“KDDL Limited Q2 FY 2017 Earnings Conference Call”

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Moderator: Ladies and gentlemen, Good Day and Welcome to KDDL Limited Q2FY2017 Earnings Conference Call. This Conference Call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Yashovardhan -- CEO, KDDL. Thank you, and over to you, Sir!

Yashovardhan Saboo: Good Afternoon and a welcome to all the participants at this earnings call. I am joined at this call by my colleagues Mr. Raj Sekhar - CFO of Ethos, our Retail Arm; Mr. Sanjeev Masown - CFO of KDDL who is usually present is not available today, he is on his way back from participation at an International Seminar. In his place, I am joined by Mr. Ramesh Sharma - General Manager (Finance) of KDDL. We also have with us, SGA our Investor Relations Advisors.

I hope you have all seen our Financial Results and Presentation, it is uploaded on the BSE website as well as our company website.

I begin with the consolidated results. For the half-year ended 30th September, 2016, the Company registered revenue growth of 7% from Rs.211 crores in H1 FY2016 to Rs.226 crores in H1 FY2017, with a revenue growth from Rs.110 crores in quarter two of this year to Rs.118 crores in quarter two of FY2017.

EBITDA stood at of Rs.12.08 crores with a margin of 5.64% in H1 of this year. There has been a net loss in this year which after minority interest stands at Rs.60 lakhs. The cash PAT stands at Rs.5.2 lakhs.

Coming to the manufacturing business. The manufacturing business registered revenue of about Rs.66 crores, growing by 7.2% year-on-year. EBITDA for H1 improved by 4.07% to Rs.11.05 crores compared to H1 of the previous year. The watch component segments comprising of watch dials and watch hands contributed 78% of the manufacturing sales, it grew by 4.05% year-on-year. Based on the prevailing market conditions, we believe that during the current financial year, the watch components business revenue will grow by about 6% to 8% compared to the previous year which we believed is a satisfactory figure considering this year of international recession in the watch business.

Our precision engineering manufacturing business contributed 17% of the manufacturing sales growing by 21% year-on-year and 11% quarter-on-quarter. The expansion project for this business is moving ahead as per plan.

During the last quarter, the company has awarded the contracts for civil construction and work has progressed well on the site of the new plant. We have also enhanced our capacity by adding higher tonnage presses and this is enabling us to open new customer segments. The addition of these higher tonnage presses expands the scope of business and to new products categories in the automobile and industrial components as well.

The capital expenditure is in line with expansion plan of the company. The company is confident of 20% growth and more in this segment during the current year and this segment of precision engineering components will be a major source of growth for the company in coming years.

In this segment we plan to add new capacities and capabilities like injection molding, electro plating, additional precision stamping, CNC machining in phase manner. The addition of these capacities and capabilities will help the company in its plan for rapid growth in the revenue and profitability.

The first phase of expansion in the new facility is planned to be commissioned by the end of the current financial year and we expect to start generating revenue from next year onwards.

The manufacturing business is confident of achieving 8% to 10% growth in 2016 and 2017 and with the improvement in market conditions which is likely in the following period, the further growth is envisaged.

I now come to our luxury retail business - Ethos. For all premium retail business these are challenging times. The measures of the Government in terms of the new Pan Card that was announced effective January this year has clearly affected the business a little more sharply than we had earlier imagined. The more recent phenomena of de-monetization of the currency will further impact demand in the short run. It is therefore very important for us as a long-term organized player to step-up and create higher entry barriers and thereby consolidate our position in the long-run and establish a greater market share faster than we have envisaged.

We continue to believe that over time there will be a wider acceptance of Pan Card regulation and cheques and card payments will bring back the sales growth momentum. In fact, we had already seen this happening towards the second-half of quarter two and the beginning of quarter three.

India continues to be a big market with a great potential and the aspirational Indian will move back to buying premium and luxury products over a period of time. As I mentioned, there is already evidence to this effect from our same store growth which has risen from 7% in Q1 of the current year to 11% in Q2 which compares very favorably with most other premium or luxury retail businesses.

We are continuing to implement the revised strategy for our retail business. Last quarter we had recalibrated our products strategy to enable us to develop more scalable and profitable business faster using this new model. Thus we have widened the portfolio of watches in the price range of Rs.2 lakhs to Rs.5 lakhs, where there will be a faster acceptance of the Pan Card rules. For the price points from Rs.5 lakhs to Rs. 10lakhs, we believe that it will take a little longer time for the customers to accept the new regulations and thus we planned to maintain a liner inventory there without comprising on the product range.

On the extreme, i.e., at the price point above Rs.10 lakhs we have planned to reduce our exposure considerably. We have moved forward as per our plan on this strategy. In addition to this, we are continuing to develop our exclusive brand strategy. In the last quarter alone we have signed exclusive arrangements with two prestigious watch brands namely Raymond Weil and CORUM. This brings the total number of such exclusive arrangements to 12. These arrangements help us in obtaining higher margins and provide our customers a portfolio of products that is different from other retailers.

I am happy to inform you that our endeavor was to improve the proportion of sales from these exclusive brands and thereby improved weighted average gross margin and an improved differentiation for Ethos as a leading watch retailer has also borne fruit. In the first-half of the current year, the proportion of sales from exclusive brand is already topping 7% compared to ~3% in the entire previous year. Within an year there is encouraging growth. In quarter one, the figure of sales from exclusive brands was just under 6% while in quarter two it has grown above 8%. As I mentioned, the average for the year so far is just above 7%. Our goal is to increase this substantially every year.

We are also continuing to closely scrutinize individual store performance and take the step necessary to recalibrate the positioning stores wherever viable and even closing down stores that do not seem to have an economic potential.

In terms of financials, Ethos registered a revenue of Rs. 158.7 crores for H1 of the current year, a growth of 7% year-on-year. Online lead generation contributed 31.1% of total Ethos billing, a growth of 270 basis points year-on-year. Gross margin for H1 stood at 22.02%. EBITDA for the quarter was a positive 1.2% compared to a negative EBITDA in Q1. We continue to monitor our inventory levels closely and despite the challenging times that we are going through, inventory carrying months have fallen to below eight months for the first time, this in line with our plan to reduce inventory carrying months over the medium-term to around seven months and eventually to below six months. We will continue to adopt a value accretive approach in our business while being flexible in the evolving business environment.

With this, I thank you all very much for your patient hearing. And I would like to open the floor for Question-and-Answers. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We take the first question from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.

Vikram Suryavanshi: In manufacturing through we have maintained our revenue, there has been impact on margin, what are the reasons for margin decline in manufacturing side of the business?

Yashovardhan Saboo: It is an excellent question, as you know the international watch market is going through an extremely difficult period. I am sure you are aware about the results of the large groups that have declared their H1 results showing huge decline and ofcourse many of the brands of these groups are our customers. So basically the export segment has been hit and we have sort of compensated for that by increasing our sales in the domestic segment. The values, the average prices and margins in the export segment are higher than the domestic segment and this shift is the main reason why the margins are a little bit lower in the current year.

Vikram Suryavanshi: Okay. And can you just explain more on our money raising plan in KDDL and how much we will spend on Capex this year and next year in terms of expanding our capabilities?

Yashovardhan Saboo: As you are aware we have gone in for capital raise, some of it now and some of it by way of warrant and this is essentially for funding the requirements of KDDL and the internal accruals and the generation from KDDL be allowed to be invested in Ethos where we are continuing to look at a pretty aggressive growth strategy. The main focus of Capex and growth in KDDL is in the manufacturing business and ofcourse, Eigen that is the precision engineering business. We have acquired the land in the aerospace park and the building construction has started. Some of the Capex which is planned has just happened, as I mentioned in my speech we have invested in large tonnage presses, we are left with some more capacity and injection molding. So, the overall investment in the precision engineering business over the next two years including the year that we are in right now is expected to be of the order of about Rs.30 crores. Rs.10 crores of Capex is already done in this year and another Rs.15 crores or so, is planned in this year but this may slip to the first quarter of next year as well because a lot of it is planned based on the speed at which the building works will proceed. That gives you rough idea about what is the kind of investment Capex plan in the manufacturing business over the next six to nine months.

Vikram Suryavanshi: And in Ethos, the requirement is for working capital. Are we looking out for some flagship stores in Ethos or so?

Yashovardhan Saboo: No, for Ethos we are actually looking at restarting the expansion in terms of number of stores. So we are looking at two flagship stores over the next two years, one of which will be in Delhi. We have already signed for the new luxury mall in Chanakyapuri, the most prestigious mall and Ethos has the exclusivity as a watch retailer in this mall and we are looking at a similar flagship in the two massive retail projects coming up in Bandra - Kurla Complex in Mumbai. We are in discussion with the mall promoters for this. In addition to that we are looking at growing the number of Ethos stores in various target cities where we are not present or where our presence is weak. We estimate that the total number of stores will increase by about 12 14 over the next two to three years. Cities that are planned which we are not present in for example Pune, Lucknow, Jaipur and Bhubaneswar, or cities where we have a presence but we intend to strengthen it because the potential for growth is substantial, that include cities like Hyderabad and Chennai. So for Ethos, the plan for starting the expansion in number of stores is very much on the anvil.

Vikram Suryavanshi: Yes, but look at medium-term challenges what we are facing in terms of retail side of the business. Will the funding from the parent will continue or when do you see retail will become self-sustainable in terms of cash flows?

Yashovardhan Saboo: I believe that, with the increasing efficiency on working capital, the new terms that we are negotiating with exclusive brands will see a pretty sustained improvement over there and again in terms of Capex we are looking at how we can minimize our Capex by better negotiations with our brands wherein they provide the fit outs and things like that. So, while we will continue to lead some funding support for the expansion, for the rapid and aggressive expansion, we will see that the EBITDA turns towards 5% to 6% which we hope will get to in the next year. I think by that time most of the stores will be self-sustaining and some of the expansion will also be self-sustained. I do not expect that we would need a lot more funding after discount.

Vikram Suryavanshi: Okay. And last question sir, in exclusive brands or any other, is there any possibility that the inventory what we are carrying in our books can be on the brands book or something?

Yashovardhan Saboo: Yes, inventory being carried by brands is really not the norm in the premium and luxury business or in most premium and luxury businesses as famous brands are involved. So, that is something which even we are able to negotiate, it is never general. So, here is what we are doing, it is difficult for one country, or one country to sort of change the policy of the brand. But what we are doing is obviously negotiating much higher margins which we believe is valuable for us and secondly, extended payment terms and third, very-very important in most cases we have the possibility of some partial exchange or some key collections being available without investment i.e., in some cases it comes as exhibition stock, in some cases as exchangeable stock, that usually is not true for the entire collection as a general rule. But it allows us to add some special pieces or some very expensive pieces which we do not want to talk and offer it to our customers. The third point which we do, which we are negotiating with most of brands is that not having stock with us. We will be able to reflect it on our website and therefore base it on purchase or order by customer bases. So, there are various means that we are are using to build greater working capital efficiency.

Moderator: Thank you. We take the next question from the line of Chaitanya Adesera from Siddhesh Capital. Please go ahead.

Chaitanya Adesera: Hi, sir, just two question, one, when you say about the global recession, any views on how do you think that global markets to react in the near future, any uptick in the same, probably next year down the line or probably three to six months from now? And with regards to the fund-raising plans of KDDL and the opening of new stores of Ethos, do you feel that there will be any further strain in the balance sheet of KDDL or it will be done through the internal accruals totally?

Yashovardhan Saboo: On the global recession, there is a feeling that we are close to the bottom being hit. We are monitoring very closely. The trends that are seeing in Swiss Watch exports, in the development cycles of some of the Japanese and the American brands, I believe the current quarter will still show a negative growth compared to the same period of last year. I believe by the first quarter of next year watch sales globally will start to flatten out that means bottom out and we start to see rise in the second quarter of next calendar year. As watch component manufactures, we have a certain leading edge or the leading indicators. We can see as brand start to feel the recession coming to an end they start looking at new products, pull out new products and this is reflected in their request for samples and new projects and since, around August - September, we are starting to see a rise in that. The acid test of that ofcourse is going to come in January when brands start to plan for what they want to exhibit and finally exhibit as the international watch fairs in Brazil, Switzerland, and then USA. But I expect that, in the next quarter that means quarter one of next year will probably flatten out and we start to see pick up for us in terms of the watch component side. I do not see a big change happening in this quarter and the next one but definitely a change to the positive in the first quarter of our financial year that is the way we are looking at it. As far as the watch component business is concerned, ofcourse we keep tracking month on month and I see the first signs of green shoots and the recession bottoming out over here. We will come to know more when we hear the quarterly results of the big group and ultimately the year end results which will come out end of December now. As far as your second question is concerned about the fund raise and whether will it be a strain on the balance sheet. I do not think we plan to go for more borrowing and what we already spoke about, our internal generation this year will be bit lower than what we have budgeted but it will still be healthy and positive given the circumstances and I believe there will be a marked improvement next year. We will also start to see by next quarter some impact of some of the cost reduction measures that we have undertaken both in Ethos and KDDL in the last half year. Typically, the cost reduction things tend to take a couple of months before they start showing up but we will start seeing them in the next quarter. So, I believe the internal generation though less than what we have planned will still be healthy and will pick up by next year. I do not think there will be or there should be any worry for the strain on the balance sheet.

Moderator: Thank you. We take the next question from the line of Aditya Iyer from Dimensional Securities. Please go ahead.

Aditya Iyer: Actually, I have a couple of questions, one would be what is your take on the GST, have you received any further insights or so? What would be the expected impact in terms of your gross margin from FY2018 if it is implemented? And the second question would be in light of de-monetization, etc., what kind of shift could you expect from the unorganized sector? Do you see an increase impact there, what is your sense of the underlying impact on the unorganized sector versus yours?

Yashovardhan Saboo: Great, I was wondering when this question is going to come. Okay, let me talk about the GST first. We are tracking the GST development very closely, I am President of the Watch Federation and we have been in close touch with Government officials both at state and at central level because obviously, the All India Watch Federation represents the interest of domestic manufacturers such as us, Titan, Timex, as well as global brands that are not manufactured here. So, it is really the body for the watch business and we have been in touch with the Government. We do not really know what is going to be the rate for watches. We do not know what is going to be the rules, so, there is a lot of guessing going on based on whatever you and I are reading in the newspapers. What we do know for sure is that the bucket rates and we know that products will be classified in the rate bucket, i.e., it will be put in the rate buckets based on their current incidents of taxes. So, the current incidents of tax on watches if you do not consider the excise free states, comes to about 24% to 25%. If you do consider the benefits, in the manufacturing segment for watch plants then it comes to around 14% so, that is one of the representations that we have made to the Government, to please consider the importance of domestic manufacturing and in light of your own thrust of "Make in India" program, we have recommended and suggested the Government to import a tariff of GST of 18% which will be higher than what it is for manufacturing right now, a little lower than what it is for the pure trading but overall it will be in balance. If that comes I think it will be very favorable development for the manufacturing; it will be getting a big boost going forward. We have to wait and see what the Government will finally do.

Aditya Iyer: Correct, there is no tax or say putting it with other luxury products at a very high tax rates that is out of question?

Yashovardhan Saboo: For the Government it seems there is absolutely no case that we have heard or anybody has told us for this luxury cess, there is a bucket of 28%. We are hoping that watches are not going to be clubbed in there but as we understand a lot of white goods and consumer durables are sort of headed towards 28% so, I cannot roll out the possibility of 28%. Actually, we cannot roll out the possibility of anything. We have also said that watches today compete with electronic devices such as fitness bands, mobile phones. Nobody is using th watch only for telling time because people use phones and so on. And we have also asked that you should place GST on watches at 12% based on this consideration. So it is really everybody's guess, there are industries that are lining up today to make their cases before the Government. Finally, it will be in the hands of the GST council. There is no direct hearing to the council and we are told that the results will be out by the 25th of this month. So, we do not have long to wait but what I want to say is even in the worst case scenario, I do not think we are going to be very much impacted either way because one thing is clear that the input we will get, the input credits for the CDD that is paid by us. So ofcourse 12% will be very favorable, 18% would be favorable, 28% would be slightly determent but it is not something that is going to be a very big impact either way. On the other hand, we do feel that there will be some positive coming to us from the setting off service tax that we are paying. So that is as far as GST is concerned. We have done various exercises, ifs and buts and all of that and I believe there will be an impact over the next couple of weeks and months. I also believe that the impact on us would be far lesser than most of the competition, given the fact that we are less dependent on cash transactions in the competition that said because of weaker sentiment, weaker liquidity, there is an impact, there will be an impact and we expect this to be there probably about two quarters after which we see a very-very long and permanent gain for us and reason that I am so confident about this is because first, I assume that all the necessary steps that the Government and the Prime Mister is hinting at to find effective and long-term curb on black money will be implemented. When that happens, we believe that the legitimate customers, our target group, professionals, salary earners, entrepreneurs, the aspirations in the Indian economy, in the Indian population will continue to grow, the macroeconomic position will become stronger and we believe people will get back to buying from us more than the competition because they trust Ethos. We have already seen evidence of this happening and believe me it is going to get stronger as time passes after the next two quarters or so. Besides that, the benefits that we are hoping to get from lower interest rates possibly lower taxes, I think all of this spells a great time ahead after this initial period of difficulty.

Aditya Iyer: Yes, sir, and roughly what percentage of sales would be via cash versus credit cards or cheques as of today? Just a rough number.

Yashovardhan Saboo: As of today, we are at about 40% of our sales that happens in cash.

Aditya Iyer: Fair enough and for competition how it would be?

Yashovardhan Saboo: We do not really have this data but for most, let us say for our effective competition it could be anywhere between 70% to 90%.

Moderator: Thank you. We take next question from the line of Prakash Jain, an Individual Investor. Please go ahead.

Prakash Jain: Sir, I have got a couple of questions, how much did the in-house brands contribute to our overall sales? My second question is on margin profile, how the margin profile of in-house brands versus the other brands?.

Yashovardhan Saboo: Okay, very good questions, Prakash, I will just answer them. On our in-house brand, as I mentioned earlier, in this year sales are just about 7% that came from these brands up from 3% last year. In the last quarter it actually exceeded 8%. We believe that for the year as a whole, our target of about 8.5% is well on track to achieve. Over the years this is planned to grow and by 2020 it would be actually something 22% or 25%. So it is a very rapid growth that we have planned on this and so far this year everything is falling in place and we believe that much better performances over the next one year or two years are possible. Because frankly the entire strategy has not been rolled out yet, many brands have been signed up recently. Their stock is yet to hit the stores in a big way, we have not rolled it out across all the stores, it is being done in phases, the marketing is yet to hit fully. So, I think there is a lot of need to follow still. But despite that we are seeing a good progress. On the margin profile, typically on the exclusive brand, we have margins ranging between 43% to 48% compared to about between 27% to 29%, on the other brands. Does that answer your question?

Prakash Jain: Yes, absolutely, sir.

Moderator: Thank you. We take the next question from the line of Amrut Kalantri, an Individual Investor. Please go ahead.

Amrut Kalantri: So, I do not know whether it was discussed in the past. What is the management philosophy in terms of giving a direct access to KDDL, so any plans to demerge it into a mirror listing? How do we get direct access because that is where most of the value is coming from and there is a holdco discount because of this, but there are other investors like Six Sense and all who have got direct investment in Ethos? So, can you tell us like what would be the long-term management philosophy on value creation in Ethos for the shareholders?

Yashovardhan Saboo: So, Amrut that is again a question that has been asked from time to time, it is a very valid question and thanks for brining it up again. I think we are off the view that definitely over a certain time this change that you are saying has to be accomplished. Whether it is accomplished by spinning off Ethos as a separate listed company or merging it back in KDDL. Various options have been discussed already at the board level once couple of months back and the general view was that yes, this is logical, yes, this has to be done. Perhaps the time is not quite right in 2016 and the general view was without any defined or a specific time frame and that's why we would relook at it in 2017 and probably define a time frame at that time whether that is going to be the view. Still I am not sure because of the changes that have happened in this year. However, I do believe that in the financial year 2017-2018 once the impact of the de-monetization and the Pan Card acceptance and any new development that happens such as GST and so on are imbibed, we will look seriously at the question of the value discovery of Ethos independently or completely merging it in KDDL, so as to avoid any conflicts or differences between separate shareholders of KDDL and of Ethos. I am not able to define a very specific timeframe but I can confirm that this is a topic that is now under discussion.

Amrut Kalantri: Okay, thank you. And can I just ask one follow-up question, if you permit?

Yashovardhan Saboo: Sure.

Amrut Kalantri: Sure. Are Six Sense or SAIF Partners or any other investor at Ethos or otherwise, are pure equity investments or has the management of KDDL given in terms of guarantees or any swap from

Ethos or KDDL or any guaranteed returns or any exit help that the management of the Company has promised or are these plain equity investments?

Yashovardhan Saboo: That is something, that I really cannot discuss here, but we have disclosed the exact nature of these investments and I think those disclosures are actually very clear on this.

Moderator: Thank you. We take the next question from the line of Manan Mehta, an Individual Investor. Please go ahead.

Manan Mehta: So, I actually joined the call late and missed some things so, I just wanted to understand the plans that you have for the stores opening in BKC and Chanakyapuri in Delhi.

Yashovardhan Saboo: Yes, so Manan, of course the transcript will be on the website. But very briefly Chanakyapuri is expected to come up towards the middle of 2017, we have signed a large watch store comprising of some mono boutiques and multi brand areas and we would be the exclusive watch store in this very prestigious mall. For BKC project, as you know there are two projects which are based in BKC, there are two retail projects we are in touch with both of them. Depending on where we have a better position in terms of store and in terms of other complimentary product mix, we will finalize one of them. We do not expect them to start before 2018. So, we have time in hand.

Manan Mehta: Okay, sir. Sir, my second question is regarding our Capex for the next years i.e., – for FY17 and FY18 in our manufacturing businesses.

Yashovardhan Saboo: Yes.

Manan Mehta: So, what are the plans sir, any guidance?

Yashovardhan Saboo: Again, I think this is something which I did answer. Most of the Capex has actually planned in precision engineering manufacturing, besides some Capex in the watch component. But in the precision engineering business, we have invested about Rs.10 crores this year and we expect to invest another Rs.15 crores over the next six - nine months. That is what we foresee. There may be some follow-up investment towards the end of next fiscal or in 2018, we have not really projected that in a great detail as of now. But there will be some as we go into the machining part of the capabilities in the precision engineering business. As of now, we are seeing about Rs.10 crores already invested this year and another Rs.15 crores in the engineering business plus some make-up investments of few crores in the watch component business.

Manan Mehta: Okay. And sir, my last question is on our duty structure which is currently on watches, so what is it?

Yashovardhan Saboo: The current import duties?

Manan Mehta: Yes.

Yashovardhan Saboo: So, the import duty currently comprises of various elements, the principle element is a basic import duty of 10% on the assessable value and then on top of that there is something called the countervailing duty, the CVD which is from the MRP of the product after an abetment of 30%. So that is a bit complex but it comes to roughly about 20% to 22% of the ex-factory. So that is the current duty structure.

Manan Mehta: So, our total duty that we pay is around 22%?

Yashovardhan Saboo: No, it is closure to 30%.

Manan Mehta: Closure to 30%. So do we see benefits coming in post GST?

Yashovardhan Saboo: Yes, depends on the GST rate.

Manan Mehta: And so what would be our expectation?

Yashovardhan Saboo: So, again we are waiting but what happens is the CVD which we are paying currently not writable but we will again offset of the CVD that we are paying. So, that would be the benefit that we are will get.

Moderator: All right. We have the next question from the line of Vinay Nair from Emkay Global. Please go ahead.

Vinay Nair: Sir, just have two queries. One is, we have a fatalistic idea obviously of the concept of flagship stores which we are planning for next two years and that would completely change the face of the brand and definitely that would work for us in the future. But just wanted to know the regular format which you currently have at 38 or 39 stores, how are we planning to ramp up there, I mean whether there are any plans over there? And secondly, the inventory management things, since we have been discussing about this inventory coming down or targeting to come down to may be below seven months or whatever, have we been finding it difficult to do so? How are we managing that and what are the plans there? Just a short answer from your side, sir.

Yashovardhan Saboo: So, Vinay on the existing stores, as I mentioned in the last speech, we are working very aggressively (a) to improve the look and feel of the stores. We have signed with Switzerland's number one designer for watch stores and the flagship stores are going to be done by him and now the new revised contract for airport duty free store at Delhi airport hopefully will be decided in our favor which will also be designed in this new concept. So that is going to be one change. (b) we are generally going to enlarge the size of our existing stores a bit so wherever we have stores which are 300 square feet or 400 square feet or 500 square feet typically, given the chance we are going to enlarge them to about 800 square feet or 900 square feet. We believe the larger format actually works much better without portfolio of exclusive brands. So these are two important changes that are going to happen in the format of the existing stores. Going forward also the new stores that we are signing, most of them are going to be in the sizes of 800 square feet or 900 square feet to 1,000 square feet and not the 300 square feet - 400 square feet stores that we have few in the past so, that is one of your answers. Second on the working capital and stock in terms of number of months has suddenly been coming down. We are actually on track over there and we will get to the level below seven months pretty soon. The challenge of getting to six months and below is a little tougher but we are pretty confident that we are going to be able to do that. We are now using analytics in purchasing. We are very focused on coordinating, of purchasing, of selling and of marketing. So, with a lot of these measures, we are actually experiencing a better stock turn. We are also getting out of brands where the stock turns are very-very low, some very high end brands, the brands of Rs.20 lakhs - Rs.30 lakhs price points. We were carrying a lot of stock and the stock turnover was very low over there as the stock of these brands is going to deplete from one quarter or two quarters from now. We are going to start seeing the impact of faster stock turn because of that as well.

Vinay Nair: Just one more question, if the strategy works for us but then again, if we are converting some of our existing regular format stores into a large format and we are planning flagship there, that should again pressurize the inventory, if I am understanding right or am I wrong, I mean there should be some pressure again, if you are changing the format.

Yashovardhan Saboo: It is not really, infact it actually helps the stock turn because what we have seen is that larger format store, you are able to deliver a better customer experience. We have a larger width of brand, within the width of brand we have all the best sellers up to a point by having a stock turn improve. It is better to have one large store than having three very-very small stores.

Moderator: Thank you. We take the next question from the line of Manan Mehta, an Individual Investor. Please go ahead.

Manan Mehta: Sir, one more question, I wanted to understand the sales for our new product the Raymond Weil and CORUM in India. So, what are our sales currently?

Yashovardhan Saboo: I am not going to be able to share exactly the sales because we do not want to share brand wise figures. I hope you will understand. Also, I do not want to say that the CORUM deal was signed recently and the Raymond Weil was also signed it was in the press. So, these are less than a few weeks. It has been just four weeks to six weeks or eight weeks and then after this has been signed, we have done the imports of the watches. So, it is still very early days but I hope by the next earnings call with three months - four months of sales behind us, we will be able to share at least some more information. I can tell you overall for both these brands the sales are not only on track but actually better than what we had expected in the first couple of weeks.

Moderator: Thank you. Since that was the last question, I now hand the floor over to management for their closing comments.

Yashovardhan Saboo: I want to thank everybody for joining on the call. I hope we have been able to respond to your queries adequately. For any further information I request you to please get in touch with SGA our Investor Relation Advisors. Thank you very much and have a great day ahead.

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