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Trading Symbol : KDDL

Scrip Code : 532054

Subject: Q4 FY21 Earnings Conference Call Transcript

Dear Sir / Madam,

Please find enclosed herewith a copy of transcript of Q4 FY21 Earnings Conference Call held on 18th June 2021.

Kindly take the same on record.

For KDDL Limited

KDDL LIMITED

Brahm Prakash Kumar
Company Secretary

"KDDL Limited
Q4 FY2021 Earnings Conference Call"

June 18, 2021

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

Moderator: Ladies and gentlemen, good day and welcome to the KDDL Limited Q4 FY2021 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Yashovardhan Saboo, Chairman and Managing Director, KDDL. Thank you and over to you Sir!

Yashovardhan Saboo: This is Yashovardhan Saboo and a good afternoon and welcome to everyone for our Q4 FY2021 earnings conference call. I am joined as usual by Mr. Sanjeev Masown, CFO of KDDL and Mr. Raja Sekhar, CFO of Ethos Limited, he is joining us, he is not in the office, but he is joining us on the conference call, and we have joined also on conference by SGA our investor relations advisors. I hope everyone has had a chance to go through our updated presentation which is uploaded on the exchanges. FY2021 was no doubt a very challenging year for the company as it was for the country. Nevertheless we recovered and bounced back stronger in both our manufacturing business as well as our retail business as the year went by. Business recovery was led by demand revival as the economy unlocked as well as on the back of several cost optimization initiatives leading to a strong improvement in profitability. I am also pleased to share that recently we have successfully completed the rights issue of Rs.25 Crores in KDDL which was oversubscribed by shareholders. The rights issue proceeds will be invested in Ethos for working capital requirements and future growth and general corporate purposes of the company. We continue to remain very positive on the future growth prospects of the company.

I will give you a brief on the financial performance on a consolidated basis. Consolidated total income for Q4 FY2021 increased by 30% Y-o-Y to Rs.178 Crores while total income for FY2021 was down 16% Y-o-Y to Rs.549 Crores, consolidated gross profit for Q4 increased by 30% Y-o-Y to Rs.77 Crores while for the full year it was down by 18% Y-o-Y to Rs.225 Crores. Consolidated EBITDA for the quarter increased by 125% Y-o-Y to Rs.27 Crores while for the year it was down by 14% Y-o-Y to Rs.65 Crores, consolidated EBITDA margin for the quarter expanded by 650 basis points to 15.3% while for the year it was expanded by 30 basis points to 11.8%. Consolidated profit after tax for Q4 stood at Rs.9.1 Crores versus a loss of Rs.5.1 Crores in the same quarter of previous year clearly a spectacular turnaround while the profit after tax for the year stood at Rs.7 Crores versus a loss of Rs.1.9 Crores in the previous year.

You are surely aware that our financials are impacted by application of Ind AS 116 standard which impacts EBITDA in PBT hence our Ind AS 116 adjusted financials are also published in the investor presentation for reference.

I come to the business wise updates. Our manufacturing business is comprised of watch components, precision engineering and ornamental packaging. In Q4 FY2021, the manufacturing business revenue increased by 24% Y-o-Y to Rs.50.5 Crores while for the full year it was down 19% to about Rs.147 Crores. The revenues share of watch component and precision engineering business for the quarter was 73% and 23% respectively while for the full year the share was 71% and 25%. EBITDA for Q4 increased by 116% Y-o-Y to Rs.12.2 Crores while for the full year it was down by 19% to Rs.24 Crores. EBITDA margin for the quarter expanded by 1030 basis points Y-o-Y to 24.2% while for the year it dropped marginally by 4 basis points to 16.2%. Profit after tax for Q4 FY2021 stood at Rs.4.7 Crores versus Rs.0.5 Crores in Q4 of previous year while for the year it stood at Rs.3.4 Crores versus Rs.9.1 Crores in FY2020. Revenue from watch component business stood at Rs.36.7 Crores in Q4 FY2021 compared to Rs.30 Crores in the previous year same quarter while for the year it stood at Rs.107 Crores as compared to Rs.129 Crores in the previous year. Revenue from precision engineering business stood at Rs.11.6 Crores in Q4 as compared to Rs.10 Crores in Q4 of the previous year while for the full year it stood at Rs.36.9 Crores as compared to Rs.43 Crores in the previous year. During Q4 the revenue of the company in FY2021 improved by 20% over the previous quarter as well as the corresponding quarter of FY2020.

A little bit about the market, the Swiss watch market continues to show a steady recovery, the market trend for the last few years with declining volumes in the low price points will continue while the higher price segments are continuing to grow strongly. We are gradually moving up the value chain by regular interactions with customers and providing customers with the highest level of product and service, thus actually catering more and more to the higher price segments. There was a healthy recovery of demand from domestic market in Q4; however, due to the second wave of COVID-19 we have witnessed some moderation in demand from the end of Q4 and during Q1 of FY2022 as many states and cities are under strict lockdown; however, we expect the demand to recover swiftly as the economy unlocks again.

In our precision engineering business EIGEN during the quarter we witnessed revenue growth of 7% from the previous quarter and 16% from the corresponding quarter of FY2020. The demand from some of the segments like aerospace and electronics have continued to remain severely impacted and also during the second wave of COVID-19, similarly the auto segment is also under some pressure. However, we expect that the demand from all segments may reach to near normal levels over the next few months. The cost optimization initiatives undertaken by us during the wave have led to improvement in EBITDA margin by 58% compared to previous quarter and 116% as compared to corresponding quarter of FY2020. The EBITDA and PBT levels for the quarter were 24.2% and 13.6% respectively. We believe that with the normalization of market conditions post recovery from the second wave the profitability of the company will be stronger and healthier.

Estima AG, our Swiss subsidiary during the Q4 of FY2021 it reported a revenue of 755000 Swiss Francs and EBITDA of 217000 Swiss Francs. Estima reported a profit of 166000 Swiss Francs during the quarter. During the full financial year FY20-21 Estima's revenue was Swiss Francs 2 million as compared to 1.8 million in FY2020. The EBITDA stood at 134000 Swiss Francs for FY2021 versus a negative of 1.16 million in the previous year. For the full year Estima reported a marginal loss of about 107000 Swiss Francs in FY2021 as compared to a loss of nearly 1.4 million Swiss Francs in FY2020. All the financial indicators clearly point to a steady recovery in Estima. We remained confident then in the coming period with a normalization of market condition this company too will experience healthy growth of revenue and return to profitability.

Now let me discuss our watch retailing business Ethos. Continuing with strong recovery in the second and third quarters, the company enjoyed a robust recovery in the final quarter of the year. The company's billing grew by 37% over the same period of last year; the same store growth during this period was 34% this spread to one of our most profitable quarters with EBITDA increasing by 105% and PBT increasing by more than 200% over the same period last year. For the year as a whole as mentioned in our previous concalls we met the challenges of the pandemic with agility and nimbleness. We implemented significant cost cutting and focused on maintaining liquidity. We closed underperforming stores and negotiated rental release with landlords. We rationalized manpower cost and running cost. Investment in inventory was reduced significantly. This excellent size has led to a transformational benefit of our company hence although our revenue dropped by 12% in FY2021 our EBITDA increased by 4% with 210 basis point margin expansion. During the month of March the second wave of COVID-19 hit us starting from Maharashtra and spreading to other parts of India. Lockdown restrictions were brought back hence most of our stores had to be shutdown in the month of April and all our stores remain closed for May. Starting early June the stores have now started to be operationalized, as of today 27 of our 46 stores are operational, we expect that all our stores will be fully operational in the coming one to two months. We are now better equipped to understand and plan our future growth plans. Our strategy would be to go for bigger flagship stores rather than smaller stores. Our flagship stores attract much higher footfalls and digital traffic and lead to a higher revenue per square foot and hence higher per store profitability.

Here some financial highlights of Ethos for Q4 and for the full year FY2021. Our billings for the quarter increased by 37% to Rs.143 Crores while for the full year it dropped by 14% Y-o-Y to Rs.449 Crores. Of the billings, the billing for exclusive brand watches contributed Rs.40 Crores in Q4 whereas 28% of the total billings for the quarter while for the full year it contributed Rs.130 Crores that is 29% of the total billings for the year. You will remember that our strategy with exclusive brands is one of the pillars of our growth and profitability. Consolidated total income increased by 36% Y-o-Y to Rs.125 Crores in Q4 while for the full year it was down by 12% Y-o-Y to Rs.403 Crores. Consolidated gross profit increased by 44% Y-o-Y to Rs.37 Crores in Q4 while for the full year it was down by 7% Y-o-Y to Rs.121 Crores. However, the gross profit margins expanded by 170 basis points to 29.8% in Q4 and the sale expansion of 170 basis points also for the full year to 30% in FY2021. Consolidated EBITDA more than doubled to Rs.17.8 Crores in the Q4 of this year while for the full year it increased by 4% to Rs.56 Crores. As a result of our cost optimization efforts EBITDA margin expanded by 480 basis points to 14.2% in Q4 and it expanded by 210 points for the full year to 13.9%. Consolidated profit after tax turned around from a loss of Rs.4.4 Crores in Q4 of last year to a profit of Rs.4.5 Crores in Q4 of this year and for the full year the PAT turned around from a loss of Rs.2.5 Crores in FY2020 to a profit of Rs.4.7 Crores in FY2021. Stock at the end of the year was at Rs.198 Crores lower by Rs.21 Crores compared to the stock levels at the beginning of FY2021. Along with the stores our focus continues on the digital part of our business to drive our future growth. Our online generated billings increased by 8% Y-o-Y to Rs.172 Crores in FY2021 as compared to Rs.159 Crores in FY2020. As a percentage of total billings it forms 38% of the total billings in FY2021 as compared to 30% in FY2020. During the lockdown days online business has proven to be a stable business generator for the business. So we continue to innovate and spend on marketing through digital medium to keep the overall engagement high. We continue to witness ever increasing visitors on our Ethos e-commerce website as well.

A few words about our preowned watch business. Our preowned watch business, which has been run through our website, SecondTimeZone.com has also witnessed increasing visitors and a huge increase in engagement in recent times. We believe that the preowned watch business in the medium and long term has great potential to scale up steadily and in fact quite quickly. Before concluding the speech I would like to say that FY2021 being the most challenging year also gave us an opportunity to think about new ways of doing business and deeply analyze the cost structure to make it more efficient. I now welcome your question and participation.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Deepan Sankara Narayanan from Trustline PMS. Please go ahead.

D S Narayanan: Good evening everyone and thanks a lot for the opportunity and congratulations for a great set of numbers. Initially I just wanted to understand whether we will be able to sustain these kinds of strong numbers even during Q2 or Q3 of this year, so is it possible to maintain the strong set of numbers?

Yashovardhan Saboo: Deepan if you have any other questions can you also ask them, so we can answer all of them at the same time.

D S Narayanan: Sure Sir and in terms of manufacturing outlook per se for FY2022 are we planning to improve? That is all Sir. Thank you.

Yashovardhan Saboo: We are very hopeful that the strong turnaround will actually be sustained, obviously Q1 of this current year unexpectedly with this lockdown all the stores remaining shut this is obviously a dampener; however, still we expect this quarter results to be far better than previous year same quarter even though actually the stores are shut and the mood in the consumer sentiment was actually much darker than last year because last year although there was a lockdown there was no impact of the lockdown in terms of COVID. This year virus and illness and the infections hit almost every family, so the mood was very pessimistic nonetheless I think through the sustained efforts are actual results for the quarter will be better than last year and if the bounceback of the economy which we expect to will be the same as last year. We do not have any reason to believe it will not be we certainly expect the same performance of Q4 to actually continue even in the foregoing quarters. What you must remember is Q4 like Q3 is one of the special quarters right and last year it was also there because a lot of the weddings got postponed to the fourth quarter and wedding is a large part of buying for watches so we do not know how it will go this year, but broadly speaking I think we are very optimistic that it will be quite a positive year and we should see a very good growth this year. As far as manufacturing is concerned, once again we are very optimistic and to show a good growth and good revival. I can say that on the export side, which is almost more than 60% of our business the revival is faster, we have seen quite a robust growth or a robust revival there. Domestic segment which has started to revive in Q4 again has gone into a bit of a shell because of this lockdown everywhere, but we are hopeful that the rebound will be strong. What we saw last year the same thing will happen this year and therefore we are actually gearing up for quite a strong rebound.

D S Narayanan: One point on gross margin expansion, so is it majorly due to our contribution of higher selling price points increased in our billings, so is it due to that?

Yashovardhan Saboo: You are talking about Ethos?

D S Narayanan: Ethos.

Yashovardhan Saboo: Yes, it is a combination of various factors. Large part of it is because of the increased percentage of exclusive brands on which we enjoy a higher margin, so that is the single largest reason why there has been gross margin expansion and of course we are also conscious and are not encouraging so much the sale of products or ranges where the gross margins are there, so there is a very conscious effort and strategy for gross margin management, which consist of many steps, the main of this is actually this product mix change.

D S Narayanan: Okay. Thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Manish Dhariwal from Fiducia Capital Advisors. Please go ahead.

Manish Dhariwal: Very good afternoon and thank you for this opportunity. There were two questions that I had one was about the retailing business which obviously there is a significant amount and a lot of capital that is kind of lock into this part of the business so I wanted just a flavour on how the obsolescence and how the stock which is within a year how is that managed and second I wanted to understand that in the overall business there are lot of verticals in your consolidated business right from manufacturing and buyers in the other parts and to sell the watch and the repairs, etc., and each of them have different margins like we have guys who have better margins in the retailing business and we have a significantly lower margin comparatively, how do you track the company's overall reach, performance and what are the markets that you keep in mind towards the margin side of the whole activity?

Yashovardhan Saboo: Inventory in the Ethos business actually had gone down from around Rs.218 Crores to about Rs.197 Crores so there is a reduction by about Rs.20 Crores. In terms of months it has gone up a bit obviously because the sale has gone down which was impacted by COVID. During that time, the sale is impacted the stock obviously cannot be reduced instantaneously. However, in the business of sale of luxury watches if you compare with any international benchmarks, the stock of eight months will actually be among the lowest among international watch retailers. The norm for international watch retailers in luxury segment is usually more than 10 to 12 or in the range of 10 to 12 months of sale. So that is the future of this business because you need to keep a large range of watches and people will buy only when they can choose from a large range of watches. However, on the other side in the luxury watch business, the risk of obsolescence is actually very, very low, because if you have luxury watch pair the luxury watches usually continue on a catalogue for years and years unlike fashion watches which we had two collections every year and after one or two years the watches are become obsolete, in the field of luxury and premium watches the watches continue on the catalogue and part of the range for years and even after they have taken out sometime they are committed by collectors then they continued to have secondary value, so therefore there is very little chance of obsolescence in fact sometime old watches become premiumized because of their shortage and their collection desire by connoisseurs. So that is why you will also see that there is hardly any provision made by our auditors who constantly check on this matter for obsolescence or any nonmoving stock as such. On your second question about how we monetize the group, now obviously there are different businesses, and the different businesses have very different characteristics, so the overall consolidated mixed margin is actually a resultant figure, it is all strategy that we have to achieve so much. The strategy is for different businesses and the one business with lower margin increases the overall mixed margin may go down, but that is not the point I think we have to see the ROCE and ROI of individual businesses and maximize them. If you maximize the individual businesses typically the consolidated margin will also improve. So we really monitor market for individual businesses much more strongly and for the business as a whole it is essentially just a resultant figure.

Manish Dhariwal: Thank you. As a followup the overall objective is net shareholder value which you have been focused on so which vertical because each business has distinct capital demand, so from the capital allocation perspective also in the next three to four years what are basically the valuation drivers for the organization, the shareholder value drivers it is basically the increased ROCE or the increased ROI?

Yashovardhan Saboo: In our businesses we are focusing on ROCE.

Manish Dhariwal: Fair enough, so which businesses are going to be the drivers for the ROCE expansion in the next three to four years?

Yashovardhan Saboo: There are two main businesses the manufacturing business and the retail business, so obviously the retail business ROCE has to improve with the large part of the business so that is going to drive the ROCE, in the manufacturing business, there are two parts the precision engineering and the watch component, watch component ROCE is high we are going to sustain that. In the precision engineering business we are going to improve the ROCE, so overall ROCE will increase.

Manish Dhariwal: The used watches business what is the plan on that, is it going to become a significant value driver?

Yashovardhan Saboo: Yes it will. We are considerably expanding that business. We have just set up the state-of-the-art service center, in the last concalls if you were there I had mentioned that having a service center to check repair and authenticate the watches is a very fundamental pillar for the preowned business that service center has come up. It is the largest and best equipped independent watch service center in the country I can easily say that, and we are also just going to open this is prevented by the lockdown, it was prevented but in the course of next two weeks we will be opening India's first preowned watch lounge and we see a very bright future for this business.

Manish Dhariwal: Thank you very much for the detailed answers.

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

Jeetu Panjabi: We will start with the manufacturing side what is the sense we are getting from the international customers if the other inputs continuing in the next 12, 18 months does it look like scale up happens in a significant way?

Yashovardhan Saboo: Manufacturing on the watch component side we are seeing a pretty strong recovery on the export side that is at least partly due to a lot of the moves that we made over the last two years, we must be one of the first watch component companies in the world to take to digital marketing, to take to social media, which has helped us to gain visibility in some very large and top customers so we are focusing on increasing our market share there. Of course we were a little worried with this second lockdown because when India comes under lockdown the media that India got for the lockdown was not very positive you are aware about that right. The second wave and all the international media was very critical of India's handling, so we did our bit to assuage any anxieties of our customers and fortunately there have not been too much of an impact from that and we are seeing our order book remained quite strong, so as I mentioned already in the first question we are pretty confident of a strong bounceback on the export side of watch component business. Domestic side of watch component business though Q1 has been weak but again I am very confident of a strong bounceback because most of the domestic players are now going for a shift from China to domestic, so we expect that to start playing out now. We have been speaking about it in the last two, three quarters in China there will be strategic shift, these shifts do not happen instantaneously, these are strategic decisions, and they are implemented over quarters, but we see that too start playing out now and on the precision engineering business we have done a lot on the aerospace and electronic side of things we had mentioned in the last call also. Now aerospace and electronics got severely impacted because of COVID; however, still we see growth, but the kind of growth which we were expecting earlier like 25%, 30% growth I think that will be tempered and it will be more like 20% kind of a growth. So overall we are very confident of a strong bounceback in manufacturing both the segments watch component as well as precision engineering.

Jeetu Panjabi: Wonderful. Second question, the rights issue, we have the capital, so what plans are we rolling out?

Yashovardhan Saboo: Large part of the rights issue was actually for investing in Ethos, so that is going to happen over the next couple of quarters, the plans in Ethos are really to take up some of the strategic new opportunities that are coming up as I said but they are also slipping a little in time let me say because of the lockdown and continuing waves and so on and so forth, so for example there are couple of strategic initiatives of some brand tie-ups and some location tie-ups which does require a face-to-face meeting with the brands, in Switzerland the luxury brand until you can meet them face to face you share your clients they are not going to sign up on a Zoom call and unfortunately the meetings that were planned in March they got obliterated the meeting that were planned in June have got obliterated for now, we are planning a meeting in August, September and I think it is very exciting what are the new opportunities coming up for strategic tie-ups in Ethos and I hope over the next couple of quarters for the next couple of months by quarters we will be able to share more specific news on some of these tie-ups. I can already tell that we have signed up and moving ahead with doing two mono-brand boutiques for Omega, these are the only two boutiques coming up for any brand in this year and in the last year in the whole country and one is in Mumbai which will greatly strengthen our position in Mumbai, this is the first largest boutique of Omega in Mumbai and one in Chennai again that will be the largest boutique of Omega in the country and the only boutique in Chennai.

Jeetu Panjabi: The economics of it are decent from our point of view?

Yashovardhan Saboo: Yes of course, when you do a boutique with brand like Omega, Omega is the second largest brand in the world and it is growing and it is very strong and when they do a boutique then as you know you get special boutique additions, it gives you relationships with customers and so on, so it is very much part of our strategy and similarly these brand relationships and large dominating presence in cities is going to help us to increase our market share, so typically for example in Mumbai our market share has traditionally been weak. In Chennai it has been weaker because our entry into Chennai was very late, so we have identified which cities our market share has large potential to grow we are focusing on that, which are the brands that will help us to grow, some brands may not be very keen to grow in India right now, others are, so these are all these discussions and relationships that we are nurturing and you will hear much more about this in the months to come.

Jeetu Panjabi: Okay, wonderful and last question is I am assuming that obviously this quarter would have been a weak quarter because of this COVID issue, but just finds that things are going to come back in a better way and things are going to looking upwards and also the concurrent question is what are we doing on working capital and inventory on the watches on the retail side?

Yashovardhan Saboo: In terms of liquidity we are very strong there is absolutely no issue, stock is under control. We will take up the stock consciously we will take up stock this year because that is one of the elements of gaining market share. When we are going to start with a couple of new brands we will take up the market share and the stock will go up, but again in terms of month of stock it will remain very much under control. As to when the bounceback will happen cannot say, maybe it is already happening our stores open, we do not see a very strongest yet because stores are started opening only one week ago, but I personally believe by the middle of July we will see a good trend and then we will be able to say how strong the bounceback will be. There will be a bounceback that is for sure. On the other hand consciously in our head we have to factor that as the economy opens the number of cases in COVID may go up because full vaccination is going to still be some months away, so the chances of a third wave cannot be ruled out. We are only hoping that if third wave comes it will be handled efficiently, quickly without or with very little disruption as compared to the second wave.

Jeetu Panjabi: Thank you. All the best.

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

Ankit Agrawal: Thanks for the opportunity. Sir, I have a question on the manufacturing business. What are the sustainable EBITDA margins in that business?

Yashovardhan Saboo: In the manufacturing there are two main businesses. I just let me pass this on to our CFO, Mr. Masown.

Sanjeev Masown: Regarding your question of sustainable EBITDA margins in the manufacturing; our margins broadly range between 18% and 20% depending upon the mix of the businesses which are taking the higher share in the coming year. As the precision engineering normally has a lower EBITDA margin we believe still after that we will be in a position to maintain 18% plus of EBITDA as the exports are likely to go up.

Ankit Agrawal: Thanks Sir. That is helpful. I have one more question that on the rights issue I just wanted to find out more about how the money is going to be utilized, can you just provide some more colour to it?

Sanjeev Masown: It was clarified earlier also by Mr. Saboo that is mainly the purpose of rights issue is to invest further in Ethos and for the emerging opportunities and the further growth and development of Ethos. As the initiatives and the plans gets finalized accordingly the investments will be done in Ethos in the coming few quarters.

Ankit Agrawal: Thanks a lot answered all my questions and best of luck for the future.

Moderator: Thank you. The next question is from the line of Aditi Sawant from AGM Advisors. Please go ahead.

Aditi Sawant: Thanks for the opportunity. I have one question. What is the demand outlook for our watch components and precision engineering business?

Yashovardhan Saboo: Aditi do you have any other questions if you can put all of them together?

Aditi Sawant: No.

Yashovardhan Saboo: As I mentioned demand, when you go to watch components first we are seeing a very robust bounceback of demand from the export side, domestic side it was slackened a bit because of the lockdown, but we are in touch with our domestic customers all of them and they are all indicating a bounceback to start from the next quarter that means from July onwards, so we are quite confident about that. Similarly on the precision engineering side we expect the bounceback to happen in all sectors. In the aerospace and electronic sector and auto sector, these are three important sectors where we believe the bounceback will be a little bit slower whereas in other segments it is already we can experience it to be quite strong.

Aditi Sawant: Thank you Sir.

Moderator: Thank you. The next question is from the line of Atul Khothari from Progwell Securities. Please go ahead.

Atul Khothari: Thanks for the opportunity. Sir, I have three questions. My first query is what can be the sustainable EBITDA margin for ETHOS business that is number one, secondly what is the gross debt in our manufacturing business and Ethos business and what is the cost of debt, and last as online business has been improving what kind of initiatives company is taking on the digital front?

Yashovardhan Saboo: Your first question was on what is the sustainable EBITDA margin in the retail business right?

Atul Khothari: Yes.

Yashovardhan Saboo: Our target is to achieve 10% EBITDA without considering the impact of the InAS116 accounting standard, we had already gone to about 7% plus two years ago we believe we can go from where we are to about 10% EBITDA over the next two to three years, between 10% and 11% is a sustainable EBITDA margin in the retail business. Can you just remind me the second question?

Atul Khothari: The gross debt for our manufacturing and Ethos business, retail business?

Sanjeev Masown: The standalone manufacturing part our total debt is around Rs.75 Crores, this includes working capital limits utilization. The interest rates are sub 9% for the manufacturing.

Raja Sekhar: For Ethos total debt as of March 31 was about Rs.52 Crores and the average cost of debt is about 10.6%.

Atul Khothari: Okay and lastly regarding the online business what are the initiatives the company has taken on that front?

Yashovardhan Saboo: Atul that is a very wide canvas, a business of Rs.180 Crores through online led business in the luxury segment is practically unprecedented you will not see any business in India generating that kind of online led billings especially in the luxury segment, so this is achieved through an omni channel platform, the physical stores combined seamlessly with our digital initiatives whether it is our website or digital marketing, through social media marketing and our call center information center where we have team of 40 people answering queries live taking questions, these are watch consultants, specialized watch consultants, they will discuss and direct customers to the stores where the final deal is closed because everybody on a luxury side would like to see the watch before they buy it and obviously there are initiatives on marketing, their initiatives on consumer service, their use of technology, it is a very, very vast canvas which we are doing and we expect this part of the business to grow very steadily, already about 38% of our business is coming from online leads and which is a significant part and we will maintain this, this will be sustained.

Atul Khothari: That is all from my end Sir. Thank you.

Moderator: Thank you. The next question is from the line of Avadhoot Joshi from Newberry Capitals. Please go ahead.

Avadhoot Joshi: Good afternoon. Thanks for the opportunity. Online billing segment has been doing pretty good as Sir mentioned 38% of the billings have come from online billing and in the second slide we have mentioned about the rationalization of the stores, so I would like to know how we are going about the rationalizations and reducing the operating cost accordingly that is the only question I have?

Yashovardhan Saboo: That is an excellent question. Let me explain it in terms of a strategic viewpoint. Going further we believe that in luxury business as well as in any other business the starting point of purchasing is increasingly going to be the internet, the people will research on the net first before they come to buy mostly, even if they come to the store first they will look at the watch, but before buying it if it is a high value purchase they will first research it also so that interaction between physical and digital space become extremely important. What is the reason for a person to visit a store? In the past it used to be like a convenience store, there is a store next to you so it is convenient to go to that store and pickup something and therefore the model was that in a city like Mumbai, Mumbai is not really one city Mumbai consists of at least 10 or 12 smaller cities, so each part of Mumbai you must have a store so that people do not have to travel far to pickup something. This model is turning on its head now because we are saying a person can experience all the watches sitting at his home on the internet then why do not we go to the store, he goes to the store only once in a while, but when he goes to that store he wants to have a fabulous experience then he wants to see a large range, he wants to have a large store, he had to have specialist sending to him or her, he had to have a great experience, a great ambience and so on that is not possible in small stores. To deliver good experience you have to have great ambience, you have to have skilled staff, you have to have knowledgeable staff, you have to have a fantastic selection of products and so on, but when you have that and you create a large store then people are willing to travel 20 minutes more to go to a flagship store, a person travels from Worli to BKC or from Malad to BKC which he will not do obviously he will not be willing to do that to pick up some food, but for large stores just like the Louis Vuitton will not open stores in every part of the city they will open two, but when someone wants Louis Vuitton he will go there because it is not only to pickup of that it is to experience Louis Vuitton and this is the cornerstone of the strategy of rationalizing. We are saying no point in being in small stores that cannot deliver experience. Go to large stores, create fantastic stores, employ the most skilled and knowledgeable salespeople, use technology to deliver experience along with people skills, have a great collection of brands and a great stock over there and then people will come from far and wide to experience the store. We are seeing this turning into reality, for example in Hyderabad we have three stores we closed them all and opened one large store. This one large store delivers more sales double the sales that the three sales stores put together delivered at a lower rental and a lower operating cost, so the overall profitability goes up. The economics of the large stores are actually much better than of smaller stores, so that is the strategy for the rationalization of stores.

Avadhoot Joshi: Understood Sir. Thanks a lot for the explanation.

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

Adit Shah: Good evening Sir. I had three questions. Number one is we have been buying stake in Ethos I think two good options being expressed by investor, I wanted to know how much more do we need to buyback because of that agreement, number two is the exact valuation I believe that we are buying around Rs.360 Crores can you please confirm that number because in last meetings when we raised them Alchemy had read the valuation was Rs.450 Crores so to confirm that valuation has gone down to Rs.360 Crores for Ethos, third question is in the manufacturing side is it possible for us to enter adjacent parts for watches like cases or straps anything like this is it possible in the future and one more question is on Ethos since we have a very good digital business is it possible to expand the target territory beyond India to markets like Sri Lanka or Nepal or beyond India basically is it possible to foresee something like that with Ethos? Thank you.

Yashovardhan Saboo: Let me answer your last question first. Of course it is possible to foresee our case beyond India. However, we are convinced that there is no future market with opportunities even remotely equal to India, so we have a lot to do, we have a great potential to grow in India to increase our market share into rise the way of increasing demand for luxury watches that is going to come, so we believe it will be a mistake to take off the focus from India and go to a smaller country like Nepal or wherever and many peoples of Nepal and Sri Lanka actually come to India to buy, so we are certainly not looking at going out of India for the time being; however, one or two years down the line if the strategy will change we will come to know because we are constantly monitoring the situation. Now I complete your first three questions. One is regarding the buying of share from an existing shareholder consequent to a contractual obligation. The shares which were to be purchased they were all purchased already last year I think in October, November, we have clarified earlier also in the last call also that there is no more obligation after that last purchase was made.

Adit Shah: Okay.

Yashovardhan Saboo: Number two the valuation that was done which was about Rs.250 per share was consequent to the contractual obligation that this is the price that will be paid it was not based on any fresh valuation done for Ethos that was the agreed price on which the previous investor had a put option, they exercise the put option and we purchase the share, we believe it was a good deal to purchase the share at that price and that valuation was a favorable valuation for us and you are right it was a lower valuation than what we had purchased earlier. We do not believe that there has been any depletion or diminution in the value of Ethos in fact the value of Ethos has actually gone up. I am sorry what was the remaining question?

Adit Shah: My remaining question was in the manufacturing side is it possible or are you exploring the adjacent components within the watch like cases?

Yashovardhan Saboo: Yes it is possible and we continued to explore those possibilities for adjacent areas in the watch component business.

Adit Shah: I think today there was filing with respect to increase of stake in Ethos, was that a primary increase in the capital?

Yashovardhan Saboo: Are you talking about the rights issue?

Adit Shah: No, there was a filing I think where our stake in Ethos has gone from 75 or something to 76, so that was because for primary infusion of capital?

Yashovardhan Saboo: No, KDDL has purchased more shares of Ethos from an investor.

Adit Shah: But that was not because of that put option?

Yashovardhan Saboo: It was not because of any prior contractual obligations like a put option or anything.

Adit Shah: Okay, do we foresee any further such transactions, do we foresee that?

Yashovardhan Saboo: There are shareholders out there, it depends on the price. If the price is favorable we are always happy to increase our stake.

Adit Shah: Okay and Sir last question is in case the demerger is unable to go through because of the legal obligations on the regulation side, is it possible to directly list or are we open to directly listing Ethos as an IPO?

Yashovardhan Saboo: We are looking at all the options for us value discovery is extremely important, it is not only important for the other non-promoter shareholders, for the promoter shareholders also it is important the value discovery because I believe a business must reflect its true values and in the current structure it is clear that the true values are not fully reflected, so we are open to all the possibilities. We know that there are limitations due to the certain shareholding structure within KDDL. We are looking at various options, we have discussed with experts also. I am not in a position to give you any concrete direction, but I can tell you that we are very actively looking at all possibilities to make this happen at the earliest.

Adit Shah: My question was that while demerger giving shares directly to KDDL shareholders looks the best outcome for everyone, obviously that has got sort of delayed because of the reasons as you told, so as a promoter do you have any particular preference because an IPO might be a straightforward route to reach Ethos, but it will attract a holding of any discount at KDDL level, but as a promoter are you open to that, what is your preference even given a choice because the other thing is taking a much longer time to sort of solve?

Yashovardhan Saboo: As I told you we are examining all the possibilities and frankly on this call I think I am more obliged to answer as a CEO of the group. The promoter options are considered by promoters on a different forum, but I can tell you that we are opened to all options and whatever maximizes value for shareholders as a whole is going to be preferred. I do not think we want to say that shareholders value should be maximized for one group or another group I think we have to be fair to shareholders especially shareholders which have been with us for a long time, who have supported us that has been our ethos, that has been our philosophy and there are two things we want to do something that is fair and leads to value discovery for all shareholders and second we want to be very sure that it is within the boundaries of the law. In some of these matters there are some ambiguities, so we are very clear we are not going to enter any even darker areas, or anything will be purely within the boundaries of the law. So it is taking a little bit more time and frankly right now in the context of last year and this current quarter our priority is to keep the company on track. You remember I do not know if you joined the conference call 12 months ago in the month of June 2020 at that time the question was are you sure you are going to survive, are you sure your company will remain liquid that was an existential moment and I think we have shown in the last few months and quarters that not only have we survived we are actually become stronger. Today our liquidity is stronger than any time in the past. Our strategy, our growth, our future prospects are better than last year, better than two years ago so that has been our real focus. I think now that both the businesses are going to be back on track, we are going to start to focus again on this matter or demerger or IPO or what we can do. I agreed there has been delay, but a lot of plans have been put on hold because of these 15 months of COVID. We are very clear that we will find a solution and the solution will be fair for all.

Adit Shah: I appreciate your answer on that. Just pitch in a couple of more questions if time permits?

Yashovardhan Saboo: We had another person waiting for some time, so if you do not mind can you come back later?

Adit Shah: Sure, fine, thank you.

Moderator: Thank you. The next question is from the line of Manish Dhariwal from Fiducia Capital Advisors. Please go ahead.

Manish Dhariwal: Thank you for the followup. I wanted to understand how is the revenue from the online segment calculated because you explained that it is basically a joint approach that works that person basically who looks up on internet then goes to get the feel of the watch in a physical store and then only the sales gets concluded, so how did you determine that this 38% is from online?

Yashovardhan Saboo: When there is an online lead, if a sale happens from an online lead then it is counted, if a sale is initiated at the store then it is not counted as an online. If a sale is initiated through the internet whether concluded directly at the internet or concluded at the store it is counted as an online lead sale.

Manish Dhariwal: Okay, another question was that you said that you have the strategies to open large format stores, but then you also mentioned that you are opening like two exclusive Omega stores now the strategy actually is pretty much opposing each other and in the presentation you also mentioned that all the expenditure on the store, etc., is yours because the brand is not going to be investing on the store, so can you explain to us the strategy in that side that you have exclusive store alongside the large format store?

Yashovardhan Saboo: In the field of luxury watches there are some of the large luxury brands which in the top malls in the top cities who want an exclusive brand boutique because that brand boutique becomes a showpiece for the brand.

Manish Dhariwal: I agreed, but I thought as you wanted to go onto the large format strategy where you are able to offer a bunch of brands where you are able to offer the variety.

Yashovardhan Saboo: We are doing both. A mono brand boutique for a large brand works because a collector who wants a specific brand will always get a larger range in the mono brand boutique than he would get in a multi-brand store; however, customers who want to see a collection of brands prefer to go to multi-brand store. Now there are only a handful of brands for which a mono brand boutique strategy works and that also works only in the large cities and the large malls. So omega brands have five different boutiques in Mumbai even in Mumbai they will have two. Why it is important for us as a luxury player to do with the mono brand boutiques for some of these big brands. Number one it has to build a strong relationship with the brand and that relationship is a great strategic value. Secondly there are products which the brands make available only after boutiques, they do not give those products to the multi-brand stores so in order to be able to offer those products to our client database again it is beneficial for us to have mono brand boutiques, but again I am saying mono brand boutiques are strategic goal, it does not mean that they lose money, some of our mono brand boutiques are among our most profitable store, but you cannot grow only with mono brand boutiques because mono brand boutiques will account for about 20% or less of the turnover of luxury watches globally. We need a combination of both large flagship stores for multi-brand centers and selected mono brand boutiques for highly strategic brands in highly strategic locations.

Manish Dhariwal: Wonderful. Lastly Sir what is your smart watch strategy like with the Apple watch and Samsung watch and the watches coming in, so what is your strategy on the smart watch segment that is coming up very strongly?

Yashovardhan Saboo: We do not have any strategy that is a different business from us.

Manish Dhariwal: You are out of it right?

Yashovardhan Saboo: Yes, the margin on an Apple watch is 7%.

Manish Dhariwal: You are working on targeted EBITDA margin of 10%, so I guess an Apple watch has a very high turnover might not be a bad idea.

Yashovardhan Saboo: No it is a different business. Smart watches are sold at electronic products so that business is more akin to someone who selling laptops, someone who selling, it is not an accessory of style it is a functional accessory it will be at a very high and in a very strong functional accessory, but the traditional watches and luxury watches sell for different emotional, it satisfies the different emotional need. Someone who is buying an Apple watch and spending whatever Rs.70000, Rs.80000, Rs.1 lakh whereas someone who is spending Rs.10 lakh let us say on a Rolex they have very different emotions and may be the customer will buy both, an Apple to go to the office, Rolex to wear in the evening.

Manish Dhariwal: Thank you for sharing your thoughts on this. Thank you so much.

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

Adit Shah: Thank you once again. My question was that in the preowned watch business I missed the revenue figures for this quarter?

Yashovardhan Saboo: We will get back to you on that. For this quarter means.

Adit Shah: For this quarter what was the revenue from preowned watches?

Yashovardhan Saboo: You mean Q4 of the previous year?

Adit Shah: This year, current quarter basically.

Yashovardhan Saboo: Current quarter not yet over.

Adit Shah: Current meaning the ended March 2021?

Yashovardhan Saboo: I will have to get back to you on that.

Adit Shah: Okay, secondly the stores which you are mentioning for preowned is it already sort of open because I see address in our Instagram page there is a physical address, is it open or we are going to open there?

Yashovardhan Saboo: I am not sure what is the address, of course there is an office for the preowned business and the lounge is not yet opened, it should be opening in the next few days, we are just waiting for the lockdown to be fully over, and it is in the same complex as our office, but it did not yet open.

Adit Shah: Got it and do you want to share any further plan for the next year, do we want to open more than one in the next year for the preowned watch business?

Yashovardhan Saboo: As the business grows it is our view to open one preowned lounge in at least definitely Delhi and Mumbai, maybe a few of the other cities, but we have to learn from our experiences in Delhi and Mumbai before we go to other cities.

Adit Shah: Okay and is it possible with the preowned watch business to be like Rs.100 Crore's business in the next two to three years, is it possible?

Yashovardhan Saboo: Yes it is.

Adit Shah: One last question on the manufacturing side, I think we did sort of highest ever revenues or close to that and PAT was also the highest ever, so for the next year is this momentum I think you alluded to that earlier also that in certain areas for example export market is very buoyant, but it was guidance for the next year overall do you continue keeping momentum on the profitability as well I think overall the highest ever profits we made was total Rs.15 Crores in FY2019 so basically can we go beyond that in Q2 that is my question on the manufacturing side?

Yashovardhan Saboo: When we go two, three years from now we start to enter some areas of speculation from my business; however, as I mentioned earlier we do believe our manufacturing business will continue to show strong growth, double digit growth and we believe profitability will be maintained or even higher I think Mr. Masown already shared what we believe about the sustainable EBITDA level, of course the efforts have always improved the EBITDA level, but sometime we have to do a tradeoff between EBITDA and growth and we are conscious of both the things, so overall I think we are going to be a good tradeoff with maintaining high profitability as well as strong growth.

Adit Shah: Thank you. All the best.

Moderator: Thank you.

Yashovardhan Saboo: Thank you. I think there are no more questions and I have another meeting to go to allow me the closing remarks so please. I want to thank everybody for joining the call and I hope we have been able to answer your queries. If you have any further queries please contact SGA, our investor relations partner. Thank you very much.

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