"KDDL Limited Q1 FY17 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the KDDL Limited Q1 FY17 Earnings Conference Call. This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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 – CEO, KDDL and Ethos Limited. Thank you and over to you, sir.

Yashovardhan Saboo: Thank you. Good morning and a very warm welcome to all participants at this earnings call. I am Yashovardhan Saboo. And as usual, I am joined at this call by my colleagues Mr. Sanjeev Masown – CFO of KDDL and Mr. Raja Sekhar – CFO of Ethos, which is our retail arm. And we also have with us SGA, who are our Investor Relations Advisors. I am sure you have all seen our financial results and presentation, it is uploaded on the SE website as well as our Company website. Let me begin with the consolidated results.

For the quarter ended 30th June, 2016, the Company registered a revenue growth of 8% growing from Rs. 100 crores in Q1 of the previous year to Rs. 108 crores in Q1 of FY17. EBITDA stood at Rs. 6.2 crores with a margin of 5.7%. Net loss was at Rs. 50 lakhs and cash PAT of Rs. 2.4 crores with a margin of 2.2% in this quarter.

Coming to the Manufacturing Business, the Manufacturing Business did well, registering a revenue of Rs.34.1 crores, growing 13% year-on-year. The Watch Component segment, comprising of watch dials and watch hands, contributed about 80% of the manufacturing sales and grew by 9.8% year-on-year. The current outlook Watch Component business continues to be pessimistic at an international level with the World Business going through a serious cyclical downturn which is expected to last another six to nine months. Nonetheless, we believe that during the current financial year, Watch Component business revenue will grow by another 8% to 10% compared to the previous year, thus tracking our long-term growth target in this segment. Given the prevailing market conditions, this can be considered very positive and we will surely emerge stronger with a greater market share by the end of the year.

Our Precision Engineering Manufacturing business contributed 17% of the sales, growing by 33% year-on-year. During the last quarter, we have successfully established the capability of Mold Making and Injection Molding of components with a good quality rating from some key customers. Very importantly, we have also qualified VDA 6.3 certification from the Global Continental Group, and thus we have become eligible supplier for Precision Stamped Components for the Continental Group. We expect Precision Engineering segment revenue to grow by about 20% plus during the year.

The EBITDA for the quarter in the Manufacturing business improved to 17.4%, i.e. Rs. 6.35 crores compared to Q1 of the previous year.

The expansion project for the Precision Engineering business is also moving ahead as per the plan. During the quarter, we have achieved financial closure for the project, we are now in the process of ordering the machinery and equipment for the plant. We plan to gradually add new capacities and capabilities like Injection Molding, Electroplating, additional Stamping capacity and CNC Machining in a phased manner. The addition of these capabilities and capacities will help the Company to plan its rapid growth in revenue and profitability. The first phase of this expansion in the new facility is planned by the end of the current financial year and we expect it to start generating revenue from the next fiscal year onwards. The Manufacturing business is confident of achieving 12% to 15% growth in the current fiscal with the improvement in market conditions and flow of enquiries and new products and projects coming through.

I now come to Ethos, our Luxury Retail arm. Ethos registered a revenue of Rs. 73.2 crores in quarter which signifies a growth of 6% year-on-year. Same store sales growth was at 7%. Online lead generation contributed 32% of the total Ethos billing. The year had started on a very challenging note for the business. The June quarter happens to be the quietest of the four quarters in Luxury Watch Retail. This was further aggravated by the Pan Card regulation that was introduced in the beginning of the calendar year 2016, and then followed by TCS requirements, i.e. Tax Collection at Source requirement for all cash transactions above Rs. 2 lakhs. This has had a very telling impact on the sales of high value watches. However, we continue to believe that over a period of time there will be a wider acceptance of Pan Card regulations and sales growth momentum will be back to historical levels.

Our new product strategy that we are now adopting will enable us to develop a more scalable and profitable business model, even in the light of the new changes due to Pan Card. Our refined product strategy is based on the belief that there will be a faster acceptance of the Pan Card rules in the price point of Rs. 2 lakhs to Rs. 5 lakhs, thus we are widening and strengthening the portfolio at this price range. Most of the top brands also have time pieces in this price category and we are strengthening our position here. For the price points from Rs. 5 lakhs to Rs. 10 lakhs, we believe it will take more time for the customer to accept the new regulations and we are moving to a linear inventory in this price range, without compromising on the product range. On the other hand, at price point above Rs. 10 lakhs, we believe the purchase from customers will go down significantly and we are actively reducing our exposure at this price point.

Moreover, due to tremendous competitive pressures also related to the new Pan Card regulations, we have witnessed short-term margin impact which has reflected in the gross margins at 23% for the June quarter.

We are currently working on exclusive brand strategy which is going to be a seminal part of our way forward. We are negotiating with international watch brands for exclusivity in India.

These brands have currently a suboptimal presence in India and with an exclusive arrangement with Ethos, it will be a win-win situation for both parties. On the one hand, these brands will get a far wider reach than they can hope to have on their own, and at the same time, it helps us in obtaining higher margins and exclusivity. Our endeavor is to improve the proportion of sales from these exclusive brands and thereby improve the weighted average gross margins. While it will still take about two quarters before the impact can be seen, but on an immediate basis, we are already seeing a higher growth in the sales of these exclusive brands. For example, in the first quarter of this year, the growth on such exclusive brands has been by 56% as compared to the same period of the previous year. At the store level, the operations have been profitable with EBITDA before allocation of central expenses standing at Rs. 3 crores with a margin of 4%. However, after allocation of central expenses, there was a loss of Rs. 50 lakhs during the quarter, the net loss was Rs. 3.6 crores during the quarter.

As on the quarter ended 30th June, 2016, the Company had 39 stores across the country with 8 Summit Stores, 3 Duty Free Airport Stores at domestic terminals and 2 Duty Paid Airport Stores at international terminals. And in addition, 26 Ethos Stores. Our inventory carry months was at 8 months in Q1 of this year compared to 8.7 months in the quarter of the previous year. We continue our focus on rationalizing and optimizing our physical presence in India and augmenting it with online presence to create a genuine omni-channel retail business. \

During quarter one of this year, we launched two new stores at the recently opened DLF Mall of India at Noida, one is an exclusive TAG Heuer Boutique, the first TAG Heuer Boutique that we are doing in Ethos and the other is an Ethos Multi-Brand Store. In the month of July, we closed two stores, bringing the number of stores to 39.

With this, I would like to thank you all for your patient listening and would like to open the floor for question-and-answers. Thank you very much.

Moderator: Thank you. We will now begin with a question-and-answer session. We take the first question from the line of Chaitanya Adesara. Please go ahead.

Chaitanya Adesara: My first question is in relation to the gross profit. So, how was the discounting for this quarter, can you share any number, as in what was the percentage discount? Since the gross profit is down by 7%, so was discounting also one of the reason for the same?

Yashovardhan Saboo: Chaitanya, we are just trying to get the figures. If you have other questions, can you put all the questions so we can answer them all at the same time?

Chaitanya Adesara: Yes. Just last, can you share some flavor on the Swiss, Hong Kong and the China markets which, I suppose, till last quarter the markets were really bad, so any improvement on the same?

Yashovardhan Saboo: So let me start by answering the second part. It is true that the Hong Kong and China market have turned down very rapidly over the last six months, after already a difficult year last year. And this is also because China has imposed some new duties on people carrying in watches. So what was happening earlier was a lot of Chinese shoppers were going to Europe and buying multiple watches over there and carrying them into China, the main reason being that prices in China were far higher than anywhere else in the world. Now the Chinese Government has imposed new taxes for such import of watches, because of which sales to Chinese have fallen. What is happening, however, is that sale of the watches in China is actually now picking up, we are not seeing the impact of this yet because there is an inventory accumulation which has happened in China over the last 2-3 years which is going to take, as I mentioned, about six to nine months to digest, but the sellout of China has actually bottomed out. And the sellout bottoming out means that eventually the excess inventory situation in China and Hong Kong will clean itself out over the next two or three quarters. It is a situation, as I said, it is a cyclical downturn but it is also a coincidence that almost all the global markets are, sort of, turning down the luxury business at the same time for different reasons, Middle East due to the continuous oil price decline, Europe because of political reasons, America because of political uncertainty of the presidential campaign and China for the reasons that I mentioned. It is a slightly unique situation, never seen earlier. But the general understanding in the business is that in the next two to three quarters it will start to go up again. So, Hong and China for the moment, on the surface it remains pretty much the same, but as I mentioned, sell out is starting to pick up and eventually it will lead to a better sell in.

Coming down to your question regarding discounts, yes it is true that discounts have gone up. Over this period, what has happened is in the first quarter we have the imposition of the Pan Card rules. From June 1, this requirement was augmented by the tax collection at source, so now not only do we have to ask for a Pan Card but of every purchase we have to deduct 1% and credit it to the Pan Card. That has made people even more vary. In addition, I am sure you saw the news that Income Tax Department has sent out 7 lakh notices, now many of these have actually landed up with people who have paid with credit cards and cheques. So there is a feeling that there is an unnecessary harassment, even if I pay with credit card and cheques, all of it is leading to a certain hesitation. People who are buying with a cheque and credit card and with the tax collation at source, they are having to, most retailers are now competing very aggressively to get hold of this customer and the customer mostly knows that he can get an extra 1% or 2% of discount. Not to mention the fact that in many cases you have to cover up this TCS as well. So it has led to a higher discounting. The other reason for the higher discounting is also that we are now looking at aggressively reducing our exposure in the price points above Rs. 10 lakhs, as I mentioned in my speech as well. And even if it means that we have to eliminate some of these stocks with excessive discounting, we believe it is important to liquidate this and bring the capital into the exclusive brands where we can get better stock turn and better margins.

Moderator: Thank you. We have the next question from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.

Vikram Suryavanshi: So, basically I just want to know what was the same store sales growth in this quarter?

Yashovardhan Saboo: Same store sales growth has been 7%, Vikram.

Vikram Suryavanshi: And can you just highlight in terms of revenue breakup in manufacturing, how was the growth in dial and hands, and which segment is doing better now?

Yashovardhan Saboo: I think I mentioned that in my speech,I will just hand this over to Sanjeev to answer this question

Sanjeev Masown: Vikram, basically I think Mr. Saboo has already shared in his speech that Manufacturing business comprising the Watch Component, the revenue grew by almost 9% whereas the Precision Components which is the Engineering part, that revenue grew by more than 33%. So overall the revenue growth is 13% for the Manufacturing segment.

Vikram Suryavanshi: I just missed the opening comments, so sorry for that. But, in watch sales are we seeing the growth back in hands segment also?

Yashovardhan Saboo: Yes. I think on the watch segment we have grown by about 9% and we expect this year to be up by about the same 9% to 10%, which in the current market scenario for watches, specially the international market is actually very good because typically most watch component supplies are actually losing business, their growth is negative and if we grow by 8% to 10% it means that we are going to be gaining market share and this is mainly because the customers that we have are typically the stronger customers who have market share and who are now going into reinforce their position with a lot of new developments, as they are also expecting the next year to actually turn up. So we are getting a lot of new projects, new product developments which will turn into orders for the next year.

Vikram Suryavanshi: And what are the absolute amount in Precision what we did in this quarter in terms of rupees crores?

Sanjeev Masown: It is around Rs. 5.7 crores in this quarter.

Vikram Suryavanshi: And in Ethos, what kind of revenue growth we are looking on month-on-month basis compared to last year since the recovery we are seeing?

Yashovardhan Saboo: So let me understand your question, are you talking about the future or this quarter?

Vikram Suryavanshi: This quarter as well as what is your expectation for future.

Yashovardhan Saboo: So this quarter we have grown by 6%, overall we expect the growth to improve in every quarter. It is a little difficult to predict very precisely, but what we do expect is that by the last quarter of this year we should be back on our growth of 15% plus year-on-year. This year we should be growing by about, overall I am not sure if it will be, it should be in the region of about 14% to 16%, definitely by the last quarter we will be up to this figure.

Moderator: Thank you. We have the next question from the line of Kashyap Pujar from Axis Capital. Please go ahead.

Kashyap Pujara: Hi, this is Kashyap Pujara here from Axis Capital. I just had one question and that was pertaining to, if you can give some color regarding the supplier concentration at the Ethos level, so how many suppliers would we be working with? In the sense that, if we have a particular revenue mix that we have, how much of that would be coming from few suppliers like top two or top three suppliers?

Yashovardhan Saboo: So let me understand your question, what you are saying is, what percentage of my business do the top five or top two suppliers or top two brands constitute, is that what you are saying?

Kashyap Pujara: Yes, I am largely looking at suppliers which means like Swatch might have multiple brands, I am not trying to look at brand wise top-line but I am trying to mainly understand the supplier concentration in the overall revenue mix.

Yashovardhan Saboo: So you mentioned Swatch Group?

Kashyap Pujara: Yes.

Yashovardhan Saboo: So, typically over the years it has remained stable, the share of Swatch Group in our business which is actually about 50%. And what you must know is that the Swatch Group comprises of some of the top selling brands in India, namely Omega, Rado, Longines and Tissot. For at least three of these brands, we are also the number one partner for Swatch Group. And the other groups with whom we have a significant share of our business is Rolex, which is obviously at the high end, and at the lower end we have a strong business relationship with the Fossil Group. So it is actually pretty diverse.Kashyap, this also reflects what is the global situation in these price segments. In these price segments, Swatch Group pretty much accounts for about 40% - 50% of the business in their price segments. So it is really a reflection of the global distribution.

Kashyap Pujara: But just wanted to understand in terms of, do you see a high concentration, because if you were to look at top three or top two relationships, that would be upwards of 50% of the overall revenue of Ethos, then would you see any risk where if some of the arrangements, like if there is a relationship which gets upset with Swatch, there can be a big issue. So how do you structure agreements and how do you manage this entire concentration risk, I mean, would it imply that because we are 50% - 60% of the business they would exert a lot of bargaining power compared to generally we should have otherwise enjoyed if there were more suppliers?

Yashovardhan Saboo: So, the first point which I want to make is that maintaining a relationship with brands is one of the fundamental skill requirement of multi-brand retail. Also, every successful multi-brand retail is characterized by few strong brands which have a large part of the share and which is balanced by a couple of other brands which provide diversity to the portfolio. It is true across the board, almost all product categories. Now, in our case, yes it is true that the top five brands will only constitute about 68% plus of our business, however, what is important is that the arrangement is actually pretty reciprocal. So while, let's say, I do not want to name a specific brand, but while a particular brand accounts for 20% of our business, it is also true that we have done around 25% of that brands business. And even if brands are part of one group, typically most of the groups, in fact, I would not know of a group which is otherwise, where the brands are pretty independent and they take their own decision. So, for example, you mentioned Swatch Group, it is not that Swatch Group decides that I am going to give Tissot to such and such retailer, that retailer is automatically entitled to all the other brands as well, each brand evaluates each relationship and each retail partner on an independent basis and they are not really connected to each other. So, in some I can say that, I believe we picked a reciprocal on a very balanced arrangement, I do not see a big risk with that, this is a relationship that has been nurtured over 13 years and I think there is a lot of trust going forward in this. I do not see a big risk in that at all.

Kashyap Pujara: You do not see a big risk.

Yashovardhan Saboo: In fact, I see it as a very large opportunity because these are the brands are the ones that are going to grow and they are going to have a consistent presence, these are the brands which are advertised, who have established a great name for themselves. So it is very beneficial for us to be their number one partner in India.

Kashyap Pujara: No, that I understand. But I mean, say, today is there are other vendors where the multiple brands of, say, Swatch could be available, there is online where they could any which way directly sell. So I am just trying to understand it, like, for a customer who really wants to participate or get a particular brand, it is not that we are the only providers. So what is the strategy, how do you look at attracting customers at Ethos considering that the top brands, say for example, Swatch would be 50% for any vendor in the country for that matter. So how do you ensure that the customer steps into Ethos framework rather than going into alternative channels?

Yashovardhan Saboo: No, I think you are assuming somethings which are not correct over here. For example, you have mentioned that Swatch will be 50% with all other retailers, that is simply not true. There is not a single other retailer in the country which has the complete range of Swatch brands, I think from Swatch of the low end all up way up to breguet there is not a single retailer that I can think of. So we are clearly the strongest partners for Swatch. Number two, you mentioned Swatch Brand, we are not talking about one Swatch, we are talking about the whole group of brands. You mentioned that they may go online and other people may start selling them online, it is an articulate policy of Swatch Group that they are not going to go online, in fact, they go very strongly after guys who start selling their watches online. So these are all policies that we have studied, we have exchanged together with them and we find a natural fit with what we are doing and what are the policies of the Swatch Group. So, I think when we go into details, we find that there are lot of synergies in Ethos and Swatch Group, and it is not only Swatch Group, we have a strong relationship with Rolex based on their selling principles, we are nurturing a strong relationship with Richemont Group, in fact, we have signed an excellent agreement with one of their brand - Baume & Mercier. So, I think this is something which is going across the board. And I also want to mention that, while it is true that with these top best known brands in the world, it is almost impossible to get exclusivity in any country for any retailer. But with the second trench of brands, we are negotiating exclusive arrangements, as I mentioned in my speech. So we are developing exclusive relationships with a trench of about 8 to 10 brands those will be exclusive or highly restricted and that would become an important part of our portfolio as well.

Kashyap Pujara: Sure. Thank you so much. I think it has been good to clarify my thoughts and I am happy to learn more about the Company.

Moderator: Thank you. We have the next question from the line of Sangeeta Tripathi from Sharekhan Ltd. Please go ahead.

Sangeeta Tripathi: First and foremost, I would just like to understand from your understanding, when do you think that you will bounce back to the double-digit revenue growth momentum in Ethos?

Yashovardhan Saboo: That is a wonderful question. So as I mentioned, Sangeeta, we certainly will bounce back by the last quarter. So what is happening is that ,on the one hand, we are obviously pushing growth in sales, we are also at the same time simultaneously trying to bring down our stock at the very high price points. So, we are trying to balance the margin and the sales growth. But I believe, definitely by the last quarter of this year, possibly by the third quarter of this year we should be back to double-digit growth.

Sangeeta Tripathi: Secondly, on this money raising thing, the Board of Directors have approved investment of up to Rs. 10 crores in Ethos through preference shares, right?

Yashovardhan Saboo: Yes.

Sangeeta Tripathi: So have you identified whom you will be issuing these preference shares, any understanding on that front?

Yashovardhan Saboo: No, KDDL is investing in Ethos.

Sangeeta Tripathi: Okay, we have approved investment, KDDL is investing.

Yashovardhan Saboo: Yes. KDDL is increasing its holding percentage of Ethos.

Sangeeta Tripathi: So, after this one year tenure when it will be entirely redeemed and everything, what will be our stake in Ethos, I mean, overall stake?

Yashovardhan Saboo: If its redeemed then the stake does not change, if it is converted to equity shares… sorry, it cannot be converted, it is not a convertible shares.

Sangeeta Tripathi: So these are like loan?

Yashovardhan Saboo: Basically once it is redeemed it will come back to the current holding.

Sangeeta Tripathi: But these are redeemable, so here we are giving loan to Ethos, it is kind of a loan, right?

Yashovardhan Saboo: It is a preference share.

Sangeeta Tripathi: Yes, but these are redeemable, they are not convertible, what I understand?

Yashovardhan Saboo: No.

Sangeeta Tripathi: And lastly, just give me your inventory mix, what I understand is, we are standing at eight months inventory as of now, so in rupee crores what is the total inventory position?

Yashovardhan Saboo: It is about Rs. 170 crores, Sangeeta.

Sangeeta Tripathi: So how is that mix between Rs. 2 lakhs to Rs. 5 lakhs and Rs. 5 lakhs to Rs. 10 lakhs and over Rs. 10 lakhs, that category percentage wise very broad segregation.

Yashovardhan Saboo: We would not have the exact figures of this stock breakup, but we can share that with you, Sangeeta.

Sangeeta Tripathi: And the sales breakup, that you will be having I think.

Yashovardhan Saboo: So the sales under Rs. 2 lakhs for the current is 56%, and 8% is the sale above Rs. 10 lakhs.

Sangeeta Tripathi: This is the mix which we are sharing for this quarter, is that the case?

Yashovardhan Saboo: Correct.

Sangeeta Tripathi: So this would have been pretty much the same in FY16 or there would have been change because we have redefined strategy in everything?

Yashovardhan Saboo: Last year during the same period it was a little lower in the segment below Rs. 2 lakhs, it was 54% as compared to 56% this year. And about the same in the segment above Rs. 10 lakhs.

Sangeeta Tripathi: And lastly, just wanted to understand, from your point you said that your, I mean, we are getting into these exclusive tie-ups which will increase our margins as well as improve stock turns, stock turns I understand that with brands coming into place exclusive brand thing coming into play, our stock turns will improve. But I was just trying to understand from the margin perspective, will that give a push to our growth margins also, because what I understand is that, brands, they do not shell out big margins. So your understanding on that?

Yashovardhan Saboo: In fact, absolutely the contrary is true. When we have an exclusive brand, it means that there is no other retailer for that brand, which means, we are able to negotiate the retail and distribution margin, and that is the big logical underpinning for the whole strategy. So typically, a brand which is distributed, which is not an exclusive brand, the margins and the difference between that and let's say the exclusive brands, the margin difference could be as much as 15%, in some cases yes, I would say 15% to 18% in some cases could be the margin difference, being higher in the case of exclusive brands.

Sangeeta Tripathi: Okay, but in that case we will have to do a bought out kind of an arrangement, isn't it?

Yashovardhan Saboo: Bought out means we have to buy the watch?

Sangeeta Tripathi: Yes, totally…

Yashovardhan Saboo: Yes, we have to buy even in the other brands. So there are very few brands which we are not buying, there are some brands which are on sale or return basis. But mostly the brands we are buying. But what happens is that in some of the exclusive brands we are also able to negotiate a slightly higher credit period which makes a very big difference in terms of paid stock turn, which is really the point which we are talking about. Let me give you an example. Let us say in a core brand, let us say a Swatch Group brand, typically we may have a 60 day credit, so if I have a stock turn of 2 that means I have 6 months stock, 4 months is credit and 4 months is paid stock. Now, if I have a stock turn of 2 and I have 4 months of credit then my paid stock is only 2 months. So that going forward as my stock turns increase on exclusive brands, my working capital efficiency will improve pretty dramatically.

Sangeeta Tripathi: So this exclusivity gives you that benefit?

Yashovardhan Saboo: Yes.

Sangeeta Tripathi: And for them the benefit is they are getting this entire distribution online, offline everything in one complete set, in one place itself?

Yashovardhan Saboo: Correct, most of these brands are not so large that they can afford a very elaborate distribution setup over here, many of them have tried to establish distributors but it has not been a very good experience for them because India is complex and they do not really understand, small retailers come and go, they have payment problems and so on. So, when we are discussing with them they are very happy to deal with a large professional company on which they have payment, they have surety of getting their payments. So really we are trying deliver without pain. And most of them are actually pretty happy about dealing with one person, one party rather than a distributor who has been dealing with so many others.

Sangeeta Tripathi: And when you said that the talks are going on that 8 to 10 brands, have you already done with this exclusive arrangement with any few brand in them?

Yashovardhan Saboo: Yes. You want me to name some of them?

Sangeeta Tripathi: Yes sir, if you can.

Yashovardhan Saboo: Ones that I can name already, Titoni, Titoni was a very popular brand in India till the early 1970s and it is one of the bestselling brands in China in the price range of Rado and Longines, in fact, it is the third highest selling brand in China after Rado and Longines. So, Titoni we have brought exclusively to India. The other band is exclusive, in a sense, there is only one other retail chain that they work with is Movado. We have exclusive arrangement with Carl F. Bucherer. We have an exclusive arrangement with Edox. So, four are already done and we are in the process of finalizing with another five or six.

Moderator: Thank you. We have the next question from the line of Nikhil Vora from Sixth Sense Ventures. Please go ahead.

Nikhil Vora: Sir, just one thing. We have obviously seen periodic rounds of capital infusion in Ethos by way of equity or pref. When do you think Ethos will get self-funded?

Yashovardhan Saboo: I guess, Nikhil, in about two years. See, this funding which we are doing now is part of the plan that was initiated last year where we foresaw an investment of about Rs. 25 crores. So this is the last tranch of that which will happen. We are now planning these two or three flagship stores in the new strategy, one of them in Chanakyapuri, Delhi and the other in Mumbai at Bandra-Kurla Complex.,. And these require the extra funding as well. So, I think after these two we should we self-funded.

Nikhil Vohra: And for a complete funding for the Group as a whole, which includes KDDL's own Manufacturing business, the Precision Engineering and other expansion within KDDL, what is your total capital requirement over the next couple of years and how are you looking at funding that?

Yashovardhan Saboo: No, Nikhil, for KDDL's manufacturing operations we are not really looking at an increase in capital, in fact, the funding for the expansion in the KDDL Precision Engineering, a part is already planned out. For this year, as I mentioned during my talks, the financial closure has been done, it is basically through debt which has been done and internal generation. And I think next year it will be the same as well. So, the total investment in the Precision

Engineering part is estimated to be about Rs. 25 crores to Rs. 30 crores, and we believe through debt and internal accruals, this should be sufficient.

Nikhil Vohra: And just lastly, I think one would always believe that Ethos has moved towards a Hengdeli model at some stage be it in scale or in terms of margins. When do you think the margin curve will be reached in Ethos towards a 10% odd level, and obviously we are significantly below that right now. But how many years do you think, if we are, likely to reach that sort of margin curve?

Yashovardhan Saboo: So, Hengdeli is probably not a very good comparison now, because Hengdeli is going through its own troubles. I think we are benchmarking more with Hour Glass which is currently the most profitable model and Tourneau. Hengdeli, if you go into the details, it is a little difficult to go into details of Hengdeli because a lot of it is in Chinese, but they did a lot of expensive acquisitions three or four years ago and that is sort of impacting them now. But coming to your point about margins, so this Pan Card rule, the one thing which is becoming obvious is that our strategy has to move to accept that the Pan Card impact will be pretty high and long-term at price points above Rs. 10 lakhs. Given that, we are now adopting our strategy and I think we are starting to see it take routes through the exclusive brand and strengthening the price point in the range Rs. 2 lakhs to Rs. 5 lakhs. By virtue of these two things, first of all, the exclusive brands where, as I mentioned, we have a margin differential of almost 15%. Currently these exclusive brands comprise about 5% of our business, over the next three years we believe that it is possible to push it to 20%, it is going to be tough from going from 5% to 6% to 20%, but it is possible. We are doing everything at our store and in our management teams to make that possible. With that alone, we will see a margin expansion of around 2% to 2.4% happening. I have not mentioned about GST, but with GST coming in we should certainly look at a significant gain coming from setting off of service tax. And, let us not forget that in the last two quarters, I mean, in the quarter January to March we really fell off the cliff because of the Pan Card which hurt us, we are going to be back to a 4% EBITDA by the end of this year, thereafter growing by about 1% to 1.5% every year, add to that GST whenever it comes in. So the target of 8% to 9% EBITDA is what I have in mind and I believe that in three years from now we should be kissing that target.

Moderator: Thank you. We have the next question from the line of Rupal Sethi from Kanya Investment. Please go ahead.

Rupal Sethi: I have a few questions on our Ethos business. We mentioned that we specifically have a slower growth in this quarter and the previous quarter as well, but you said that for the end of the year we should be able to go up till around 15% of same store growth, one of the strategy definitely would be getting in more of exclusive brand tie-ups. In which regard, I just have one specific question. We have 52% of our business form the sub-2 lakhs category, how many of these tie-ups are going to help us probably growth in this category or do we have any other strategic views pertaining to the sub-2 lakhs category?

Yashovardhan Saboo: Rupal, at least more than half the brands that we are talking exclusive arrangements with are in the sub-2 lakhs category. And all of them are active in the sub-5 lakhs category. So we are not really looking at exclusive brands at the very high price points of Rs. 10 lakhs and above.

Rupal Sethi: So this quarter what would have been our growth in this category?

Yashovardhan Saboo: Are you saying in the category of exclusive brands?

Rupal Sethi: No, in the sub-2 lakhs category.

Yashovardhan Saboo: So we have grown by about 9% in the sub-2 lakhs category.

Rupal Sethi: Sir, the next question is largely on your store count. We have seen the store count has gone down slightly this time and we are opening up two more flagship stores for the year, any other stores that are going to come in the rest of the year?

Yashovardhan Saboo: In the next two, three years?

Rupal Sethi: In the coming years.

Yashovardhan Saboo: We are looking perhaps at an addition of one or two stores during this year, we are looking at some new locations. We do know that there will be a few more store closures. Let me explain a bit to you, what is happening on our store strategy. We have adopted a clear strategy of getting out of a very small stores and expanding into larger stores. So whatever new stores we are planning are all in the plain format of 700- 1000 square feet or something like that. The stores which we are closing down are typically in the 300 - 400 square feet kind of format. The reason is that at the small format, while the stores tend to breakeven and become profitable early, but in the long run we get very little same store growth. We are also not able to play out our exclusive brand strategy in a very small store. Because for the strategy to play out you need a mix of at least 10 to 12, perhaps ideally about 15 brands to become a very credible mix of brands, and for that you need a larger store. So there is going to be a churn in the kind of stores we have, as I said, there will be some more closures during this year and we are looking at some new opening towards the end of the year.

Rupal Sethi: Sir lastly, just have a bookkeeping question regarding our manufacturing unit, can you just give us the breakup between the sales of dial, hands and precision?

Yashovardhan Saboo: I had mentioned that when I was speaking, but the Watch Component business, it grew by 9.8% and it contributes about 80% of the manufacturing sales. And of the balance, 70% is by Precision Engineering and 30% is by our packaging business which we are evaluating and looking and seriously question whether we will be continuing that business or not.

Rupal Sethi: So, what was the breakup of dials and hangs for the quarter?

Yashovardhan Saboo: I do not have the exact numbers, we look at them together. But roughly speaking, they are about equal, their size is about the same.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Yashovardhan Saboo for his closing comments.

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

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