



“KDDL Limited

H1 FY2019 Financial Results Conference Call”

November 06, 2018





KDDL Limited
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Moderator: Ladies and gentlemen, good day and welcome to the KDDL Limited Q2 FY2019 Financial Results Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Yashovardhan Saboo, Managing Director. Thank you and over to you Sir!

Yashovardhan Saboo: Good morning to everyone and a warm welcome to you all for our H1 FY2019 Earnings Conference Call. As always Mr. Sanjeev Masown, CFO of KDDL, Mr. Raja Sekhar, CFO of Ethos Limited, and our Investor Relation Partners, Strategic Growth Advisors are with us on this call.

Let me start by giving you a brief on the financial performance on a consolidated basis for H1 FY2019. Consolidated revenue rose by 36% to Rs. 303 Crores from Rs. 222 Crores in H1 FY2019. Both the businesses i.e., watch retail and manufacturing continued their growth momentum. Watch retail and manufacturing businesses grew by 38% and 23% respectively.

Gross profit grew by 38% from Rs.89.6 Crores in H1FY18 to Rs. 123.8 Crores in H1FY19. EBITDA stood at Rs. 26.7 Crores for H1 this year up 119% Y-o-Y, EBITDA margin increased by 330 basis points on Y-o-Y basis from 5.5% to 8.8% mainly led by improvement in the margin of retail business.

Profit after tax after minority interest increased from Rs. 1.1 Crores in H1 of last year to Rs. 10.8 Crores in H1 of this year while cash profit increased by 149% from Rs. 6.9 Crores to Rs. 17.3 Crores.

I will now discuss the manufacturing business performance. Our manufacturing business continues to show a healthy growth. Both the watch component segment and the Precision Engineering segments have grown and performed as per our expectations. Our total manufacturing revenue for H1 grew from Rs. 72 Crores in H1 of previous year to Rs. 88 Crores in H1 of this year witnessing a growth of 23% Y-o-Y. The share of watch component business was 72% and Precision Engineering contributed 23%. The watch component business witnessed a growth of 17% on the back of healthy international watch



sales and a buoyant domestic watch market. This segment registered a revenue of Rs. 63.6 Crores in H1 of this year as compared to Rs. 54 Crores in the previous year H1. We remained on course to delivering a growth of 12% plus in this segment and accordingly, we are expanding the capacity coupled with technological upgradation, automation and also incorporating the latest new processes for improved efficiency and productivity.

The Precision Engineering business witnessed revenue growth of 25% Y-o-Y from Rs.16 Crores to Rs.20.7 Crores in the current year H1. The new facility in the aerospace park near Bangalore International Airport is fully functional and we have consolidated the existing facilities at the new location. In the last few years, we have developed strong tool designing and development capabilities and have the necessary certifications from the regulatory and other authorities for the new business opportunities that we are seeking.

The order book in this segment remained healthy and we remained confident to deliver growth of 30% CAGR over the next two–three years. This business segment is catering to high growth domestic industries such as auto components, electrical and electronic industries and consumer durables. We also export tools and components to reputed customers in overseas markets. We continue to focus on the vital levers of operational performance while adding key technical capabilities for improving margins and returns.

Now I come to our watch retailing business through our subsidiary Ethos. In Q2 of the current year, revenues of Ethos grew at 102% over the same period last year. Since Q2 of the previous year was on relatively low base due to very high sales in Q1 of the previous year. It is probably more appropriate to compare sales for the half year with the previous year same period.

Here also we have achieved a sales growth of 38%. This sales growth has been achieved on the back of very healthy same store growth in billings that is 19% among the highest that we have achieved ever. Other financial highlights for Ethos include an improvement in gross profit of 62% from around Rs. 34 Crores in H1 of last year to over Rs. 55 Crores in H1 this year, an increase in gross profit margin to 26.1% and improvement of 398 basis points on Y-o-Y basis. Normalized EBITDA that is EBITDA before one-offs, forex items and legal case provision grew to Rs. 13.6 Crores up from Rs. 0.5 Crores in H1 of previous year. The normalized EBITDA margin stood at 6.4%. Profit after tax stood at Rs. 2.8 Crores in H1 of this year up from a loss of Rs. 4.6 Crores in the previous year same period.

Cash profit increased to Rs. 5 Crores in H1 of this year against a loss of Rs. 2.8 Crores in the same period of last year. Stock carrying months at the end of September 30 this year was 7.1 months. As you can see, we have had a tremendous Q2 and H1 performance. This is the fourth straight quarter where we have seen continuous growth in sales and



profitability over the same period in previous year. Please remember that H1 is generally considered as a non-seasonal period and as we enter the season period, we hope to continue this growth. Our growth is a testimony to the success of the strategies that we have put in place over the last two years. We are now looking to the future to continue and expand our successes. We have recently concluded the fundraise in Ethos and KDDL to the tune of about Rs. 44 Crores of which funds of Rs. 32 Crores have already been received and the balance is expected to come in next month. This funding will enable the growth of Ethos business. We have targeted to launch about 25 new stores over the period of FY2019 to FY2021. The funding will also enable us to invest in digital technologies, so that we can provide the best digital and Omni-channel experience to our customers. We will also enhance the offline experience of our customers at our stores by pioneering many new technologies within our stores. The exclusive brand strategy which has been a cornerstone of our growth is continuing. Billings of exclusive brands grew by 55% and now they constitute more than 15% of our sales.

Recently in October, we opened two new Ethos stores at the Palladium Mall in Chennai. One of the stores is the multi-brand store while the other is a dedicated Oris brand boutique. We expect increased penetration in this market as this is a world-class mall and a strong metro city, both of which are significant positives for our luxury watch business. With these stores, our store count stands at 46 stores on a pan India basis.

We are continuing to explore various options for listing of Ethos on the stock exchanges and the required steps have been initiated and we will keep you informed of the progress in the coming months. I now welcome your questions and participation.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Arshad Mukadam from Vibrant Securities. Please go ahead.

Arshad Mukadam: Congratulation on a good set of results. So my first question is regarding Ethos business, so if I look at the gross margins for this quarter on billings, or net revenue, I think we have decreased a couple of percentage points from Q4 and Q1, so what is the reason for that?**Yashovardhan Saboo:** Okay Arshad, if you have other question why do not you ask it so we can answer them all.

Arshad Mukadam: Yes I want to understand the forex loss of Rs. 2.3 Crores in the half year. I want to know if that suffered on the inventory, I did not quite understand that. My third question is on the online billings for this quarter is a little bit low even as the percentage of total billings compared to the previous quarter. As per my calculation I think 27% for this quarter. So I want to know the reason for that. And my last question is the update on the mega flagship



5000 square feet store. I think two were supposed to be launched by the end of this financial year.

Yashovardhan Saboo: Yes, okay. So I will answer two of the questions and then I will give it to Sekhar to answer the question on gross margin and forex loss. As far as the update on the flagship stores are concerned, the two stores are on track. They were slightly delayed because of putting together the brands required for the multi-brand stores, but these stores are the flagship store at Hyderabad. Civil work has finished over there and fit outs have started and second one is the Kolkata. We have taken possession and the fit out work is expected to start soon after Diwali. We hope to launch Hyderabad early January and Kolkata early February. So these two flagship stores are on track. They are slightly delayed. Hyderabad was meant to have started before Diwali but that has not happened. Kolkata is more or less on track. It was meant to start in January, will probably go into February. As far as online billing is concerned, yes there is a bit of a fall in terms of percentage. But I think in absolute terms there is an increase. It is really difficult to keep on going because we believe that with this segment 30%-35% that we are in, this is actually quite okay. We are seeing a pretty high jump in the average value of our billings. So it is about 80,000 up from previous year and previous year was probably closer to about 60000. So we are moving to slightly higher price point. We are moving out from price points below 20,000-25,000 and that is one reason why as a percentage this comes down. But essentially we are looking at keeping this at 30% to 35% level.

Arshad Mukadam: Alright. And is it 80,000 that you mentioned the average value is it for both the physical store and online model or is it for any launch in particular?

Yashovardhan Saboo: This is all combined. Total value of billings divided by number of watches. And other two questions, I am going to let Sekhar answer you.

Raja Sekhar: Arshad, your questions are related to gross margins and forex loss. I will address the first one, the gross margin. For the gross margin in Q4 that is what you are comparing it with, was about 26% and the gross margins, the YTD gross margin we have for the first half is about 25.8%. So there is a small reduction of 0.2%. Some of it is explained on account of the slight changes that are happening in the product mix as Mr. Saboo was explaining. There is increase in the price point that we are selling at right now and as you know that as you go higher up on the price points, the discounting is slightly higher compared to what it is at a lower price point. Having said that the gross margins have actually increased at about 62% compared to what it was in the previous year. So there has been an absolute increase in terms of percentage that is because of the product mix, kind of brand mix, there is slight decrease that is happening at the gross margin level.



On your question related to forex loss, we have incurred a total loss of about Rs. 2.3 Crores on account of forex reinstatement. So as you understood from an accounting standards point of view, we are required to reinstate all foreign exchange outstandings at the rate of billing on the date of the financials, which is 30th September. As you are aware depreciation of the rupee that had happened because of which we had to book almost about Rs. 1.2 Crores in terms of reinstatement of the outstandings in foreign exchange. Also from a business model point of view, you understand that as you go ahead increased foreign exchange levels remain, there would be a price correction that will happen due to which the impact that it has had on the margins will be a temporary one.

Arshad Mukadam: Okay. Got it. And if I can just ask, I am sorry I missed what you told about the exclusive brand contribution, how much is that?

Yashovardhan Saboo: 15% by sales.

Arshad Mukadam: Okay. Alright. Thank you. That is it from my end.

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

Jeetu Panjabi: Hi Yasho Ji. Congratulation on a great set of numbers. A couple of questions, one this whole dislocation in the financial markets over the last 8 to 10 weeks, is there any impact of that you are seeing demand of the retail side that is one and two is on the manufacturing side, I mean the strong demand and the strong growth that you are seeing, is there a capex number that you have to put to work on the next couple of years?

Yashovardhan Saboo: So Jeetu because financial turmoil is there but it is difficult to assess whether there is an impact, common sense tells me that there must be an impact. There is really not that much of a feel good factor right now. So I am sure that if the financial market had been better, the environment could have been better, our sales would have actually been better. So that is what I think and if over the next couple of quarters if I believe this churning and this turmoil would subside, it would actually do a lot of good for us. It is actually nice that despite that we are continuing our growth, October has been a good month too and we are hoping November and December we will carry the same kind of sentiment through.

Of course we can do with an improvement in the overall business sentiment that will help a lot. As far as the investment on the manufacturing side is concerned, I think there are investments which are envisaged but the large investment that had to happen in the new facility in the precision engineering side that has happened. So we are not really looking at large investments in the existing facility. But yes there will be investments for upgradation,

modernization and so on, which will essentially be managed through the internal generations. So we are not really looking at any increase in that or any substantial fund, it is going to be managed through internal generation.

- Jeetu Panjabi:** Okay. Super. Congratulations and Happy Diwali.
- Yashovardhan Saboo:** Thank you Jeetu. Same to you. Very happy Diwali to you.
- Moderator:** Thank you. The next question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.
- Vikram Suryavanshi:** Good morning Sir and Happy Diwali. Sir I just missed the initial comment on what was the growth in manufacturing this hands and dial business?
- Yashovardhan Saboo:** Just let me check. So the watch component business H1 compared to H1 last year grew by 17%.
- Vikram Suryavanshi:** 17% and how was the growth in export?
- Yashovardhan Saboo:** I am not sure if we have that figure readily. But I think it would be similar, I mean we are seeing pretty even growth of the export side as well as the domestic side.
- Vikram Suryavanshi:** Okay and this 25 new stores what we are planning, how is the capex the current funding what we have raised, it would be sufficient or how is the overall capex we are planning?
- Yashovardhan Saboo:** So the funding that we have raised that is sufficient for this expansion that we have planned. Obviously the stores barring very few exceptions, all the stores are profitable, most of them are throwing out cash, so we expect our stores internal generations plus this new capital that should be sufficient to fund this expansion.
- Vikram Suryavanshi:** And in terms of this forex how much is currently debt in foreign currency?
- Yashovardhan Saboo:** Debt in foreign currency. There is no debt in foreign currency.
- Vikram Suryavanshi:** No debt. So all these forex was basically on export what we have or...?
- Yashovardhan Saboo:** No. The forex loss is on your accounts payable. So this is the credit that we have got from brands, so there is an amount which is payable and on that there is the reinstatement of the liability on account of the amount that we owe to suppliers. So it is only on that account.
- Vikram Suryavanshi:** Okay. I got it. Thank you.



Moderator: Thank you. The next question is from the line of Saurabh Ginodia from Stewart & Mackertich. Please go ahead.

Saurabh Ginodia: Good afternoon to the entire team and congratulations for a great set of numbers. Sir, I have two questions. One was with respect to you had earlier indicated that you want to enter into pre-owned watch segment. So if you can just give us some highlight on how do you foresee movement on that front? And regarding footfalls, how have been the footfalls currently shaping?

Yashovardhan Saboo: Okay. Saurabh on the pre-owned business, the business is on, so you can see it on our website, we are doing that. It is still a little bit early days in this business. And I will tell you why. On the one hand, one very important component of the pre-owned business is the ability to service and certify pre-owned watches that come our way and we realized that we need to modernize and upgrade our service facility. As we speak that is happening, we are setting up a state-of-the-art centralized service center in New Delhi and that will be ready by the middle of December. We are recruiting watchmakers internationally for this and so that is an important component that is going to be in place.

The other is that there is still some ambiguity on some legal provisions relating to pre-owned watches as to what kind of watches can be legitimately dealt with and what we cannot and we are still awaiting for some clarifications. Pending those clarifications, we are obviously dealing only with watches on which we are very sure that they fall well within the legal ambit. I think these two points we are still sort of waiting to be clarified, we expect this to be done in a couple of months. And then we will step on the gas, so to say on this business. But the business is on, the business head is in place and you can actually see it is going on, see it's featured on our website as well. As far as the footfalls are concerned, I think the footfalls I can just tell you in general that the footfalls have been following the pattern that they always do, a lot of the footfalls are actually created by our online program, lead generation programs, and that is very, very important to keeping up to footfalls that are keeping up this growth of 38%. We are quite happy with that.

Saurabh Ginodia: Okay and one question to Mr. Saboo. As he has stated that steps have been taken for the listing of the Ethos subsidiary, so what kind of benefits do you envisage post listing of Ethos?

Yashovardhan Saboo: Essentially the main purpose of the listing is to allow value discovery because – the Ethos business and the manufacturing business in character they are very different. The customers are different. The growth profiles are different. The profitabilities are different and I think the way market perceives retail business especially online led or Omni channel retail compared to manufacturing, they are very different. So I think with the listing, number one



both the businesses acquire a momentum of their own, and for investors there is a lot of clarity in what kind of business they are investing in, what is the kind of return they can expect, and of course ensuring that depending on which business they want to invest in. In both cases, there is an exit that is easily possible. So I think to enable the businesses to grow and the investors have a very clear view of what they are investing in and how they are going to an exit. I think these are the main benefits that we expect from the listing process.

Saurabh Ginodia: Also in terms of go-to-the-market strategy, when you will be in negotiation with brands going forward, do you think listing would help in better negotiation of terms?

Yashovardhan Saboo: I am not sure about that. It is not only question about brand. I think the important point is listing or not, the reputation of the business is what matters. Obviously if we are a transparent company, we are audited by well-known auditors, the fact that we open ourselves to questioning, to analysis, it greatly builds the credibility of the business, and that helps not only with investor, that helps with brands and that that helps with locations. In retail, locations are extremely important, right. So I think that kind of transparency and credibility in the business has comprehensive benefits and advantages.

Saurabh Ginodia: Okay. Thanks Sir. All the best for the Q3 and have a great festive season.

Yashovardhan Saboo: Thank you Saurabh. Happy Diwali to you.

Saurabh Ginodia: Yes. Same to you Sir.

Moderator: Thank you. The next question is from the line of Ankit Jain from Mahavir Investments. Please go ahead.

Ankit Jain: Hi Sir. Thank you for the opportunity. Sir my first question is what would be the gross debt in the manufacturing and retail business?

Yashovardhan Saboo: Sorry?

Ankit Jain: What would be the gross debt?

Yashovardhan Saboo: In the manufacturing, it is about Rs. 50 Crores, and in the retail, it is about Rs. 66 Crores.

Ankit Jain: Okay and Sir my next question would be Sir how many stores do we foresee opening in H2 FY2019? So any targeted number?

Yashovardhan Saboo: H2FY2019, we are expecting to open about four stores in the next quarter up to March including the two flagship stores that I mentioned in a previous question that is Hyderabad and Kolkata.

Ankit Jain: Okay and Sir the last question from my end would be – do we envisage any equity requirement in Ethos over the next two years?

Yashovardhan Saboo: No.

Ankit Jain: Okay Sir. Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Bhavik Mehta from Roots Ventures. Please go ahead.

Bhavik Mehta: Hi. Just wanted to understand that have we considered listing Ethos via a scheme of arrangement rather than an IPO or why did we chose an IPO versus a scheme of arrangement in this case?

Yashovardhan Saboo: Hi Bhavik. Actually there are – as I mentioned the steps have been initiated but we have not yet decided on exactly, which way we would go. We are looking at a scheme of arrangement rather than an IPO but there are several issues to be clarified and we are working with the advisors to layout the possible alternative than the structures but it seems we are going to work with a scheme of arrangement rather than an IPO.

Bhavik Mehta: Okay. This one my point considering that 72% is still held by KDDL and IPO will just end up making it a subsidiary value part rather than transferring the shares to minority right. So since you mentioned that it is not eliminated so I hope that does not have clarity doing that.

Yashovardhan Saboo: Okay. Thanks.

Moderator: Thank you. The next question is from the line of Pankaj Kumar from Kotak Securities. Please go ahead.

Pankaj Kumar: Good afternoon Sir. My question pertains to the – what is the total capex that you are looking at in Ethos, as we are rolling out close to 25 stores in the next two years so altogether what is the total capital required for this?

Yashovardhan Saboo: Okay. I am going to let Sekhar answer that. Are there any other questions you have?

Pankaj Kumar: Yes. The other question is in the exclusive brands that we have and % of business coming out of it. So what our long term vision at least in terms of mix on this segment and what are we doing for it?

Yashovardhan Saboo: So let me answer your question on exclusive brand, and I will ask Sekhar to answer the other question. So on exclusive brand, we are continuing to move up to increase the portfolio of brands and to make each brands powerful. Of course, we do believe that over the years there may be a churn so currently we have 16 brands, maybe one or two which are not performing very well will go out but we have a funnel and a pipeline already in place for other brands to be added. We are particularly keen on adding brands in some of the higher price segments where we have only one or two brands.. We believe over the next three years, our percentage of business coming from exclusive brand would go from the current 15% - 16% to about 24% to 25% over the next two and a half to three years.

Pankaj Kumar: In terms of the disposal, are we going to offer extremely high discounting in these new brands or how will be pricing strategy on this exclusive brand?

Yashovardhan Saboo: We have a greater margin. Obviously we have a greater margin on exclusive brands than we have on other brand and that is the basis of the entire strategy, we have significantly higher margin and therefore that higher margin to invest more in the marketing. It allows us to offer better deals to customers and combination of this is what is actually leading to the higher sales and also higher gross margin.

Pankaj Kumar: And the question on capex side?

Raja Sekhar: So Pankaj on the capex just to clarify our new stores as well as our existing stores the largest investment is more in the nature of working capital and not really capex by definition. It is not really in the store picture. I assume your question is regarding what is the total investment So going forward, we are looking at the investment from external sources would be about Rs. 50 Crores and the balance will be met by a way of internal accruals. So external funding will be by way of about Rs. 50 Crores to be invested over the next three years including the current year. We have already raised the external funding of more or less Rs. 50 Crores by the way of equity and the rest will be met by way of internal accruals over the next three years.

Pankaj Kumar: What is the balance amount you said internal accruals...?

Raja Sekhar: So the total investment would be in the range of about Rs. 150 Crores of which Rs. about 100 Crores will be met over the next four years through internal accruals and the balance Rs. 50 Crores will be met by way of external funding, which we have already tied up.

Pankaj Kumar: Okay. Sir lastly on this overall guidance side, how do you feel the H2 versus the H1 will be very strong and other overall demand side that challenges, so how do you see the H2 and the full year as such?

Yashovardhan Saboo: Pankaj I believe the H2 should be good. We have to remember that H1 of last year was impacted due to GST and lot of provisions, so obviously the growth that we are showing in H1 to H1, has the factor of a low base whereas H2 last year was actually a very successful half year. So we have a higher base to grow on. That said I think it will still be very good growth that we are hoping to get. In the end in a light vain I would say protect the financial markets from sentiment in Mumbai, then our growth in sales would grow more.

Pankaj Kumar: The growth that we had in H1, I mean is it fair to assume the target for H2 the same?

Raja Sekhar: Are you saying that....?

Pankaj Kumar: Yes,. 38% that we had in the H1. So what I was saying like in H1 we had 38% revenue growth, so similar kind of performance is what we are targeting internally?

Yashovardhan Saboo: No. I think the 38% also comes on the base of a low H1 last year. So on the base of the high H2, what you are saying is that we should be growing at 40% or 38% for the whole year. I think we would love to do that as I said you people give us a push from there and we will also try our best.

Pankaj Kumar: Okay. Thank you.

Yashovardhan Saboo: So I think again if you look at our overall long-term growth we have been saying that our long-term goal is to continue to grow at 20% plus year-on-year. The last 10 years our CAGR growth has been in excess of 25% over the base of last two years, which were obviously the growth of less. We believe we should get growth of about 25% during the course of the year and I think we are pretty on track for that.

Pankaj Kumar: In terms of margin, how we are looking at going ahead?

Yashovardhan Saboo: Again as far as margin is concerned, we are seeing that margin expansion happening. There is short-term impact of this rupee depreciation on the margins, but as Sekhar explained it is a short-term impact. Typically brands tend to compensate this with the price increase, we are expecting that to happen. In some brands, it has already happened and others, it is going to happen, so that will be compensated and I think the track for margin increase to happen as we have estimated growing from where we are to about 10% EBITDA in three years' time, we are pretty much on track on that.

- Pankaj Kumar:** Okay Sir. Thank you.
- Moderator:** Thank you. We have the next question from the line of Chetan Dhruva from Blue Banyan. Please go ahead.
- Chetan Dhruva:** Thank you. Congratulation on a great set of numbers. I have four questions. First one was on the Ethos, right. So am I reading it right that we have 46 stores as of Q2, and therefore just of the revenue, the per store sales has increased quite significantly?
- Yashovardhan Saboo:** Sorry, can you just tell it again please?
- Chetan Dhruva:** The per store sales from what I see is 46 stores and your revenues are 110, so per store sales is around 964,000 is that a correct statement and significantly higher than FY2018 and do we expect this performance of per store sales to continue until your steady state say by FY2021 you mentioned 69 stores, is that something that we can expect to increase or is it kind of your steady state per store sales?
- Yashovardhan Saboo:** So first of all it is 44 stores because 46 is the number two stores have opened just last week. 44 stores figures going to be even a little bit higher. And if your question is that do we expect the per store sales to remain the same or to grow over the next two years, I believe it will grow from where we are.
- Chetan Dhruva:** Excellent. Okay and in terms of your margins I think in Q1, you had given a guidance of around 9% to 10% for steady state for Ethos, is that still on track? Because we do not see the margin growing as much, I mean do you see it going lower or higher compared to the guidance?
- Yashovardhan Saboo:** No I think, we are on track as I said. An EBITDA margin 9% to 10% in about two and a half to three years' time, we are pretty much on track on that.
- Chetan Dhruva:** Okay. That is excellent. So I have just two more questions. The third one, I have just one more question, you answered third one too. So when you talk about the precision engineering and manufacturing business, you mentioned that precision engineering would continue to grow at 30%. That is really excellent. The rest of the manufacturing business, do you still see that growing at around 8% to 10% that you have been doing or you see any change there?
- Yashovardhan Saboo:** We expect to grow at about 8% to 10%. You are right about that, Chetan.

Chetan Dhruva: Okay. Great. Thank you very much. And good luck for the coming quarters and Happy Diwali.

Yashovardhan Saboo: Happy Diwali to you.

Moderator: Thank you. The next question is from the line of Ashwin from A&S Investments. Please go ahead.

Ashwin H: Thanks for the opportunity and once again congratulations on a great set of numbers and also on the fundraise. So, I have two questions. One is in continuation of what the previous caller asked, could you dimensionalize your three year vision for Ethos in terms of maybe revenues and number of stores, I think number of stores you already indicated, 25 new stores, any other parameters on which you can dimensionalize your three year vision that will be great. The second is a very short-term question, how do you see the sentiment based on early feedback from the festive season because as we have been talking there has been quite of lot of negative noise in the market?

Yashovardhan Saboo: Yes. So let me answer the easier question first, which is long term because we are very confident on the long term. I think our goal is to get to a Rs. 1,000 Crores billing and an EBITDA between 9% to 10% in about three years' time, I think we are on track on that Post demonetization , pan card and all those regulatory headwinds that hit us over two years, eight quarters, I think we are back on track to get to this Rs. 1,000 Crores billing and 9% to 10% EBITDA.

Ashwin H: And you would be able to hit with the current equity base without further equity raise?

Yashovardhan Saboo: Correct.

Ashwin H: Okay. Sorry please carry on.

Yashovardhan Saboo: And your second question was what do we think about the festive season. When you are in the retail business everyday counts and sentiments especially when we talk to our store managers and our zonal manager, it is a – first of all in 15 years I have never heard them say that this is the great Diwali. Every time I heard them they say this year is not that good as the previous years. So I really do not know. In general the sentiments especially in the financial markets and on many other fronts, it seems to be a little bit depressed. So we are actually pretty happy with the results that we have got so far. I believe this beats most of other retail in luxury segment as well as other segments and whatever indications we are seeing from other comparable retailers or numbers I think we are significantly better than them. One of our goals is to enhance our market share and I think we are doing them.



Ashwin H: Okay. Wonderful. If I may squeeze in one more question, what is the timeline for your IPO or scheme of arrangement?

Yashovardhan Saboo: As we said we are told that from the day we get let us say the broad scheme in place, it is going to be a 9 to 12 months process. We are at the moment probably about one or two months away from having a scheme in place. There are some – it is known, I know what I am saying is not something new but we have to look at what are the issues of how do we make it tax efficient, how do we make it compliant with the laws knowing that we do have some foreign investment in KDDL. And the demerger process, what is the process that which a foreign investment will hold shares in Ethos, which would be a multi-brand retail. So I think there are issues over there, which we are expecting our advisors to give us the best structures and solutions. We are probably a couple of months away from that and from then on we have to count 9 to 12 months process which is what a scheme of arrangement typically takes.

Ashwin H: Okay. Got it. Thanks so much and Happy Diwali to you and everyone at KDDL.

Moderator: Thank you. We have the next question from the line of Vineet Bhatt, as an individual investor. Please go ahead.

Vineet Bhatt: Hi Sir. Congratulation on your results. One question actually was the more generic of the order question. Could you give us opinion of how the management looks at the return on capital of each of the three businesses, which is your retail business, your watch manufacturing business and even though the precision manufacturing is a small business but say five years from now, what kind of return in capital are we looking at? And my second question is retail one, the frontend rent right now is around 10 to 10.5% , right, so ideally best case scenario, how much can this go down to like, how much more scope do we have over there and third is a little bit more short term in a sense that the other expenses had some one-off expenses right, so could you please tell us what that is?

Yashovardhan Saboo: On the return on capital, we typically track return on capital employed and in our manufacturing business, our goal is to continue to go up more than 20% return on capital employed. In the retail business obviously it is low, but our goal is to try and get to 18% as soon as possible and in a steady state to be about 20% return on capital employed in the retail business as well. And well before, we hit the 10% EBITDA and Rs. 1,000 Crores mark on billing that I was telling you, we should go above the 20% return on capital employed in the retail business as well.

Vineet Bhatt: Okay and precision manufacturing I think that itself will take some time to get to steady state there?

Yashovardhan Saboo: Yes. So precision manufacturing is going towards growth phase and it has to acquire a certain minimum size, but there again our goal is that in all our business return on capital employed needs to go up to with 20%.

Vineet Bhatt: Okay and the way you all look at it on the basis of your net fixed assets, right?

Yashovardhan Saboo: No. So net investment, return – we are really look at capital employed by whatever means.

Vineet Bhatt: Okay. Got it. All right. That is helpful. And the other two questions please.

Yashovardhan Saboo: Sorry, can you just repeat the question?

Vineet Bhatt: Yes. The other two is the front end rent right now is 10.5%, right so how much lower can go to which scale and other question was about the one-off expenses that you had this year in the H1?

Yashovardhan Saboo: So currently the 10.5% is rent and manpower, front end rent and manpower, that has come down from 13.5 to 10.5 over the last four years, it is steadily coming now. I believe over the next two years, it can go down by, about 1.5 to 2% it can go down.

Vineet Bhatt: Okay got it.

Yashovardhan Saboo: . So the one-off expenses there is a provision for legal case which relates to a rent at a particular location, that is about Rs. 1 Crore provision and the forex loss of Rs. 2.3 Crores. These are the two one-off provisions.

Vineet Bhatt: Sir again just if I can squeeze in one more question, the forex loss if I understand correctly, it is not really a loss. It is just a balance sheet thing that we are doing where we will have to take care of our foreign subsidiaries in the local currency, am I correct or is it an actual loss?

Yashovardhan Saboo: Much of the amount pertains to reinstatement... as on the date of the balance sheet, it is a reinstatement of your foreign exchange liabilities and the difference between what you booked it as on the current exchange rate, what you have to provide is a forex loss. Now, if the rupee has strengthened by then, then some of this provision will be reversed. Otherwise it is a loss. But as the rupee is not really strengthening we believe that there is not too much recovery to be made from that provision.

- Vineet Bhatt:** Got it. Fair point but again I remember again this is in terms of the previous question as well you have said that there is no real forex hedging strategy that we follow right now, right?
- Yashovardhan Saboo:** No, we do not really follow a clear strategy and the reason is that it— while there are short-term impact of this foreign exchange losses, but typically – number one we always compare it with the cost of hedging and number two in the medium term, these are always compensated because the prices of the products have been increased. Our competition is essentially with the prices of similar watch in everywhere else in the world, right. If the exchange rate of the rupee has depreciated, the watches are more expensive let us say in London or Dubai, so eventually brand that correct price and that will compensate the foreign exchange margin loss.
- Vineet Bhatt:** I understood. Thank you very much Sir and good luck for the future.
- Moderator:** Thank you. The next question is from the line of Lalaram Singh from Vibrant Securities. Please go ahead.
- Lalaram Singh:** Hi, good afternoon every one. Am I audible?
- Yashovardhan Saboo:** Yes. You are and welcome. Happy Diwali.
- Lalaram Singh:** Thank you Sir. Same to you and fantastic numbers thanks for that – that working hard. So my first question is on the Ethos, what I understand is that we will need another Rs. 150 Crores out of which you said Rs. 50 Crores was equity which has already been raised and another 100 Crores will be generated through internal accruals, is that correct?
- Yashovardhan Saboo:** Correct.
- Lalaram Singh:** So my doubt is that Rs. 100 Crores will be generated through the retail itself or is it KDDL manufacturing business also because I doubt whether Ethos will generate that amount of cash?
- Yashovardhan Saboo:** I think retail will, retail already is and seeing the growth that we are doing I think retail will generate that amount definitely.
- Lalaram Singh:** So and can we expect to generate around Rs. 30 to Rs. 35 Crores every year for the next three years, right? Correct?
- Yashovardhan Saboo:** Well, it is not steady right because we are growing at 20% to 25% every year.

- Lalaram Singh:** Right, so on an average?
- Yashovardhan Saboo:** Over next year, cumulatively this year and the next year cumulatively to generate Rs. 100 Crores that is on the cards.
- Lalaram Singh:** Okay. Second question is on the recent capital raised, so I think we raised one from external investor, second KDDL also invested I think in the latest rounds, right and around Rs. 28 to Rs. 30 Crores, is it correct?
- Yashovardhan Saboo:** No that is not true. The latest, the overall scheme of Rs. 50 Crores is really partly raised directly in Ethos, and the details obviously are available on our website and so on and then there was a fundraise in KDDL and to the extent of that fundraise with a little bit more added from its side, KDDL will invest in Ethos. The total investment in Ethos including the investments from KDDL and from external sources directly Ethos will be about Rs. 50 Crores.
- Lalaram Singh:** So I think we have already in the results we have mentioned that KDDL is putting another round in Ethos around Rs. 20 odd Crores because of Ethos shareholding is going up to 73%, correct?
- Yashovardhan Saboo:** Yes.
- Lalaram Singh:** So what is the valuation at which you are putting if I can know that?
- Yashovardhan Saboo:** The valuation of Ethos that which we are putting?
- Lalaram Singh:** Yes, KDDL in Ethos?
- Yashovardhan Saboo:** It is about Rs. 480 Crores pre-money.
- Lalaram Singh:** So just at par with the external investor correct?
- Yashovardhan Saboo:** Exactly right.
- Lalaram Singh:** Okay. My third question is that over the last one and a half years, I think we have seen dramatic improvement in our business specifically retail Ethos going to have a very tough phase. So I think in the midst of all the positive atmosphere, I was just wanted to know that what are the things which can again lead to some sort of one step back because everything is positive right now but for example if you expand regular season next two to three years, it supposed to slow down, so I mean in an overall sense what gives you that confidence that



again we can go forward to that expansion phase without the fear of the markets going down or some color on the risk side, because positive side I think we all are pretty much aware what is happening, so if you can throw some light on the risk side?

Yashovardhan Saboo: One thing which we have all learnt to do in India is not expect absolutely smooth sailing of three, four and five years. This is something which we do not expect. We will be very surprised over the next 12 quarters, there is absolutely no surprise coming from somewhere, this is the experience of India. As a friend was telling me that he has been in the business of financial market of 30 years and every one or two years something or the other happens, some crisis, some scandal, something now it is Nirav Modi, before it was something else and it was Harshad Mehta all of that, but the fact of the matter that the sensex has gone from 2000 to 30,000. I think for us also the view is, there may be short-term impacts. When there are short-term impacts, I think we have developed the skill and the strength to withstand them. We are not ruling out any short term impacts, we do not see anything, but in the past also we have – many unexpected things that happened. But I think the overall our strategy and our strength that we have built up are pretty strong and if you see – what is the basic premise, the basic premise is that India will continue to become wealthier and as the wealth in India increases, the aspiration levels will go up and aspiration levels will lead to our growth. Now if this basic premise is questioned then of course all bets are off. If we say that the GDP growth in India is going to not happen, India is not going to become wealthier, then of course everything is possible. Then nobody can guarantee anything but see if India continues to grow if the policies continue to remain growth friendly, the aspiration of India is no different from anywhere in the world. I think India will spend, Indians are aspiring to world class product, world class service and we are very well positioned to do that. So I do not believe that overall long term there is going to be any problem.

Lalaram Singh: Okay. I think the biggest risk seems to be only that taxation part right. If there is some big reforms there in terms of import duty and all that, Do you think such a kind of development could happen in the country?

Yashovardhan Saboo: There were talks about import duty going up but again in watches are already at the highest rate, if they increase more than this I mean as I said there is no guarantee against some extreme steps, but I believe that we have already at a rate that is higher than any place in the world. On a GST we are at 18%, on a basic duty we have 20% import duty, which is already higher. So you know this is the last round where basic duties were increased. They were increased in products with your 5 and 10%, it was brought to 20%. Watches price is already at 20%.

Lalaram Singh: Correct. Okay and do you want to give any comments?

- Yashovardhan Saboo:** There might be provision that – duties that they have come down then we maybe helped.
- Lalaram Singh:** Let us hope for such a thing Sir. Do you want to give some....
- Yashovardhan Saboo:** There are no hopes for such good news, this is what currently is do not hope for any good news, even if you have bad news, then keep moving. We are following that script.
- Lalaram Singh:** Yes. The best – be strong enough to sustain the down turn and emerge stronger in the next upside. I think that is what should be – I mean that we have done in the last three to four years. Okay. One question on the market size or in terms of the market shares, is it correct to say that that we have taken market share over the last one year significant market share...?
- Yashovardhan Saboo:** Yes.
- Lalaram Singh:** You are going to give a number or is it too difficult to tell that?
- Yashovardhan Saboo:** I think it is very difficult to predict in a short term because they are not frankly speaking, they are no reliable numbers on watch retail it is too small segment from that point of view to get reliable number but when we estimate compared to what is our growth versus the growth that we estimate with other retailers, with the other brand, we believe our growth rate is significantly higher and therefore we have taken market share.
- Lalaram Singh:** Okay but we have that number, right Swiss watch exports to India that number I mean for the latest year, do we have that number?
- Yashovardhan Saboo:** Yes we have that number, but again that number is you cannot use that directly they were for instance to just to give you a thing, in some years – some of the subsidiary companies which holds stock here, they also re-export, they buy and re-export back some of the old stock. So the re-export number is never netted off. And on the other hand, I think this year of course of any year where there is an inventory correction and inventory built up happens. So that is also something when inventory depletion happens. That is again something which we have to account also. That is one of the numbers that we taken, but it is not directly the number, then the other thing is that that is only for direct exports from Switzerland, but there are some brands which actually routed through the subsidiaries in the middle east or the subsidiary in Singapore or the Subsidiary in the Hong Kong. So that will not come in to Swiss watch export.

- Lalaram Singh:** Understood. Okay and we have recently opened the exclusive store boutique for an exclusive brand right, I think it is the first instance of we opening the store for an exclusive brand, is it correct?
- Yashovardhan Saboo:** You mean the Boutique for one of our exclusive brand, yes that is true. We have opened a Oris Boutique in Chennai and that is the first boutique for one of our exclusive brands.
- Lalaram Singh:** So does it signify our confidence that will generate, will be able to generate enough volumes from that brand?
- Yashovardhan Saboo:** Absolutely. That is an excellent point. But that is part of the strategy, we are putting our exclusive brand with the same confidence and same level that we are some of the other better known brands and this is actually a reflection of the confidence that both we have in our marketing strategy and in the brand and what the brand has in our partnership. So I think that is an excellent point which I actually believe it.
- Lalaram Singh:** That is awesome. So I think what would be our number one exclusive brand by value, I mean if that...?
- Yashovardhan Saboo:** I am not sure, but it is definitely one of the top three or top five, it is definitely among the fastest growing, no doubt about it.
- Lalaram Singh:** And should we expect further openings of such stores for exclusive brands?
- Yashovardhan Saboo:** Yes. It is part of the strategy. But you have to be careful where we go which location we chose. So we want to do this test with one or two stores like this and see how it goes before we started to take a big leap.
- Lalaram Singh:** Okay. One final question. When you say that we are looking to unlock value to a scheme of arrangement does it means that all the shareholders of KDDL, current shareholders, will directly holding in the Ethos, is it correct?
- Yashovardhan Saboo:** That is among the several options that is one of the option that seems to be offering the maximum benefits.
- Lalaram Singh:** Exactly. Okay. All the best for that and Happy Diwali Sir and wish you all the best for the entire team.
- Yashovardhan Saboo:** Thank you and Happy Diwali and thanks for visit to Bengaluru.

- Lalaram Singh:** Thank you. It was pleasure. It was wonderful experience. We might if we get time to visit to Himachal also we might love to do that.
- Yashovardhan Saboo:** Certainly.
- Lalaram Singh:** Sure. Thank you.
- Moderator:** Thank you. Next question is from the line of Hiraen Parekh as an individual investor. Please go ahead.
- Hiraen Parekh:** Congratulation everybody and happy Diwali and festive season. I think my questions have been answered by you I would like to say that it was regarding the values and scheme of arrangement that you have already answered for that.
- Yashovardhan Saboo:** Thank you and very Happy Diwali to you as well, Hiraen
- Hiraen Parekh:** Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing comments. Thank you and over to you!
- Yashovardhan Saboo:** I would like to thank all the participants in this conference call and close it now by wishing a very Happy Diwali to everybody. Thank you very much.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of KDDL Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.