



# “KDDL Limited Q3 FY19 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day. And welcome to the KDDL Limited Q3 FY19 Earnings Conference Call. This conference call may contain certain forward-looking statements about the company, which are based on 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 '\*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Yashovardhan Saboo – Chief Executive Officer. Thank you and over to you, sir.

**Yashovardhan Saboo:** Good morning. And a very warm welcome to our Q3 and Nine Months FY19 Earnings Conference Call. I specially would like to appreciate everybody who is listening in, because I am aware that there a lot of such calls scheduled for today, a lot of conferences in Mumbai. So everybody who is listening in, my special thanks for joining.

I have with me Mr. Sanjeev Masown – CFO of KDDL, Mr. Raja Sekhar – CFO of Ethos, and our investor relations partner, Strategic Group Advisors with me here. I hope everyone has had a chance to go through our updated investor presentation which has been uploaded on exchanges and on our website.

I will start with a brief on the financial performance on a consolidated basis. Consolidated revenue rose by 30% to Rs. 474 crores from Rs. 365 crores in FY19 same period. We continue to witness handsome growth in both our businesses during the nine months ended December 2018. Retail and manufacturing businesses grew at 31% and 20% respectively.

Q3 witnessed a growth of 20% on YoY basis, in both retail and manufacturing business. It is important to note that Q3 of last year was already a high base due to revision in GST rates in November 2017, which lead to an unprecedented rise in watch sales during that quarter in previous year.

Consolidated gross profit grew by 36% from Rs. 144.1 crores in nine months period FY18 to Rs. 195.5 crores in the current year. EBITDA stood at Rs. 51.3 crores for nine months FY19, up by 71% YoY. EBITDA margin increased by 261 basis point on YoY basis from 8.2% to 10.8%.

Profit after tax after minority interest increased from Rs. 10.9 crores to Rs. 19.7 crores in the nine months period, recording a growth of 80%. Cash profits increased by 49% from Rs. 19.8 crores to Rs. 29.5 crores.



FY19 has witnessed a record revenue in profitability till date. We believe and expect that all levers of growth and investments are in place, and this momentum of growth will continue in the coming quarters.

During Q3, ICRA upgraded the long-term rating of KDDL to BBB+ from BBB, with a stable outlook. While the short-term rating was upgraded to A2 from A3+.

About the manufacturing business, our manufacturing business in the segment of watch components, precision engineering and ornamental packaging continues to grow on expected lines.

Our total manufacturing revenue for the nine months period FY19 grew by 20% from Rs. 109 crores to Rs. 131 crores. The share of watch component business was 73% and precision engineering contributed to 23% of the revenue.

The EBITDA margin on nine months basis was recorded at 18.2%, although the margin for Q3 was 16.6%. This quarter the revenue growth was slightly impacted by the shifting and consolidation of the precision engineering business facilities to the new location in Bangalore.

In addition, the investments in people for building stronger technical workforce and upfront investments for showcasing and improving our market presence have also impacted our margin profile slightly. We expect operational leverage to improve as volumes and revenues ramp-up in the manufacturing business.

The Swiss watch market has made a strong come back in 2018 after a consistent downturn for many quarters from 2015 until late 2017. Swiss watch exports rose by 6.3% to \$28 billion in 2018. The domestic market in watches has also witnessed positive traction in volume, sales, and this has added to our sales growth. Accordingly, the watch components business witnessed a growth of 20% in the nine months period ended December 2018. This segment registered a revenue of Rs. 95.2 crores in the period compared to a revenue of Rs. 79.6 crores in the previous year. We remain on course to delivering 12% to 15% growth in this segment on a consistent basis.

A notable development in the watch component division has been the acquisition of a watch hands manufacturing company in Switzerland. We have acquired 100% ownership of Estima in Switzerland. This is a company which was established in 1924 as a watch hands manufacturer. It was the leading supplier to the Swiss watch brands in the mid-priced segment and has generally enjoyed a very high brand recognition. However, Estima was unable to keep up with the changing market dynamics, leading to market share loss and declining turnover. We have succeeded in acquiring 100% holding of the company at a cash consideration of only CHF400,000, in addition to assuming the existing debts of the company.



We believe that the acquisition of this company in Switzerland will greatly help in creating a sound base for expanding our market reach to Swiss brands, especially in the higher price points. The Swiss made regulations will further help in the growth of the company. And we are planning to upgrade the Estima facility to increase our market share and service levels to the high priced watch brands in Switzerland and Europe.

The precision engineering business witnessed a revenue growth of 18% from Rs. 25.4 crores to Rs. 30 crores in the nine months period. During this quarter the existing facilities were shifted fully to the new location at the aerospace park near Bangalore international airport, which is now fully operational. The shifting of facility has impacted the revenue for this quarter, but we are confident of reaching the higher revenue growth backed by the strong order position and market outlook.

Our strong tool design and development capabilities are backed by necessary certification from regulatory and relevant authorities, and this will help in the consistent growth for this segment. We remain confident to deliver 30% CAGR revenues over the next two to three years, as we continue to showcase our capabilities at leading internal and international trade shows and exhibitions.

Now, let me discuss our watch retailing business, Ethos. At Ethos, our performance has been exceptional truly. Our Q3 performance has reinforced our belief on the inherent demand potential of the Indian consumers who are continuously looking to upgrade and buy luxury watches. Therefore, even on an higher base of Q3 last year which had shown an uptick in sales on account of revision in GST rates which fell from 28% to 18%, we have managed to grow the sales by upwards of 20% in Q3 of FY19. The nine months performance was a stellar 31% growth with billings growth at 28%.

The levers that are playing in our favor are the following:

- We are the largest pan-India watch retailer. This is helping us to take advantage of increasing consumerism and capture demand potential, of course, regions in India.
- Our exclusive brand strategy. This association with brands across various price points on exclusive basis is helping us to tap specific price points which are growing at a faster clip. Most importantly, this strategy allows us to capture a higher share of the market with higher levels of profitability.
- The exclusive brand strategy is combined with our digital strategy, which allows us to capture a larger mindshare of customers with focused digital marketing, resulting in higher sales with lower servicing and marketing costs, this leads to margin growth.
- Finally, the continuing trust and trust and authenticity which is a significant challenge for our competition to match.



We are therefore confident that Ethos will continue to strengthen its position as a destination for premium and luxury watch sales in India.

Here are the financial highlights for Ethos. Our exclusive brand strategy is continuing its upward trajectory. Billings of exclusive brands grew by 59% in the nine months period FY19 and 64% in Q3. They constituted 16% and 18% of our billing respectively for the nine months period and for Q3. The share of contribution of exclusive brands has increased from 21.6% to 27.9% in the nine months period, and from 22% to 31% in Q3 alone. An improvement in gross profit by 54% from Rs. 60.2 crores to Rs. 92.6 crores during the nine months period. An increase in gross profit margin by approximately 410 basis point from 23% in the nine months period of previous year to 27.21% in the same period current year. Our gross margin in Q3 was even better, 28.9%, almost 29%.

Normalized EBITDA, that is EBITDA before one-offs like FOREX items and a legal case provision, grew to Rs. 26.4 crores in the nine months period current year, up from Rs. 11.3 crores in the previous year same period. The normalized EBITDA margin stood at 7.8% this year for the nine months period versus 4.3% last year, an improvement of 350 basis point on YoY basis.

The EBITDA for Q3 FY19 recorded at over 10%, i.e. about 10.6% of net sales. Profit after tax stood at Rs. 9.3 crores in the nine months period FY19, up from Rs. 1.4 crores in the same period of the previous year. Cash profit increased by 203% to Rs. 12.7 crores in the nine months period of current year, up from Rs. 4.2 crores in the same period last year. Stock carrying month at the end of December was 7.1 months.

During this quarter we received balance money as a part of the fund raise in Ethos. This funding will enable us to continue the growth of Ethos business.

We are well on course to open large format stores in Hyderabad and Kolkata, and expect excellent tractions from these geographies. An important addition in our strategy has been for us to focus on store opening in the major metros. Our belief is that consumers prefer to shop in larger cities for luxury products. With a strong equity at Ethos and availability of the largest collection of watches, we are confident to take advantage of this phenomenon. From a financial point of view too, this strategy enables us to achieve a faster breakeven and better profitability.

In Q3 we have opened three new stores, a RADO Boutique at Viviana Mall in Thane in Mumbai was opened in December. And we also opened two Ethos stores at Palladium Mall in Chennai in October 2018. One of these is a multi-brand store while the other is a dedicated boutique to the brand. This is the first boutique, mono-boutique that we are doing for an exclusive brand. With these, our store count stands at 47 stores on pan-India basis.



During Q3 our credit rating was upgraded by ICRA to BBB+ with a stable outlook for our fund based limits. We are continuing to work on various options for listing of Ethos on stock exchange and various steps have been initiated and we will keep you informed about the developments.

I now welcome your questions and participation.

**Moderator:** Thank you. Ladies & gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Saurabh Ginodia from Stewart and Mackertich. Please go ahead.

**Saurabh Ginodia:** Sir, I was going through the numbers, in the segmental results there is a head called marketing support and other services, for Q3 it has registered a sales of Rs. 6.8 crores and for nine months it is Rs. 7.5 crores. So if you can throw some light about this segment?

**Yashovardhan Saboo:** Yes, Saurabh, we were expecting this question. Are there any other questions, you can mention all of them.

**Saurabh Ginodia:** Yes, I just wanted to understand the consumer sentiment post Q3 results how has been the consumer sentiment and footfalls till February 15? And what is our update on the second-hand watch business?

**Yashovardhan Saboo:** Okay. So the first question relates to the results of marketing.

**Saurabh Ginodia:** Market support and other services.

**Yashovardhan Saboo:** Yes, market support. So, this is actually a subsidiary company of Ethos, the name is Cognition, it is a 100% subsidiary of Ethos. And this company was formed last year basically to concentrate the digital marketing that we do for our exclusive watch brand partners. Now, it is usually easier for the marketing, specially the digital marketing, to be focused in a separate company and this company was therefore formed. So what has happened is that from the next quarter onwards the results of Cognition will actually be consolidated in Ethos, which will then be consolidated in KDDL. At this time, so this is the recent board decision. But until that decision was taken the results were prepared. Finally the consolidation in this quarter has been done at the KDDL level. Now to explain to you what is this business, this is essentially the business where we get the marketing support from exclusive brands and the digital marketing is done through this company. It is also in the future our intention to use our digital marketing skills not only for the exclusive brands that we represent, but perhaps at a later date also to expand to doing digital marketing for other brands, which may not be necessarily watch brands, because we have the skills and we have the great wealth of a data base.



- Saurabh Ginodia:** Okay. So just to understand the number better, we registered the sales of Rs. 6.81 crores, against that the PBIT in the segment is Rs. 4.47 crores, so what are the costs associated in this company?
- Yashovardhan Saboo:** So, all the costs related to digital marketing, whether it is search engine marketing, search engine optimization or social media costs. What has not been fully done, which is in the process of being done is that some of the costs of the marketing team which are currently employed in Ethos, our goal is actually to shift those costs and those people, the personnel, the managers also to the marketing team in this company. So to that extent, the costs, they have not been fully reflected in Cognition. But they are now, I mean, before the end of the year these costs will be debited to Cognition.
- Saurabh Ginodia:** Okay. So standalone KDDL level there are certain costs associated with the marketing support, which will get then shifted to the subsidiary level, am I right?
- Yashovardhan Saboo:** No, these are costs in Ethos. Cognition is a subsidiary of Ethos and not of KDDL.
- Saurabh Ginodia:** Okay. So on a consolidated results level there will not be much change?
- Yashovardhan Saboo:** Yes, exactly right. Now I will answer your other questions, one was regarding consumer sentiment after Q3.
- Saurabh Ginodia:** Yes.
- Yashovardhan Saboo:** Well, Q3 is always our brightest spot in the year, that has been so for several years. So, after Q3 it is always true that there is a dampening of footfalls of sentiment and so on. It is a little bit too early to say, we do believe that because of certain uncertainties we do not know what is really going to happen, political uncertainty, some business uncertainty. There is a hearsay, we sort of feel that there might be a slightly depressed sentiment, but what we are also observing is that despite all of this we will probably achieve or exceed our goals. So therefore, my conclusion is that had the sentiments been more buoyant, or some of the uncertainties not there, we would have actually done better than our goals. I do not worry at all about a little bit of uncertainty that seems to be pervading the market. We know that in consumer goods there is a feeling that things are not going to swell, but frankly, that is not reflected in our figures yet. And I am confident that even if there is some impact of it, it will be marginal and in fact, we will bounce back very strongly once the sentiment improves. That said, I think we are very well on track to achieve our annual goals. Your last question was regarding the certified pre-owned watches. There were two points on this, there is still a lack of clarity on some of the laws relating to pre-owned watches. We are finding a work around so that whatever we do is 100% compliant. The other more important fact was that for this business to really take off we need to have a very strong service center, because we need to be able to test and certify that the watches are in good condition, they are genuine watches and so on. We are building this service center, we were in the process of building this service center in Delhi, it is actually



completed now and the formal inauguration of this is planned next week. So the service centre, the watch technicians are all in place, and I believe from next quarter onwards we will star to focus on building the certified pre-owned business as well.

**Saurabh Ginodia:** Okay. One related question in the pre-owned watch business. Do you think there might be some kind of a cannibalization in your existing sales because of the pre-owned sales?

**Yashovardhan Saboo:** Not at all. In fact, on the contrary, it will help, because our experience, and this is not only in India, worldwide watches are being purchased by collectors, especially expensive watches. And the ability to actually be able to exchange watches, buy and sell watches actually increases the interest to buy new watches. So there are plenty of people who want to buy second hand or pre-owned watches, specially watches that are collectible and that actually enables the further increase of the existing watch market. This is a phenomena that has been observed all over the world.

**Saurabh Ginodia:** Okay. And sir, any update on the two large stores which we were planning to open up in Hyderabad and Calcutta?

**Yashovardhan Saboo:** So work is going on, Hyderabad should open towards the end of March and Calcutta is a little bit delayed because of some permissions for start of work over there. But I estimate that by end of April Calcutta will be ready too. Hyderabad is now in the finishing stages.

**Saurabh Ginodia:** Okay. If I can squeeze a last question, what would be SSG growth rate for Q3?

**Yashovardhan Saboo:** In Q3 the same store growth is actually negative, it is minus 5%.

**Moderator:** Thank you. We have the next question from the line of Vaibhav Chaudhary from Niveshaay. Please go ahead.

**Vaibhav Chaudhary:** Sir, I wanted to know regarding the CAPEX happening for expansion in luxury watch retail industry as a whole, barring this. Like what is the current scenario, what are our competitors, what is the CAPEX going on in the industry?

**Yashovardhan Saboo:** Vaibhav, I wish I could give you any accurate figures on this. So whatever I say is just out of hearsay. Over the last 12 to 18 months, 24 months, we have not seen any new luxury malls coming up, with the exception of Chanakya in Delhi. And in Chanakya there have been a few very high-end notable stores that are coming up, brands like Chanel, brands like Armaaz, brands like Norell, Florence, Brunel, Brunello, they have come up. Personally, I believe that it is subdued and this is an impact of what happened in the previous two years. It is also an impact of I think globally luxury brands are focusing much more on increasing the quality rather than increasing the spread. That said, I think India remains an area of great interest, so I personally believe that the investments in CAPEX or investments in new luxury stores in others and watch segment is going to increase. In the watch segment, I can tell you that what





we are doing at Ethos is a very conscious strategy to take advantage of our strategic strengths that we have to increase our footprint as soon as possible, both qualitatively and quantitatively, because we are grabbing market share from competition. I am telling you, it is the fastest rate that our market share is going to grow. So this is the occasion for us to do it, and over the next 24 months I think our growth is going to be phenomenal and unmatched by anybody else.

**Vaibhav Chaudhary:** So we will gain market share over time from our competitors?

**Yashovardhan Saboo:** We are already gaining market share, and we will continue to do that. We have strategic advantages which I have already enumerated and there is no other pan-India player. So we have actually a lot of potential to grow and a lot of headroom.

**Vaibhav Chaudhary:** Okay. And second question is regarding, can we have a breakup of what are our sales from watch priced above Rs. 2 lakh and below Rs. 2 lakh?

**Yashovardhan Saboo:** We will have to give you that, because we do have a breakup across categories, different price points, not only 2 lakhs. I am not sure if we have it readily over here, but we can certainly provide you with that.

**Vaibhav Chaudhary:** Then I will mail to you then.

**Yashovardhan Saboo:** Okay.

**Moderator:** Thank you. Our next question is from the line of Keyur Shah from Emkay Global. Please go ahead.

**Keyur Shah:** Sir, can you share what kind of margins does Estima AG have? And what would be your estimates and expectations for the next one or two years? And also, what kind of growth do you see in the next coming years and in next quarter, something like that?

**Yashovardhan Saboo:** Estima AG, frankly, over the last three to four years it has been incurring repeated losses. And that is the reason why the previous owners who were financial investors, they did not have much experience in the watch business. So finally they decided to quit and that gave us the chance to take over the company. It is a little too early, we have actually done the takeover in January. It is a little too early to sort of make long-term predictions, we are still working on the plan, right now we have to invest to modernize the plant a bit, we have to invest in the marketing to make the brand known once again. It was very well known in the industry 10, 15 years back, but then after that there was a collapse. I believe we will be able to give you more information about this over the next two, three months. However, I expect the returns at Estima to be at least as good as what we have in the watch component business in India, which is like 20% plus kind of EBITDA, if not better. Because we will be catering to the higher end of the price segment from Estima. Any other question, Keyur.



- Keyur Shah:** I will like to know what kind of growth are you aspiring for next quarter? And what kind of SSG can we see in FY20?
- Yashovardhan Saboo:** Is this about Ethos?
- Keyur Shah:** Yes.
- Yashovardhan Saboo:** Well, Ethos, we believe we will continue to clock a growth of minimum 20%, our goal is actually a bit higher. So, we are estimating growth between 20% and 25% year-on-year, and this is based on same, we expect same store growth to clock between 10% and 12%.
- Moderator:** Thank you. Our next question is from the line of Arshad Mukadam from Vibrant Securities. Please go ahead.
- Arshad Mukadam:** My first question is regarding operation, you said the business has moved to the Aerospace Park, so will we any addition to the top-line from this?
- Yashovardhan Saboo:** Yes, of course. Arshad, maybe you just complete all your questions so we can answer them all together.
- Arshad Mukadam:** Okay, I have quite a few. First one is regarding, so after this business comes on how can we see the expenses of the standalone business going forward? Right now, I think operating expenses are probably Rs. 25 crores, Rs. 26 crores a quarter, so how can we see this going forward? Then after that I wanted to know, the expansion in gross margins in Ethos, that is because of exclusive brands share increasing, right?
- Yashovardhan Saboo:** Correct, it is one of the main reasons.
- Arshad Mukadam:** Okay. Then I wanted figures, so the total square feet that we have in terms of the stores,? A couple of other things, also the borrowing figures as of the quarter end? Then I will get back to other questions I have any, can you just answer these for now.
- Yashovardhan Saboo:** Okay, let me answer the three questions relating to Ethos. I am going to pass it to Sanjeev to answer the question regarding operating expenses in the standalone business and in Eigen. So in Ethos, as I mentioned, the expansion in gross margin is primarily due to the increasing share of the exclusive brand the higher profitability of the brands there. That is the primary reason, but it is not the only reason, there is of course operating leverage that is playing out, which is not at the gross margin level but at the EBITDA level. Among others the phenomena of reduced discounts in the luxury price points is playing well. And this is happening because of two reasons, A, because of our increasing market share. What that does is it allows us to get in advance from the brands some of the limited additions or some of the watches that are difficult to find where we do not have to give high discounts. So that, let's say, priority allocation because of our higher market share allows us to push the discounts down. And the second



reason it happens is, because of our very effective marketing campaigns. So these are the reasons why the gross margin expansion is happening. Your question regarding square feet, the square foot on super build area is currently about 52,800 square feet, which same period last year was about 48,000 square feet. And the overall borrowing, I am going to let Sanjeev answer that also, I am passing the thing to Sanjeev.

**Sanjeev Masown:** Before answering the borrowing, regarding the operational expenses what is specifically your question?

**Arshad Mukadam:** So this is about the standalone operating expenses, I wanted to know what rate can we see now that the aerospace park in Bangalore has been running, has got up and started running, so now what expenses can we see here, will this be going up now?

**Sanjeev Masown:** No, the expenses in Eigen as well at company level which we have around Rs. 25 crores per quarter, broadly will remain at the same level in coming quarters. We do not feel that these expenses should go up. All the necessary infrastructure, the people, everything is available, our focus is now to leverage our capacities to take it to a much higher level. Last quarter ended the revenue had fallen slightly compared to the previous two quarters, that is the reason as a percentage you might be seeing that our expense is slightly higher than the previous quarter. So we do not expect any major changes in these overheads in the coming quarters.

**Arshad Mukadam:** Also, if I could just ask another question. So we see the online billing, we have been searching about over the last few calls on how the online billings have increased. But I have seen over the last two quarters I think it has fallen from 30% plus, historically, to I think 25%, 26% level right now. So, can you explain why this has happened, just throw some light on this?

**Yashovardhan Saboo:** Arshad, so the online billing that you mention is actually a lead generation model, so these are sales coming from leads generated on the internet. And we believe that this level between 30% and 35% is probably where this is going to sort of stabilize at. And the reason, obviously, is that specially as we are moving up on price points, more towards the premium and luxury price points, there are people who will want to visit stores and as much rely on the physical stores and not only buy directly after interaction on our website or with our call center. So, I think it is a phenomenon of two things, number one, a much better store presence, larger store presence that we have consequent to the boutiques at the Chanakya, the new boutique at UB City, Bangalore. So these luxury stores, they are attracting more walk-ins, and so there is an increase in the direct sales that happens without necessarily going through the website. That is probably the reason why it has dipped to 28.7%. We believe it is going to stabilize and stay at between 30% and 35% as we go ahead.

**Arshad Mukadam:** Okay. Also just one last thing, the employee count, can I get the employee count at the store and also the corporate level, if I may?

**Yashovardhan Saboo:** I can give you the total number, about 380 employees.



- Moderator:** Thank you. Our next question is from the line of Harsh Shah from Dimensional Security. Please go ahead.
- Harsh Shah:** Sir, just wanted to check, recently one of the leading supermarket chain from Muscat opened a store with exclusive brand of Rolex in Hyderabad. And now they are planning to expand it across six more cities, I guess Pune, Mumbai, Delhi were three of it. So, are you seeing any traction there? And how do you expect the competition to build over the next couple of years? And how will it impact your margins with your brands?
- Yashovardhan Saboo:** The group from Muscat, it's the Khimji Group and they have opened this mono-brand boutique with Rolex, they are very-very old Rolex partners. And of course, they are business man of Indian origin. So this has been known for some time and it is also known that they are planning a few more boutiques, exclusively Rolex boutiques. I am not sure whether this information that you have is correct or not, there are various figures that are floating around. What we do know is that they will open one in Mumbai. But whatever they are planning is exclusive boutiques of Rolex. This is not really going to have an impact on us because we have excellent relations with Rolex, we already have two boutiques, one point of sale, and increasingly... of course we want to have relationships with all the big brands, we want to broad base our brand portfolio. We have a strong presence with Rolex which will not be impacted because of this competition. And we are building strongly with all the other major groups as well, LVMH, Swatch Group. So, while there may be some more boutiques set up by Khimji Group, this will be in a sense new competition, but it is restricted to one brand and a few cities. On the other hand, as we said, we are taking on market share because a lot of the other smaller retailers, their market share is decreasing, which is being taken by us.
- Harsh Shah:** And sir are you seeing any shift from cash buying to buying which is more we can say through white money, especially in marriage and similar events, are you seen any such trends, especially after demonetization?
- Yashovardhan Saboo:** Well, I mean, the new laws basically require that there is no cash transaction above Rs. 2 lakhs. So there is no cash transaction above Rs. 2 lakhs.
- Harsh Shah:** Yes, I would not happen with the organized players, but is it possible for someone who might be doing off the books, is that possible?
- Yashovardhan Saboo:** Off the books has always been part of the grey market, I cannot say whether it is increasing or not, I do not think it is increasing, I think it is coming down. And that is one of the reasons why our market share is growing.
- Moderator:** Thank you. Our next question is from the line of Sagir Khericha from Chartered Capital. Please go ahead.
- Sagir Khericha:** Sir, I wanted to understand the shareholding of Ethos, could you please throw some light on it?



- Yashovardhan Saboo:** So, about 72.5% is held by KDDL directly and indirectly. 25% or so is held by a couple of individual investors, and there is a small percentage of about 2% or so which is held by the promoters.
- Sagir Khericha:** Okay. So these individual investors, they have come to invest in the company in what respect, like are they relatives of the promoters or are they...?
- Yashovardhan Saboo:** No, they are either HNI, individuals or they are domestic funds which have invested directly in Ethos. They are not related to the promoters nor to any of the companies.
- Moderator:** Thank you. Our next question is from the line of Deepan Shankar from TrustLine PMS. Please go ahead.
- Deepan Shankar:** First of all, wanted to understand more on this gross margin expansion. One thing we understood that the higher increase in exclusive brands, that has contributed and lower discount. But how do we see these sustainability of these gross margins moving ahead?
- Yashovardhan Saboo:** It is sustainable.
- Deepan Shankar:** This 29%, 30% is sustainable?
- Yashovardhan Saboo:** This is not a flash in the pan, I remind you that eight, ten quarter ago we were on a similar trajectory, the margin was high, it was growing, and then end of 2015 things crashed for ten quarters, and we sort of forgot that actually we were on a strong business model before that. We have recovered, gone past those troubled quarters and we are back on the margins that are sustainable. And in fact, we see them growing further by a bit over the next couple of quarters.
- Deepan Shankar:** Okay. And this contribution of exclusive, so where do you see them stabilizing overall?
- Yashovardhan Saboo:** Our goal is that exclusive brands will form about 25% to 30% of our business in about two to three year's time. By definition these brands are not the best known brands, because the best known brands will never give exclusivity. But with our marketing and with the understanding with the brands we will be able to bring it up to 30%, which is our goal and I believe it is doable over next three years.
- Deepan Shankar:** Okay. And also, are we seeing this shift from unorganized to organized happening post GST, so how do you see this?
- Yashovardhan Saboo:** Of course, this is happening, of course we see that, that is the reason why you see the bounce back. A 30% growth in this segment, there is nobody else who has managed 30% growth in the luxury segment in any product. So, we have done an exercise and there is no other segment where this is happening. The phenomena is similar to what is happening in other businesses at high price points, such as jewelry, where companies which work on the official segment, in the



legitimate segment, business segment are benefitting from the formalization of the economy, similarly we are.

**Moderator:** Thank you. Our next question is from the line of Lalaram Singh from Vibrant Securities. Please go ahead.

**Lalaram Singh:** Few questions on Ethos. Number one, are the Cognition numbers reflecting in the Ethos numbers, because it is a subsidiary, or no?

**Yashovardhan Saboo:** No. In this quarter results we have not consolidated them. The board has taken a decision that from the next quarter they will be consolidated in Ethos and then Ethos will get consolidated in KDDL.

**Lalaram Singh:** So the current margins, all are pure Ethos margins, right, which means pure retail business?

**Yashovardhan Saboo:** Yes, correct.

**Lalaram Singh:** That is great. Number two, you said that SSG actually was negative 5%, right?

**Yashovardhan Saboo:** Yes.

**Lalaram Singh:** So, how can we tally the fact that overall sales have grown, which means that the new stores have driven all that growth in top-line?

**Yashovardhan Saboo:** Yes, obviously, that is absolutely logical. This minus 5% is for the quarter three. And there is a very specific reason for that, because last year in this quarter we had a huge expansion in the sales of Rolex, which is a high value sale because of the new boutique that we established and the renovation of boutique in Bangalore. So that was a large part of the growth of sales in the previous year, that means Q3 FY18. This year, if you read, you will find that there is a global shortage in the availability of Rolex watches, not only in India but everywhere. So, the sale of Rolex watches was impacted and it was quite low, compared to last year in the current year. And this has really lead to this minus 5% same store growth. Overall, of course, it has been very much positive and that is from the new stores. I remind you that new stores are not only stores that have started in this year, it could include stores of last year also, because for same store growth we only take stores which have completed at least one full year of operation.

**Lalaram Singh:** Okay, that is very helpful. So, do we have the number, excluding Rolex what would be this growth then, it would be positive, right?

**Yashovardhan Saboo:** Yes, definitely. I do not have it readily, don't hold me on this number, but if I remember correctly it is about 11% positive.

**Lalaram Singh:** Okay. And is this Rolex supply situation, has it improved now, because that is a big driver of sales I believe?

**Yashovardhan Saboo:** Well, the phenomena with Rolex, there is a absolute global boom in the demand for Rolex, and Rolex is not the only brand, I can tell you that, there are some other brands also in the luxury segment that are experiencing a global boom. So, while I think there will be improvements in the supply situation, it is not going to be dramatic. However, please remember that the reason was not only that the supply was low, the reason was also that you are comparing it with Q3 of 2018 where we established a new boutique. So you are getting a huge jump in the sales of that quarter. So that is why you see the same store growth is negative because of that, it is not only that sales were low in this segment. I do not believe sales is going to go down, but the contribution in growth is going to happen from not only a few brands but across the spectrum. So, actually we see this as an extremely positive angle. We are reducing our dependence on a few key brands and actually increasing it in a way that we have more control and it is much more broad based, not only in terms of brand but across price points.

**Lalaram Singh:** Okay. And I think you said that the gross margin was driven not simply by the increase in the exclusive brands but also lower discounting, which I believe in Rolex which would be very relevant. Apart from that brand, are we seeing in other brands also where either one, there is less discounting or we are able to get a better deal? I think in one of the con-calls before you said that you were renegotiating with Seiko and Hublo, I believe.

**Yashovardhan Saboo:** Yes, it was already done. We had given those two examples where because of our larger market share, because of our digital expertise we are able to negotiate better margins. So, to answer your question, yes, better negotiation is happening and the discount control or discount reduction is happening across brands, not only on Rolex.

**Lalaram Singh:** Okay. On the demerger, the tax issues and all that which you were saying with respect to the FII holding, so any color on that, any clarity and any timeline which you want to commit?

**Yashovardhan Saboo:** Well, we are working on that. One of the things which we had to take in to consideration was this new rule concerning ecommerce and market place companies, that has been clarified. We are pretty much on track what we had said earlier also that by the end of this fiscal year you would have great clarity on what is the structure you want to take forward. That is still the target that we are pursuing. So in the next couple of weeks we should have clarity on what kind of a structure we want to adopt going forward.

**Lalaram Singh:** Okay. In terms of structure you mean to say either scheme of amalgamation or simply listing, is that what you mean?

**Yashovardhan Saboo:** Yes. There are various options, I mean, so we have appointed an expert agency which is going into this and we expect that they will be ready to present to the boards towards the end of March.



- Lalaram Singh:** Okay. Last time around I think you were saying that the preferred route would be a scheme of amalgamation so that the current shareholders of KDDL also get a direct ownership in Ethos. So does that hold true today also?
- Yashovardhan Saboo:** There has been no change in the position, because frankly, this matter has not been fully addressed. But as I mentioned last time, that is the most logical situation, we have got to look at the tax considerations, obviously. But that obviously seems to be the most logical situation.
- Lalaram Singh:** One last question, if I may take. This is on the marketing division which we have separated into a company, so as of now we are only doing as per our own brands which we sell, we do not do it for outside clients?
- Yashovardhan Saboo:** Yes, correct.
- Moderator:** Thank you. Our next question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.
- Vikram Suryavanshi:** Just to cross-check, if you look we have added around four stores in nine months?
- Yashovardhan Saboo:** Yes, correct.
- Vikram Suryavanshi:** Okay. But that will be net additions, were there any closures or it was just only addition?
- Yashovardhan Saboo:** No, this is addition, there is no closure in this period.
- Vikram Suryavanshi:** Okay. And if you look at last quarter you said that we had been planning around another four stores in second half, so are we seeing apart from this Hyderabad any other locations stores coming up?
- Yashovardhan Saboo:** We have several stores in the pipeline, Vikram. The fact is that some of the malls are delayed. I know that we will open a new store in Nagpur, but that is a replacement, because we are going to move away from Empress, that store is almost ready. However, the projects at Guwahati, the mall is delayed, in Delhi there is a mall called Vegas Mall where we are basically ready to go, but the mall is delayed. So some projects get delayed because malls are getting delayed.
- Vikram Suryavanshi:** And how is the situation in mega store that we are planning in Mumbai?
- Yashovardhan Saboo:** So we have planned the store at Bandra-Kurla Complex, again, we are dependent on when the malls will launch, we are in touch with both the malls, the Jio World Center, which is the so-called Reliance mall and the Mega Max City, which is again part of Reliance Group. So we are in touch with both of them, Mega Max City is now set to launch in July, August, which was earlier meant to be December of last year. And Reliance Jio World Center, they are not





indicating anything but probably talking about December 2019. We will be present in both the locations.

**Vikram Suryavanshi:** Okay. And most of the questions have been answered, just for my understanding, what is the equity number of shares in Ethos, if you can give it?

**Yashovardhan Saboo:** Total number you want, Vikram?

**Vikram Suryavanshi:** Yes, in Ethos.

**Yashovardhan Saboo:** Can I ask Shekhar to get back to you on this?

**Vikram Suryavanshi:** Okay.

**Moderator:** Thank you. Our next question is from the line of Govind Sahu from India Nivesh. Please go ahead.

**Govind Sahu:** Sir, I have couple of questions on Ethos. One, sir what is our CAPEX per square foot for a store? And what is the payback period?

**Raja Sekhar:** Govind, it depends on the format of the store. Primarily, we have two different formats, one is Summit and the other is Ethos store. If you talk of CAPEX, purely from a CAPEX point of view the store renovation and store furniture and fixture, up to Rs. 50 lakhs depending on the size of the store. The working capital in terms of inventory again depends on the format of the store and it varies quite significantly. A typical Ethos store requires an investment of about Rs. 3-odd crores in inventory, whereas if it is a Summit store the investment in inventory could be in the range of between Rs. 8 crores to Rs. 10 crores. In addition to these two elements there is a third element which is the security deposit of the store, again, that varies quite significantly, depending on what and where the store is, typically it is about six months of the rent that we need to invest in. So these are the big three elements of investment in a store.

**Govind Sahu:** Second question, on a blended basis a rough calculation comes out that your sale performance square feet per month is around Rs. 8,000. So, am I correct in this number?

**Yashovardhan Saboo:** We will have to check that and get back.

**Govind Sahu:** By and large, I mean, just your experience.

**Yashovardhan Saboo:** The point is that the stores have so many different formats, so we do not really check too much on a blended basis. But of course it can be done, we will get back to you on this. I think about Rs. 10,000 per square feet per annum.

- Govind Sahu:** So, Rs. 10,000 per square foot revenue and EBITDA margin of 10%, so Rs. 1,000 per month per square feet is the earning from the store?
- Yashovardhan Saboo:** Right.
- Govind Sahu:** Okay. Sir, our payback period would be less than two years, I believe?
- Yashovardhan Saboo:** Between two to three years, correct.
- Govind Sahu:** Okay, got it. And second question is, what is our market share in luxury watch market in India?
- Yashovardhan Saboo:** Currently we estimate it to be between around 14% and our goal is to take this up to between 22% to 25% over the next three to four years.
- Govind Sahu:** Okay. So largely, the balance 85% is unorganized market or is it with some...?
- Yashovardhan Saboo:** It is not clearly unorganized market, in every city you have one or two other retailers which are not really, which do not have a pan-India presence, they are more family owned, family operated.
- Govind Sahu:** Got it, so not unorganized but it is highly fragmented?
- Yashovardhan Saboo:** It is fragmented, correct.
- Moderator:** Thank you. Our next question is from the line of Saurabh Ginodia from Stewart and Mackertich. Please go ahead.
- Saurabh Ginodia:** Sir, you just mentioned to one of the earlier participant about the supply shortage of the Rolex watches globally. So if you can just help me understand what is the issue there?
- Yashovardhan Saboo:** Well, it is a situation where the global demand is much more than the supply. So, it is as simple as that. The global demand is significantly higher than the global supply.
- Saurabh Ginodia:** Any percentages would you like to put on it?
- Yashovardhan Saboo:** Rolex does not share its figures publicly, so any hint at figures is going to be very-very speculative.
- Saurabh Ginodia:** But when do you expect the situation to normalize going forward?
- Yashovardhan Saboo:** Difficult to say, Saurabh. That is a phenomena that you are going to see increasingly in the luxury business. The phenomena of the last 20, 30 years was where on luxury businesses you



could negotiate discounts.. If you go to most successful pure luxury players, whether it is a brand like Hermes or Louis Vuitton or Gucci, if you go to a shop and try to negotiate a discount over there, you will be told that there is no discount, you can do whatever you want you are not going to be able to get a discount. And unfortunately, in some of the luxury brands in the watch business discounting became a very pervasive practice. So, I think the luxury brands in the watch business are going to work on a very concerted basis to ensure that the luxury image, which is compromised by negotiated discounts is actually going to change. So, there is a huge investment that these brands are putting in in the marketing, in developing better retailer spaces, better boutiques, which is really increasing the demand for the product. And supply obviously cannot be increased so quickly, or maybe they do not want to increase the supply, because they do not want to get into a situation where retailer is having to give discounts to sell. So today we are at a situation where there is no necessity to give discounts on Rolex.

**Saurabh Ginodia:** And what would be our dependence on Rolex as a brand, because SSG growth rate of minus 5% as you said, and ex of Rolex would be positive 11%, so what would be dependency from Rolex?

**Yashovardhan Saboo:** Well, that is something that I would not be able to share about brand wise percentage, that is something which we cannot share. But as I told you, it is not because the supply of Rolex was less, it is because in the previous year there was a huge, a large part of the growth in FY18 was because of Rolex which happened in that period, the boutique at Chanakya opened and the boutique in Bangalore was renovated. So, it is much more a phenomena of high sales in Q3 of 2018 than Rolex sales in Q3 of 2019.

**Saurabh Ginodia:** Okay. And given the tightness in the supply, demand, will it give you any pricing advantage on Rolex?

**Yashovardhan Saboo:** Pricing is fixed by the brand, Saurabh. We are not free to price. Of course, as I told you, discounts have come down substantially, but that is not only in Rolex, that has also come down in other brands.

**Saurabh Ginodia:** Okay. And which are the cities which are currently driving growth in the Ethos side?

**Yashovardhan Saboo:** I think cities are pretty much across the board, we are seeing growth across the country, with minor differences here and there, which might not even be a city phenomena at all, but overall we do not see any pattern that one region is growing faster than the other.

**Saurabh Ginodia:** Any particular store which is doing extremely well for us?

**Yashovardhan Saboo:** Out of 47 stores I can say that more than 40 are doing actually very well.



- Saurabh Ginodia:** And stretching my question on this new segment which you have shown in current quarterly results, where was the existing, in which line item was this clubbed?
- Yashovardhan Saboo:** I did not understand the question.
- Saurabh Ginodia:** No, as you said that in the current quarterly results this new line item which we have shown marketing support and other services and you said that it is a subsidiary of Ethos which will then get consolidated, where was the earlier representation of this line item?
- Yashovardhan Saboo:** So, it was in Ethos and earlier it was netted off from marketing expenses and is not as large as it is now, because with the increasing share of exclusive brands they are also contributing much more to the marketing investment that we are making, so the numbers are going up.
- Moderator:** Thank you. Our next question is from the line of Lalaram Singh from Vibrant Securities. Please go ahead.
- Lalaram Singh:** First question, with improvement in the credit rating have we seen any drop in the cost of funds?
- Yashovardhan Saboo:** We are working on it, Lalaram. But as you know, sometimes banks like to use the credit rating only when they want it. We cannot really hold them on it. But we are working on it. The fact that we are not dependent on banks too much, that gives us a great chance to actually reduce the cost, we are working on it.
- Lalaram Singh:** Got it. Secondly, a few book keeping questions on Ethos. For the nine months period for this year can you give me the advertisement and promotion expenses, separately? And also the bank charges separately?
- Raja Sekhar:** So, the total expenditure on marketing for the first nine months in the current year is about Rs. 8.5 crores. For bank charges, I will have to get back to you, I do not have the figure readily available as of now.
- Lalaram Singh:** Okay. And within that 8.5 crores what would be the split between digital marketing and print marketing?
- Yashovardhan Saboo:** Most of it will be digital, I do not have the exact breakup right now. More than 80% would be digital.
- Lalaram Singh:** And with this sharp increase in the margins which we have started seeing and earlier you have guided for a 10% steady state margin say by FY22, is it plausible that that situation might arise earlier than that with the current traction?



**Yashovardhan Saboo:** We would certainly aim to get to that as soon as possible. And some tailwinds would help, some improvement in market sentiment would help. So if all of that happens it is plausible that it could come earlier, and it is also possible it could go beyond 10%.

**Lalaram Singh:** That is a great positive surprise if it happens. You said that you will be open 20 stores in the next two years, I think sometime back. Are you on track for that?

**Yashovardhan Saboo:** We are, we are experiencing that malls delay in their commitment, even extended commitment, so that is a bit of a challenge. We are now factoring that in by assuming that malls will not keep their promises. So we are actually going on an overdrive signing up new stores. 20 stores in 24 months is a fairly aggressive target, especially when some of them are large stores. And these are multi-brand stores, so you have to negotiate with 20, 25 brands independently for each store. But yes, I believe we are on target. The store count may be slightly below what we had earlier thought, but I think overall sales and bottom-line numbers should be pretty much in line with whatever we had projected.

**Lalaram Singh:** Okay. But with the market growth of say between 10% to 15%, I mean, I personally believe that this expansion looks very-very aggressive, because I believe you are trying to take market share, of course, but are these stores in entirely new region themselves or they are into expanding their business in existing cities, can you throw some light on that? Because as we have seen in the past, with such aggressive expansion any demand slow down can have a huge impact on the business as such. So, just your understanding why you believe that this is the right thing to do in the long-term, although it might have short-term pain, but in the long-term this is the right thing to do. So what is your Take ?

**Yashovardhan Saboo:** So, this strategy is based on a couple of very firm beliefs. Number one, the consumer space in India, long-term, medium-term is one of the best places to be in. There is going to be no market other than India which is going to be as good as India in the consumer space. And consumer space will include premium and luxury, you have seen the HNI growth, you seen the wealth reports and all of that. So, seeing that, number one, we are convinced. Number two, everything that we are studying indicates that the growth in luxury and premium business is not going to happen in tier-III cities. Wealth will increase in these cities but the wealth people will come to larger cities to shop for premium and luxury products. So therefore, a change has been that let us go for more growth in the top cities. It is a known fact now that in the premium and luxury space or these kind of products 90% of the market resides in eight cities in India. So, we are focusing on these cities, not in tier III, which is a change from let's say what we had said three or four years ago. And third thing which we are seeing, which is a result of the digital and the way retail is changing globally, instead of having lot of small stores, store experience is possible only in very good stores, big stores where a consumer experiences something different, he is not there just to pick up a watch, he is there to learn more about watches, interact with people, see a large collection of watches. So large flagship stores is the phenomena. So that is where are going to. Now, these three are very fundamental beliefs and



in the long run I have absolutely no doubt that this is going to play out. The fourth thing which is important, we have a scalable model, we have the management bandwidth, we have stores throwing out cash, we have support of investors which no other retailer of watches in India has, with the exception of Helios. But Helios is in a different price point. So, this is the time for us to expand, this is the time to grab this opportunity, increase our footprint, take market share, establish our name and get to a position which is unassailable. We can be timid, we can be a little more conservative, we can say that looks things are uncertain we should go a little bit slower, we do not believe it is a time to do that. And yes, we understand that if we go with this expansion there is a small chance that if there is a certain change in sentiment there may be a little bit of a hiccup. But Lalaram, we are looking at the longer picture, we are not looking at what will happen in the third quarter or fourth quarter, we are looking at what is going to happen 12 quarters from now. And 12 quarters from now, I tell you, we will be at the projected figures. Our goal is Rs. 1,000 crores and 10% EBITDA, as soon as possible.

**Moderator:** Thank you. Our next question is from the line of Vaibhav Kacholia from VK Capital. Please go ahead.

**Vaibhav Kacholia:** Sir, I wanted to know kind of rentals we pay in malls? And is it like a fixed rental or variable on sales?

**Yashovardhan Saboo:** Well, I can tell you in a lighter note, we pay too much rental.

**Vaibhav Kacholia:** Yes, that is what I was trying to figure out.

**Yashovardhan Saboo:** No, but if you want top places for the luxury business, there is no choice, we need to be at the best places. Our rentals mostly are, well, it is a combination, in some malls it is fixed, in some, specially for example at airports it is a combination of revenue share, subject to a minimum guarantee.

**Vaibhav Kacholia:** Okay. We would prefer it to be fixed, right, because our sales per square foot are so high?

**Yashovardhan Saboo:** Yes, now we would prefer it to be fixed.

**Vaibhav Kacholia:** Okay. And what are these in the range of, Rs. 300 a square foot on an all-India average?

**Yashovardhan Saboo:** I think it is going to be more than that.

**Vaibhav Kacholia:** Per month?

**Yashovardhan Saboo:** I think in general it will be more than that, because we are now focusing on the metros, we are focusing in the premium and luxury segment. We basically as a rule only go for top locations within a mall and the top malls.

- Vaibhav Kacholia:** Like can you give us some examples, Phoenix Bombay and Chennai, how much would we be paying?
- Yashovardhan Saboo:** Phoenix Mumbai on carpet it would be probably in the range of about Rs. 900 a square foot. By Phoenix you are talking Palladium, right?
- Vaibhav Kacholia:** Yes.
- Yashovardhan Saboo:** Yes.
- Vaibhav Kacholia:** And Chennai?
- Yashovardhan Saboo:** Chennai would be less, I think Chennai would be more in the region of, again, if you are talking carpet it would probably be about Rs. 500 to Rs. 600 a square foot.
- Vaibhav Kacholia:** Most companies are considering vertical split whereby the shareholder of the parent company gets a equivalent shareholding in the subsidiary, like Arvind Mills just did that. So is that something which we are considering? And will that be the best way to increase shareholder value?
- Yashovardhan Saboo:** That is definitely one of the various options that has been put forward. It will be considered by the board. As I mentioned, it seems to be the most logical for the moment. I don't know what board of both the companies, or KDDL board is going to finally decide.
- Vaibhav Kacholia:** I think that is most tax efficient?
- Yashovardhan Saboo:** I am not a tax consultant, so I am going to wait. But yes, its being told that among the various options that is probably one of the tax efficient ones.
- Moderator:** Thank you. Our next question is from the line of Vaibhav Chaudhary from Niveshaay. Please go ahead.
- Vaibhav Chaudhary:** Sir, I wanted to know regarding the global inventory, especially in Asian countries, Singapore, China, Hong-Kong, Dubai, regarding premium and luxury brands and how are they affecting our business?
- Yashovardhan Saboo:** When you say global, stocking norms?
- Vaibhav Chaudhary:** Yes.
- Yashovardhan Saboo:** Global stocking norms in the luxury watch business is typically between 8 to 10 months of stock, in Asian countries. In Europe it is up to 12 months.



- Vaibhav Chaudhary:** Okay. And are there any increase in stock levels in these countries, especially where Indian travelers are travelling much more as they can...
- Yashovardhan Saboo:** No, I do not think there is any, I have no information of any significant increase or changes in stock levels.
- Moderator:** Thank you. Our next question is from the line of Gulshan Patni, an Individual Investor. Please go ahead.
- Gulshan Patni:** Sir, actually I was late on the call. I just want to know the timeline of the de-merger process?
- Yashovardhan Saboo:** Gulshan, I mentioned this matter is now being examined by the consultants that we have appointed. And they are expected to present their recommendations to the board based on which the board will take a decision, and we are expecting that they should present their findings before the end of March.
- Gulshan Patni:** And how many stores are you planning to open next financial year?
- Yashovardhan Saboo:** The plan is to open about 10 stores.
- Gulshan Patni:** And what is your guidance on SSG?
- Yashovardhan Saboo:** Our target for same store growth is between 10% and 12%.
- Gulshan Patni:** And what has been the industry growth in this quarter?
- Yashovardhan Saboo:** I am not able to comment on quarter by quarter, because this is not really something, the watch industry figures are not really publicly known. But overall, during the year I believe the growth is tending towards being back to about 10% growth.
- Moderator:** Thank you. Ladies & gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.
- Yashovardhan Saboo:** With this we close today's conference. And I would like to thank all participants very much for being here. And I hope we could answer all your questions satisfactorily. Thank you once again and see you next quarter.
- Moderator:** Thank you. Ladies & gentlemen, on behalf of KDDL Limited, that concludes today's conference. Thank you for joining us. And you may now disconnect your lines. Thank you.