gradually normalize.

While there has been some deferment for orders, we have not received any major cancelation of orders and I can actually say that we are seeing a lot of green shoots arising out of new opportunities that may come the way of India.

We commenced operation in all our facilities during May in line with the customer requirements and compliance of the MHA and state government guidelines, however facilities continued to operate at suboptimal level. After July gradual recovery is being witnessed in all businesses and we expect manufacturing operations to touch pre-COVID levels in the coming quarter. We also expect the exit of some weaker competitors from the market both in India and aboard and therefore new opportunities for us in the medium-term.

In the prevailing situation of limited travel, cancelled trade fare, and no physical presence to show our new products, we are aggressively reaching to our customers with digital road shows which are showcasing our USPs in new range of products. This has been appreciated by the customers and we have received some very exciting and favorable responses, which board well for the coming periods.

We are also implementing several steps to improve productivity and optimize our cost structure to minimize the impact of the pandemic on our profitability. We are hopeful that our government’s recent initiative of Atma Nirbhar Bharat will provide new opportunities also for our precision engineering business. Many companies have now started on the China plus one strategy with the move to diversify their supply chains and product inputs. We have witnessed increased inquiries from new markets and segments in the last few months from customers both in India and abroad.

About ESTIMA our Swiss company, the ESTIMA acquisition was intended to expand our footprint in Swiss manufacturing. Although COVID-19 has increased their turnaround time for this business, we are confident that we will achieve great success by replicating the strength and capabilities from our Indian operations and extending the existing strong customer relationships. The Swiss origin regulations will be the catalyst for the revival in growth of ESTIMA. During this quarter ESTIMA reported a revenue of 540k Swiss Franc and a cash profit of 25k Swiss Franc, which is a healthy and encouraging signal and validates our strategy and actions for the turnaround of the company. The Swiss government has also provided necessary financial support to the industry during the period of the pandemic and it has helped in curtailing overheads and costs during this period.

I will now discuss our watch retailing business under the subsidiary Ethos. As we all know retail has been one of the most severally affected sectors during the COVID pandemic and we have not been insulated in Ethos from this either. All our stores were completely shut in the month of April as lockdown started easing from the month of May, stores became operational and at the end of June about 27 stores were functioning.

Even the stores that were operational during Q1 were run for limited time with limited staff, social distancing, and other security measures. Hence our Q1 performance was severely impacted due to this. Even as of today not all our 47 stores are operating at least 10 or 12 stores are still nonoperational.

Our digital platform however was running and allowed us to maintain a cash flow with advance bookings and deliveries that commenced after lockdown conditions were eased to allow e-commerce.

We consider Q1 as a one of highly exceptional quarter. We are witnessing very encouraging improvement during this quarter with increased footfall in our stores and increased engagement on our digital platforms we expect things to move up steadily from here.

Regarding the financial highlights for Ethos our billings for quarter one FY2021 stood at 32.2 Crores as compared to 118.1 Crores in the last year same quarter. The billing for exclusive brands contributed 11.8 Crores in this year’s quarter one compared to 28.6 Crores in last year quarter one. Same store growth was negative 80% in quarter one this year, but as many stores were shut this number does not hold much relevance.

Consolidated total income for Q1 this year stood at 32.8 Crores compared to 102.1 Crores in Q1 of last year. Consolidated gross profit this year quarter one stood at 11.7 Crores as compared to 30.5 Crores last year Q1, gross profit margin expanded by 580 basis points year-on-year to 35.7% in Q1 this year as compared to 29.9% in Q1 last year and this really points out to the increasingly robust role of our exclusive brands in our portfolio.

Consolidated Q1 EBITDA loss this year was 0.8 Crores as compared to EBITDA positive of 12.1 Crores in Q1 of last year and consolidated loss after tax Q1 this year stood at 10.8 Crores as compared to a marginal profit in Q1 of last year.

Our Ethos financials adjusted for Ind AS 116 standards are available on the investor presentation if anybody wants to look at it. The stock carrying months at the end of June 30, 2020 was 8.7 months.

As highlighted in our previous earnings call, we have implemented our three pronged strategy of cost optimizations, store optimizations and digital strategy to tide over this crisis and also prepare Ethos to a new pace of future growth. Negotiating with mall owners we have been able to obtain waiver or reduce rent for most of our stores. We have also deferred various expenses which can be delayed in the medium-term to conserve cash on a prudent basis. We have closed three stores in the first quarter of the year, and further closed three more stores one in Mumbai, one in Navi Mumbai and one in Hyderabad.

With this we have taken the total store count to 47, the total build up area of these 47 stores is 64,118 square feet, I do wish to add that we are opening four new stores in the remaining part of the year which underlines our confidence which we are maintaining in the future and a fast recovery in our revenues. Our focus is on opening larger and better stores while closing the smaller unprofitable or low growth stores.

We continue to invest on marketing through our digital medium, online billings contributed 53% of our Q1 total billing of this year, this was Rs.17 Crores out of billings of 32 Crores in this quarter. So out of the total billing of 32 Crores nearly 17 Crores came from the digital platform. We have the most advanced digital communication and e-commerce capabilities in the country for any luxury product and with the change in consumer behavior we are best position to leverage these capabilities and increase our market share substantially.

We are confident to get pass this crisis and get back on the growth trajectory. Our focus is to continue strengthening our exclusive brand portfolio across varying price points. This will help us to improve margins and continue to allow a differentiated buying experience to the end customer.

Our preowned watch business which we had launched recently through the website secondtimezone.com has also been picking up steadily. We ourselves are in the learning phase for this business, but with our excellent after sales service backed by strong technicians and a watch expert team we are very confident to build the preowned watch business or so into a strong pillar.

We can say with confident that we have passed the worst phase of this crisis, we have learnt a great deal from the quarter which has gone by which has made us wiser and ready for the future challenges. We believe with best consumer experiences backed by a strong digital marketing approach, the trust and authenticity of our retail stores, pan India presence, we will continue to outperform competition, gain market share and profitability.

I now welcome your questions and participation.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Raj Joshi from Ace Securities. Please go ahead.

Raj Joshi: Sir how much rental cost have we able to save in the Q1 with the negotiation?

Yashovardhan Saboo: If you have other questions, Raj why don't you ask all the questions and we can answer them together.

Raj Joshi: Okay Sure. So my second question is as e-commerce may do well so what is your strategy to increase the sales online and last one will be have you signed any exclusive watch brand recently. Is discussion going on with any?

Yashovardhan Saboo: Let me answer your second and third question first and I will ask our CFO, Sekhar to answer the question about rental. So to improve our ecommerce as you know our business is mostly on generating leads online and the sales are actually consummated either through the stores or through home deliveries or office deliveries particularly during this time. So we are investing heavily in various fronts not only they are just in direct marketing, but also in creating stories on social medias, so you will see a lot of stories on social media they maybe for our offers, they maybe for the new brands that we are signing there maybe stories about new products, as we speak today, just to give you an example and there are such examples which happen every month, every week, as we speak today there is an exhibition in Geneva which is going on it is called Geneva Watch Days. About 14 of the top luxury brands are participating in this exhibition, I have to remind you that three of the top exhibitions were canceled this year, but this one because situation has slightly normalized in Switzerland this is happening in Geneva of course there are no visitors from India which is not possible, but every day we are organizing webinar where the CEOs or the sales directors of the respective brand are interacting with customers in India on Zoom or other webinars sharing the new product, sharing stories about the new products what offer they have what new exciting finishes they are creating so this is the kind of digital interaction that we are spearheading actually. Almost no other retailer in the world is doing this, not only in India I can say it for the world nobody in the world is taking such initiatives, but we are strengthening the ecommerce interaction and platform through this needs. So from this we are very confident that this the ecommerce platform will survive the big springboard for future growth for us. For exclusive brand we are in touch with almost let me say four, or five brands for exclusive arrangements and I cannot reveal the name right now but over the next weeks and months I can tell you that we will be able to share some pretty exciting news. About rentals let me ask Sekhar to give you the details about the rental sales.

Raja Sekhar: Yes, so Raj in terms of the waivers that we have got for the first quarter Q1 it is approximately 60% of the rent that was payable as per the agreement, we have got a waiver to the extent of about 60%.

Raj Joshi: Okay that is very helpful Sir.

Moderator: Thank you. The next question is from the line of Jeetu Panjabi from EM Capital. Please go ahead.

Jeetu Panjabi: Yashoji I just wanted to understand for both businesses for both manufacturing side and the retail side separate question how is the last month being what are footfalls what are conversions what are revenue trends that you are seeing there and are you able to figure some sort of breakeven again for this for the retail side. For the manufacturing side again what are revenue trends and I heard you say you will come to pre COVID levels by next quarter so what the order book look like and I remember you last time saying that you got lot of inquiries for many, many components but you are narrowing it down to a few so a little bit of color on that and the final question is if you can and the CFO can talk a little bit about liquidity cash flow, debt, how are you managing the financial side and what is the road map there as well?

Yashovardhan Saboo: Okay Jeetu let me start with the manufacturing. So as I said there is a very steady improvement and I am not only talking about leading indicators like projects and stuff like that, but actual operations sales figures all of them are going up, I can say that the recovery on the export side is clearer and more robust than the recovery on the domestic side which is not unexpected because as we know that international markets have recovered faster than Indian markets and I am talking about consumers markets, right. So if sales in Europe, China, Japan and in Korea are recovering and USA is also now starting to recover then our international brand partners who are making watches they are starting to reorder, we are getting reorders, we are getting increase in quantities of orders that has been placed so there all these kinds of signals coming up. On the precision engineering manufacturing as well we are seeing not only new inquiries coming but also some deferments which were done they are coming back and saying no, no, not do not defer it please give us as early as possible so there are all these kinds of signals which are coming up, not only that I do want to say this I made a mention of Aatm Nirbhar Bharat, I strongly believe in that proposition, in fact I wrote on that in an article that appeared in Indian Express. I strongly believe that not only Indian businesses, but the Indian consumer is also getting to stop buying unnecessarily imported products and to give Indian suppliers a better chance. Not only India, abroad also I have seen that this strategy of China Plus One is taking hold, people who have been completely or overwhelmingly dependent on China today they are saying look we know that we cannot reduce our dependence on China to 0 but maybe it can go from 100% to 60% maybe it can go from 80% to 70% China Plus One is the mantra that I hear and I think India has a great role to step into that we are certainly seeing a reflection of that in the interest that some of our existing customers and new customers are putting. In terms of numbers you mentioned you used the magic word which we are all using breakeven, of course first goal is to reach breakeven. Let us see, it is too early to predict exactly when, I think definitely in the next quarter of course before that we have to see what extent that is possible because it has been an exceptionally difficult period and even today, while we see a lot of positives going forward a lot of hope and optimism for the potential and the opportunities that are coming, there are still uncertainties. Bangalore, lot of our factories in Bangalore, so the number of infections there are still there so sometimes people come and they do not come and sometime they will go away to villages or their home town they do not come back. Despite all of that I think it is only a matter of whether it is going to be two months later or two months earlier but I see huge opportunity and new opportunities in the future in the manufacturing side, so we are very, very bullish over there and I do want to say in the end that we have done a fabulous job in manufacturing also on using our knowhow in the digital space. So typically we use to participate in trade fairs in whether it was in Dubai Fair or the engineering fair in Geneva or visiting customers during the post summer holiday season because that is when they start the designing for the next year, none of that was possible, so instead with all our new product developments with our new quality test with the new many, many innovations that we have done we created our digital road show and what our customers tell us that we are the first watch component company that has actually done anything like that first in the world and we presented to our customers a digital road show and which was very much appreciated so I think there is a lot of exciting things happening and it is difficult to say exactly when we will hit breakeven maybe it is one or two months here or there but I think specially from Q4 of this year we are really hopeful that things will normalize and we will see many, many new opportunities. Coming to the retail side, yes there has been a steady improvement - quarter one we can say was about 25% of what we expected it to be so there is a 75% fall. 75% fall in quarter one is not too bad compared with other luxury retail I can tell you that in most cases whether it is watches or other premium and luxury retail the fall was as much as 90%. So 75% is nothing to be proud off but I think when we benchmark, it is not too bad. This quarter we expect to get to a much, much better figure, generally people are talking about 35%, 40% sale in this quarter compared to previous year in discretionary retail we expected to be more than 60% to 70% we are recovering to that extent. So we believe that the recovery is there and it will be sustained and again while there are uncertainties we do not know what is going to happen but we are also very hopeful of a robust festival and wedding season. So everybody knows that now the wedding season is coming in India weddings are important people buy but this year maybe there would not be so much money spent on big events there would not be so much money spent on travel abroad so money maybe spent more on gifts and in wedding gifts of course watches and expensive watches is very much part of the shopping list. So without actually being able to predict much we are keeping our fingers crossed and preparing for a robust festival and wedding season. We will come to know October, November, December will be its test but we are optimistic we are preparing we are well prepared and we hope we will be able to surprise everybody in a very positive way and as far as the last question which was on the liquidity I will let first Sanjeev and then Sekhar to speak a bit about that for KDDL and for Ethos.

Sanjeev Masown: So in the KDDL, our liquidity is strong and we are in a position to meet all our liabilities and the first quarter as such was something unpredictable and the outcome was not known still we went ahead and used all the options which were provided by the government for deferring the payments that was only for the initial few months we did and as the businesses started improving, now this government support of the moratoriums extension also we are not using and our liquidity is very comfortable to meet all our liability. I hand over to Sekhar to say something about Ethos.

Jeetu Panjabi: Actually can you quantify the question in terms of how much liquidity we have and also what is the debt in each of the entities at current levels?

Sanjeev Masown: The liquidity as I have shared earlier total borrowings is around 60 Crores and when I say there is adequate liquidity, it means even if let us hypothetically assume there is no revenue in a month I can easily meet three to four months of my fixed expenditure without having any revenues.

Raja Sekhar: In the retail business also we are very strong in terms of liquidity. We have unutilized limits as our total debt as of today is about 55 Crores and we have more than about 30 odd Crores that are unutilized. Going forward ,even with the expansion that we are planning in terms of store openings, we believe that the internal accruals within the company as well as the unutilized limits should be adequate to take us to the end of the year even with the very conservative projections for billings.

Jeetu Panjabi: And last one question Yashoji when you kind of think strategically saying the worst is behind us we can see the road map that manufacturing will come back faster than retail for us and also you kind of say that look in the next few months we should hopefully turn the corner on manufacturing and the retail may take a little longer but we are generally optimistic about how the road map was, what are the one or two key things that you are thinking differently beyond cost control and tightening and shutting and all that anything strategically you are thinking different about the future today relative to six or nine months ago?

Yashovardhan Saboo: Lots of things, it is difficult to sort of put into one or two because it is not really just one or two which will lead to that. Let me do on the manufacturing for instance right, on manufacturing we are anticipating the trend towards more and more specialized products in the watch business I am talking about in the watch business right so what can we do over there so we are looking at working we have worked in the past also with international designers but how can we add an element of storytelling in what we do, how can we work with new materials whether they are technology materials we are working very fast on the theme of sustainability so the ability to use recycled materials in our production this is a huge sort of awareness which is building up in the business internationally the ability to use recycle material the ability to use eco friendly material that is a very big part of the piece that you are building up in your manufacturing because it is emotionally extremely important and business wise it gives us a great edge so these are some of the things but there are many, many things that we are working on. In retail I already mentioned all thing about so I do not now, like in the last time we have done that but we believe that there is going to be a very strong move away from people visiting stores so when they visit stores the stores need to be bigger the store need to offer a greater and a safer experience we are moving towards that on the other hand and we are moving heavily towards allowing sales to happen from a digital. So for example building stronger e-commerce facilities chat facilities live streaming from stores so you can actually see in your office sitting on your desk you can see a watch being presented as if you are at the store except for the touch and feel and then finally a secure home and office delivery service using white gloves so I think there are lot of things which are actually in the pipeline and for all of this I want to say is that we are sort of several notches ahead of the competition not only in India but also internationally so I think we are thinking as a cutting edge and we are going to see the result of that in the next financial year.

Jeetu Panjabi: Super. good luck my best wishes on the journey, thank you.

Moderator: Thank you. The next question is from the line of Hemant Sreeram from Bearing Advisors. Please go ahead.

Hemant Sreeram: Good afternoon Yasho, Sanjeevji and Sekhar very nice to listen to you as always and I hope all of you are safe, three questions from my side. The first two I think was likely I look at a short and sweet response from you so I will start with those and I would like to spend some time on the third. So I will just start with my first question which is what is the situation with the inventory buyback with the big watch retail brand especially in light of COVID are there any conversations going on or buying back inventories, if yes how does that look like, if no how does that look like. The second question is I am curious to know the behavior of the precision engineering division through COVID how is this business looking like just slightly to given the stress that it is undergoing currently and the third and the slightly longer one is on online retail itself so you are looking at a phase where we are sort of prioritizing personalization especially in the luxury brand online retail buying experience so in light of your enhanced focus which I believe Pranav is driving very well on sort of pushing e-commerce how are you leveraging data signs to sort or personalize the buying experience for a watch buyer?

Yashovardhan Saboo: Let me so, the first two sweet and short one inventory buyback in watch business it is very much not the norm especially in the luxury business, in the luxury business they do not buyback inventory at all, that is true whether it is COVID or not. Exceptionally that can happen and it is happening in India especially if we are directly importing there is the added complication of sending goods back and claiming the duty and so on. That said in exceptional situations we are negotiating and getting that. It is more prevalent in or it is less uncommon let me put it like that in the lower end fashion brand segments and there we are doing an inventory buyback specially in brands that we want to discontinue. I think I had mentioned in the previous meeting that in general in our strategy we are wanting to reduce the emphasis on lower price points which are called fashion brand that means price point is below Rs.30000, Rs.40000 we are reducing our emphasis there and increasing our emphasis on higher price point so this also means that we are getting out of some brands at the lower price points it does not happen one day to the other but in the next six months you will see that we will have exited some brands and added some brands in the higher price points. So inventory buyback is quite exceptional to the extent it is possible it is happening. In the precision engineering business it is a challenging time because we are a tier III or a tier IV supplier we are supplying to people who are supplying to other larger assemblers who are then finally supplying their ready products, so there is uncertainty in the supply chain and it is going by kick and start sometimes we get the things are delay and then it is that we need to do it immediately and so on so the global supply chain from that point is a little disturbed and that is making the recovery a bit more difficult but we are seeing that for example although this year is actually in the engineering business we are hoping that we would probably achieve a sales similar to the last year which is exceptional we have very encouraging leads both from existing as well as new customers and some very prestigious international customers. There were new products RFQs the trend of RFQs is extremely positive so I think a lot will be actually become clearer when the manufacturing gets smoother it is getting smoother every day now, less and less absentees on less and less frequency of people sort of going in quarantine because they have traveled from somewhere. I hope that if there are no further setbacks I think from September onwards the manufacturing will get smoother and we will see very positive results in the next quarter. On the last question online retail and how are we personalizing the messages I think unfortunately Pranav is not there as I mentioned that there is the Geneva conference happening . He is in best position to answer this, but we rely very heavily on digitally profiling customer to the extent that they share information with us and thereby tailoring what kind of offer and what kind of products we want to show to them, we also have a great program to actually educate customers about watch buying and watch collecting so a lot of watch buying today in the specialist watch category is by watch collector they are not just buying a brand they want to know why do I buy this brand why do I buy and or it is instead of another brand why do I buy a Girard Perregaux instead of maybe some other brands and this is about storytelling and a lot of it is done through social media and that automatically allows a certain profiling and a certain filtering of customer so that you can actually address the customers that you most want to. I mentioned again that we believe that this wedding season might be a little special. So we are now working on profiling and reaching out to younger people who are likely to get married this season, so typically the older generation when the kids marry they want to invest more in jewellery as an investment however we are aware that the younger people take is slightly different they would ask dad mom, can I have one set less but get a nice branded watch for myself. So we are trying to reach out in this way to people who are likely to marry and reach out to them with special collections recommending what suites their profile what suites their personality and letting them choose and we are also training our staff actually to address this need more constructively let us see October, November, December the season is not far away we will come to know how it works, but there is a lot of effort actually going on in the online business to be able to address specific customers with specific products and offerings.

Hemant Sreeram: Great to hear I think perhaps I will connect with Pranav offline then I think the first wave of internet commerce focus on low price and fast turnarounds as a philosophy but despite with respect to luxury product businesses I think the next phase will focus on personalization aided by discovery I think you guys are doing great job there already when I think there is a large wave that you are best position to capture as compared to your competition and I was just curious to learn from Pranav the effort that you are putting on that front. So maybe I will connect with him offline and yes I wish your factory personnel all the best I think you have a topnotch operation in Bangalore and I wish everyone is safe.

Yashovardhan Saboo: Thank you. Thanks Hemant.

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

Prateek Poddar: Sir could you just talk a bit about existing run rates in terms of SSG for Ethos in the month of July, August how is the trends being seen that is question number one and second is just on the waivers which you have called I think there was a mention of 60% rental waiver what is the timeline or time length of this is it like say the full year or how are the new rental negotiations happening that is two and the third is in terms of opening bigger stores versus earlier opening smaller is what you alluded to in the start could you just talk a bit about in the normalized scenario how would the breakeven look like or a payback period look like, three questions thanks?

Yashovardhan Saboo: First question was about existing same store growth Sekhar can you answer this.

Raja Sekhar: Yes, for growth rate in the month of July we had an overall growth of 7% compared to the same period in the previous year, the same store growth was actually a negative 7% that is on account of the many of the stores are not fully operational in it.

Prateek Poddar: If I may just ask when you say a 7% negative is it like to like or you have included in the base even the stores which are not operational or could not be opened?

Raja Sekhar: It is like the same store. The number of stores that were operational last year we compared it to the store that are actually open as of now although some of them may not be actively operational but these are included.

Prateek Poddar: So if I were to say only, or if I were to compare only effective right, because that is the real measure of this business we are already in growth in the month of July is it?

Raja Sekhar: Yes, overall we are at a growth of about 7% compared to the previous year.

Yashovardhan Saboo: I want to make one point here July billing also includes some pent-up billings of stores that were not opened but some bookings were done. So we have to keep that into mind.

Prateek Poddar: If I were to adjust for that are you at least flat I mean you have reached a scenario wherein your SSGs…

Yashovardhan Saboo: No, we cannot say that July the sales of July is equal to the sales of July last year, no. If we take the actual so technically if you take the actual billings in July yes there is a growth but as I mentioned there is an element of pent-up billing which were not done in the month of June which have come into July.

Prateek Poddar: And if I may ask sir one small clarification, in the month of July are there any bookings which were done in the month of March, April, May but the guy could not come and pickup and hence he has got build in July is that the thing or you are assuming that it is just that the April, May, June pent-up would have come in July?

Yashovardhan Saboo: No, they are actually, so again there are bookings that were done but store was not open so they could not come and pickup the watch if the store opened in July they came and picked up the watch then and we bill when they pick up the watch. So it is not just a general thing, so it is not a general comment about May, June demand has come in July these are actual booking which people had made and the watch was waiting for them to pick it up.

Prateek Poddar: And how is the August looking like sir if I may ask?

Yashovardhan Saboo: Obviously that really similar to July, we do not have the exact figures right but similar to July.

Prateek Poddar: There is no element of pent-up in august right there should not be any element?

Yashovardhan Saboo: There could be, so I will just give you an example I mean Bombay stores open in August right. Bombay was not open no mall in Bombay was open in July either…

Prateek Poddar: Yes, not in August also.

Yashovardhan Saboo: So some home deliveries in Bombay were done in July but people who did not want to come to the store they have picked up in August but obviously the pent-up billing in August will be less than July and just for the information right now I mean Chennai is also not yet open we have four stores in Chennai they are still not open in Bombay I think Thane & Vashi is still not open, there are two stores which are still not open, Delhi airport the duty free store that has not opened yet that was one of the highest grossing stores. Yes can you just tell me the other two questions, sorry.

Prateek Poddar: The rental waiver right you said 60% waiver for rentals the timeline for that the length for that?

Yashovardhan Saboo: So that is the waiver for the first quarter, Prateek that is the waiver for the first quarter it is almost impossible to get malls to give you a waiver for the whole year because they do not know what is the situation will be in the whole year so obviously there is typically there is a higher waiver for the period that the malls were not operational and for the time they get operational there is a lower waiver and over time it goes and there is an additional clause that if business revive faster then the waiver can be ratchet it back. So it is a hard negotiation with malls…

Prateek Poddar: Is there any rental renegotiation because multiplexes or other apparel stores have gone in for renegotiation of rentals and even have got written commitment from mall owners in terms of recalibrating rentals, have we also got that benefit?

Yashovardhan Saboo: Actually I do not see the benefit that for us because I will tell you most of the people have got benefit by increasing revenue share and decreasing the fixed rental that is what most of the players have done. We do not see a big benefit in that for us we have that option we chose not to take that, we believe that we are going to actually try to get much more growth in future years and future months so we believe that with the increasing market share with our digital platform we are actually better off with a lower revenue share it might have given us some benefit in the immediate future but in long-term we are happier with the lower revenue share see in our business actually the gross margins are lower than in many of the businesses so we have got to be cognizant about that.

Prateek Poddar: And sir last question on opening big format stores versus small format stores and their payback in profitability last question and I am jumping back into the question queue?

Yashovardhan Saboo: Yes, so see in typically I can say the large format stores are not only more profitable but we are able to sustain longer-term growth same store growth is much higher in that, we are seeing that across the flagship store that we have opened in Hyderabad for instance we can see it in that the flagship stores that we opened in Delhi we are seeing it and in Mumbai in January we are opening our first large flagship store at the BKC the new Reliance Jio world-class mall which is coming up so that is a 2300 square foot flagship store that is opening. So we see not only that the stores are actually breakeven no they do not breakeven faster they breakeven a little later but the profitability is higher and sustained growth is much, much longer.

Prateek Poddar: Understood sir thank you.

Moderator: Thank you. The next question is from the line of Rhea from Kitara Capital. Please go ahead.

Rhea: I have a couple of questions one is regarding cost reduction one is that you mentioned that we have got a waiver on 60% of the rent payable but in addition to that have we taken up any other cost reduction measures then how much of it is permanent in nature secondly if you could quantify the constitution of exclusive brands to gross profit in the quarter be?

Yashovardhan Saboo: Let me answer the cost reduction of course there are reduction other than rent as well. So there has been a reduction in personnel expenses obviously there have been some reductions which will be permanent, there are some reductions which maybe at least for 6 to 12 months but later we might have to revive compositions but I believe that there will be some kind of a reduction in personnel cost especially as a percentage of the business, thirdly on admin expenses there have been reductions most prominently on traveling guidance there of course in store running also to the extent that stores are not running there is a reduction in cost, we have rationalized some other expenses as well now on the other hand the one expense where we are not cutting back is actually marketing we are not cutting back on marketing at all in fact we are increasing our investments there so that is pretty much it is still a little early to say what part of this is going to remain permanent but what has got what it has done both in the retail and manufacturing segment is that it has actually prompted us to do a pretty serious review of what is the adding value and what is just there because it was historically there and that exercise has helped us a lot it has helped us to cut extra fat we hope we are not getting into any muscle but if we ever get that then we are going to reinstate that I think there will be a permanent reduction in the cost structure at this moment it is difficult to say how much it will be, as a percentage of a revenues for sure there is going to be a shaving of cost there.

Rhea: Also on the marketing cost do you have any budget as to what percentage of your sales you plan to spend on marketing since you mentioned that you would be increasing this going forward?

Yashovardhan Saboo: I am not sure if we are going to be increasing as a percentage of revenues but typically we have been at about 2% of our revenues into marketing and this is obviously always leveraged by contributions from brands also they also contribute to and then there is what we call co-op marketing which happens and then what your question on contribution the contribution of brand, so the exclusive brand contribute about 38% to the revenue but around 50% to the gross margin.

Rhea: And this is for Q1 you are saying?

Yashovardhan Saboo: Yes

Rhea: That is okay, alright thanks Mr. Saboo that is helpful.

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

Ankit Agarwal: Sir I have a couple of questions, the first one being sir you have mentioned in your opening remarks that you have around 47 stores as of now so what can the number be by the end of the year will you add or reduced any more stores and the second question is sir how is the preowned watch business scaling up?

Yashovardhan Saboo: Ankit we expect to end the year by about 50, with about 50 stores, so we will be adding four stores maybe we are going to close another store but 50 to 51 stores we expect to end the year and as far as the preowned business is concerned the preowned business depends on purchase and sales, so in the lockdown even purchase was not possible. So if purchase is not possible then obviously sales does not happen so now with the lockdown opening the business has restarted and it has restarted only in July so we will see the trend but overall the trends are quite encouraging there is growth over last year already we can see growth over last year.

Ankit Agarwal: Okay fine sir that is from me and best of luck for the rest of the year thank you.

Moderator: Thank you.

Moderator: Sir it looks like no further questions you may please go ahead with your closing remarks Mr. Saboo.

Yashovardhan Saboo: I want to close this meeting with a thanks to everybody for joining the call and we hope we have been able to answer most of your queries you may contact SGA in case of any further queries. Thanks very much.

Moderator: Thank you. On behalf of KDDL Limited, we conclude today's conference. Thank you for joining and you may now disconnect your lines.