



## “Ethos Limited Q4 FY'16 Earnings Conference Call”

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**MANAGEMENT: MR. YASHOVARDHAN SABOO -- CHIEF EXECUTIVE OFFICER, KDDL LIMITED AND ETHOS LIMITED  
MR. SANJEEV MASOWN -- CHIEF FINANCIAL OFFICER, KDDL  
MR. C. RAJA SEK HAR -- CHIEF FINANCIAL OFFICER, ETHOS LIMITED**

**Moderator:** Ladies and gentlemen, Good Day and Welcome to the KDDL Limited Q4 FY'16 Earnings Conference Call. This Conference Call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Yashovardhan Saboo -- Chief Executive Officer of KDDL Limited and Ethos Limited. Thank you, and over to you, Sir.

**Yashovardhan Saboo:** Good Afternoon and a warm welcome to all the participants at these earnings call. I am joined as usual at this call by my colleagues Mr. Sanjeev Masown -- CFO of KDDL and Mr. Raja Sekhar, CFO of Ethos- our Retail Arm, 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 BSE website as well as our company website. I must add at the very outset that it has been a disappointment particularly in the quarter four. But please allow me to give you a brief update on the business followed by a commentary on the financial results.

Starting with the consolidated results, for the year FY2015-16, the company registered revenue growth of 10%, growing from Rs. 413 crores from Rs. 454 crores & EBITDA at Rs. 34 crores with a margin of 7.5%. The net profit after minority interest comes to Rs. 5.3 crores. Unfortunately there is a decline from previous year's comparable figure of Rs. 8.7 crores. The reason for this decline and the way forward is discussed at various parts in this update.

Coming to the manufacturing business. The manufacturing business registered revenue of Rs. 121 crores. The business witnessed a sluggish market environment and the revenue declined by about 5% compared to the previous year. This is contrary to our expectation at the beginning of the year that there would be modest growth. The major reason for the decline in revenue was slow down in the Swiss Watch's market which persisted throughout the year which led to a slower offtake on account of inventory buildup across top watch market segments like Hong Kong, China and other principal markets.

In addition, the decline in revenue was also due to the reduction of export incentives on the watch component from 5% in the previous year to zero in the first part of the year and later restored only partially to 2%.

In terms of revenue mix during the year watch component segment continued to be the major contributor with 80% of the share of sales. The Precision Engineering business, under the

brand name Eigen, the revenue there also declined marginally by 3%. The decline was mainly in the export segment due to delay and deferment of projects by the international customers.

On the other hand, the domestic segment for Eigen grew by 25% signaling a shift in gear for this business and giving us a lot of optimism for the current year. There has been an overall revival in quarter four in the manufacturing business compared to quarter three. With the revenue growing by 17% in quarter four, compared to quarter three, clearly showing bottoming out in quarter three in this segment.

The EBITDA for quarter four improved by 2.5% to 19.4% compared to previous quarter. EBITDA for the year stood at Rs. 23 crores with EBITDA margin of 19%. Profit after-tax stands at Rs. 6.6 crores. It may be kept in mind that the profitability of the company was also impacted by recent changes in the Payment of Bonus Act with retrospective effect to the extent of Rs. 62 lakhs.

The company has increased the efforts for enhancing the revenue growth from the Precision Engineering business by marketing efforts for extending the customer reach and improving the flow of leads and queries with rigorous funnel management process. The efforts are yielding positive results and the flow of RFQs is on increasing trend and the order position for next year appears much healthier.

The Greenfield project in the Precision Engineering business is also moving ahead as per plan. We plan to add new capacities and capabilities over the next two years. Most important of which include, Injection Moulding- this goes in combination with the Precision Stamping that we are doing, Electro Plating and additional Precision Stamping capacity together with CNC Machining. This will be added in a phased manner. The addition of these capacities and capabilities will help the company in its plan for rapid growth in the revenue and profitability led by this segment.

During the last quarter the Precision Engineering business has also been recommended for the AS9100C Certification which will enable the company generating business from the aerospace segment. The first phase of expansion in the new facility is planned by the end of the current financial year and we expect to start generating revenue from this facility from next year onwards.

During the year we plan to invest around Rs. 15 crores for the expansion funded both by debt and internal accruals.

Overall we see together with the strong growth in the Precision Engineering segment also a modest growth in the watch segment. We expect an overall growth of 14% to 15% in the manufacturing segment this year and the restoration of EBITDA to about 20% plus.

Coming to Ethos- our luxury watch retail business. Ethos registered a revenue of Rs. 329 crores in FY'16, a growth of 17% year-on-year. Same store sales growth came to about 12%.

Online lead generation contributed 31% of sales that is about Rs. 101 crores of revenue sourced through the online platform. However, this year the business did not end on a happy note for us.

The new Pan Card regulation valid for all transactions above Rs. 2 lakhs was implemented suddenly and without adequate clarifications on January 01, 2016. Actually, the notification came on 30th December. So with the two days' notice on the notification the rules became applicable. While we are convinced that this change is for the better and it will become an important tool for curbing cash in the economy, the immediate reaction to it has significantly impacted our business both in terms of sale and margin.

Our January sales saw a huge decline around 45% on price points above Rs. 2 lakhs as customers struggle to understand and accept the strict new regulations. The decline was highest at high price point i.e. above price points of Rs. 10 lakhs.

From around mid-February, sales started to recover beginning with the lower price points. As a result of the recovery in the second part of the quarter we ended with a net 2% growth as compared to quarter four of the previous year. However, this was still well short of the expected growth of 20% to 22%. This shortfall in sales compared with our target was one of the two main reasons for the large loss incurred in the quarter. The other reason was a sudden decline in margin caused by the increase in discounts as retailers rust to down stock and preserve cash flow in the face of crashing sales.

The decline of the Indian rupee also added to margin contraction. Realigning to the changed scenario, we are changing our products and brand strategy in some significant ways. As there is clearly a faster acceptance of the Pan Card rules in the price points of Rs. 2 lakhs to Rs. 5 lakhs, we will widen this portfolio and strengthen it in several ways. For the price points from Rs. 5 lakhs to Rs. 10 lakhs, we believe, it may take more time for the customer to accept the regulation and until then, we will maintain a leaner inventory at this price point without compromising on the product range. We will at the same time definitely reduce our exposure in the price points above Rs. 10 lakhs.

Over a period of time, there will be a wider acceptance of Pan Card Regulation and sales growth momentum will be that to historical levels. Our new product strategy will enable us to develop a more scalable and profitable business model. I may add here that, the new rules require Pan Card Declaration even for people who are paying with a Credit Card or with a Cheque. That is one major reason why customers even paying with a Cheque and Credit Card sometimes hesitate because they are not sure whether and how their Pan Card is going to be used. We are appealing. We have already appealed to the government to review this rule and not to have the same rules of disclosure of Pan Card when customers pay with a Credit Card and a Cheque. We are hopeful that the government will observe and accept this suggestion and that should also help in the recovery.

Our EBITDA margin was impacted on account of lower than expected sales and also some higher investments in improving our IT, marketing and branding initiatives besides man power in some strategic areas.

In the year ended 31st March 2016, the company has 39 stores across the country with 8 Summit Stores, 4 Duty Free Airport Stores, 2 Duty Free Paid Airport Stores and 25 Ethos Stores. We have opened another 2 stores at Noida in April 2016 taking the store count to 41.

As a result of continuous rigger in implementing inventory management systems we have been able to contain and bring down the inventory in terms of month of stock despite the lower than expected sales. Our inventory carrying months was at the end 7.8 months at the end of FY16 compared to 8.4 months at the end of FY15. We continue our focus on rationalizing and optimizing our physical presence in India and augmenting it with online presence to grow our Omni-channel platform.

During the current quarter, as I have already mentioned 2 stores have already opened at the DLF Mall of India. One is an Ethos store and one is an exclusive TAG Heuer Boutique. We do plan some more additions subject to the availability of locations in important Tier II cities like Jaipur, Pune, Patna and Lucknow- from where we are seeing a robust flow of enquiries on our online platform. We have also signed up a flagship store at the new luxury mall floated by DLF in Chanakyapuri, New Delhi slated to open in early 2017. Overall we are optimistic that the consumer sentiment will turn positive in the second-half of the year after a hiatus of almost two years. Based on this we foresee our growth almost back on track by the end of the year with the full Y-o-Y year-over-year growth of 15% to 16% and an improvement of EBITDA to 4% or near about. This is the first step to get back on track for achieving our medium-term goal of 8% EBITDA and 20% Y-o-Y year-over-year growth.

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

**Moderator:** Thank you, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Aditya Iyer from Dimensional Securities.

**Aditya Iyer:** But I would like to understand what has the business done differently to get such a recovery by the month of April in sales that will be the first question, and the second would be in terms of gross margins how much of the decline would be attributed to incremental discounting because of the new Pan Card rules and how much would be just because of a shift in the general portfolio mix, etc?

**Yashovardhan Saboo:** Sorry, if I got those questions, right, a) you want to know how there has been such a sharp recovery in April and sorry, was the second question?

**Aditya Iyer:**

The second question is the decline in gross margins right, throughout the year especially in Q4 so how much of it is because of say change in portfolio mix of the brands getting sold and how much is because of incremental discounting which is just because of this Pan Card rules?

**Yashovardhan Saboo:**

Okay. So to answer your first question, it is difficult to comment everything, you know, month on month because there is a base effect also and there is a certain rule that we follow on what we bill during the month, right. So typically we bill only when the entire proceeds are here and sometimes that takes there are may be a few days' gaps between when we sell and when we bill. So I think it is more reliable to look at quarter as a whole. As I had mentioned to you, that you know, the greatest impact of the Pan Card was felt in January up to the middle of February. People just deferred purchased because they said there must be a way out. So, I think just to go by one month's figure our growth may not be very meaningful. But if you look at the quarter as a whole- Q4 we saw the worst hit coming in the first six weeks of the quarter, after which it started to recover. So you see a pretty handsome recovery in the month of March and spilling into April as well. May- again there has been growth a little bit less than April we are still waiting for the final figures from the Duty Free Stores and so on. Overall, we expect in the first quarter growth to be somewhere of the order of 8% to 10%, which we believe is very encouraging because you know generally the business at the moment is not showing much growth in the watch category. The reason why we are seeing this growth is that we are very rapidly decreasing our emphasis on the very high price points and strengthening the price points in the Rs. 2 lakhs to Rs. 5 lakhs and Rs. 5 lakhs to Rs. 10 lakhs price category. Overall, we expect that if we are specially helped with a good monsoon and improvement in the consumer sentiment, by the end of the year, we should be back to this 20% growth which is our steady medium term goal.

I am coming to your answer number two, which is how much of the gross margin impact was on what account- I think there three main reasons why this happened. One was product mix, the second was basically a reduction, the fall in sales and therefore the impact of fixed cost becoming much higher. Please remember that this change happened with more or less two days' notice so there is nothing we could do. You cannot really reduce people, you cannot do anything. We have the fixed cost and sales catching by x percent. So, that in itself led to something like more than a 2% decline over there. Product mix- what has happened is a lot of sales turn towards products where the margin was lower and discounts were higher. I do not want to name the brand because that is something a little confidential. But typically in these times, people delayed purchases of watches which were not very obligatory. So what happens is, if someone has to buy for a wedding right, they will buy. They were the ones who could not delay the purchase and typically wedding purchases go for certain brands which are also the brands where margin is the lowest again, I the do not want to name the brands. But those who know the watches brands probably will be able to guess. And this caused a pretty significant contraction as well and third of course was a increase in the discount. But the important fact one of the reduction in sales, second, was the product mix and the third was the increase in discount.

- Aditya Iyer:** Sir, just one question, so would it be fair to assume that despite this new Pan Card rules et cetera for the stronger watch brand that is like almost no impact in sales?
- Yashovardhan Saboo:** I do not think you can say almost no impact. There is an impact on sales but the impact is lesser if the brands are very well known.
- Moderator:** Thank you. The next question is from the line of Naysar Shah from Capital 72 Advisors. Please go ahead.
- Naysar Shah:** Sir, you know since you are focusing now more on price points between Rs. 2 lakh to Rs. 5 lakhs and Rs. 5 lakh to Rs. 10 lakhs and reducing focus above category of Rs. 10 lakhs plus. What impact this would have on our inventory levels?
- Yashovardhan Saboo:** So, that is an interesting question. The inventory levels will not directly be impacted because the inventory of high price brands it will go into the medium price brands or the Rs. 2 lakh to Rs. 5 lakhs or Rs. 5 lakh to Rs. 10 lakhs. But typically we have seen that stock turn is better in the price point between Rs. 2 lakh to Rs. 10 lakhs than at the price point above Rs. 10 lakhs or above Rs. 10 lakhs - Rs. 15 lakhs. So therefore, we certainly expect an improvement in the stock turn on account of this change. I do wish to add that the change is not going to be very sudden because we are holding, let's say we are holding a certain inventory in the price point above Rs. 10 lakhs - Rs. 15 lakhs- we cannot return that stock. So we have to sell that out but not replenish. So it will be a period of six months to nine months and you see a reduction in stock in the price points above Rs. 10 lakh and you see an increase in the stock in the price points below Rs. 10 lakhs. Since stock turn is better in the lower price point overall, it should help in the stock turn and therefore by that measure improve the months of stock that we hold in inventory.
- Naysar Shah:** Okay. And sir, what would be the sales mix for us say now Rs. 2 lakh to Rs. 5 lakhs, Rs. 5 lakh to Rs. 10 lakhs and above Rs. 10 lakh plus?
- Yashovardhan Saboo:** We have got about currently, we are looking at about 7% of the sales coming above Rs. 10 lakhs, about 37% of the sales coming between Rs. 2 lakh and Rs. 10 lakhs and about 55% of the sales coming below 2 lakhs.
- Naysar Shah:** Okay. And sir, just on the gross contribution level, so sales of watches above Rs. 10 lakh that would have lower gross contribution margin, right?
- Yashovardhan Saboo:** In general, yes.
- Naysar Shah:** Okay.
- Yashovardhan Saboo:** The reason is simple that in the very expensive watches- negotiations and the expectation of discount is higher over there.

**Moderator:** Thank you. The next question is from the line of Tejas Sethia from Rare Enterprises. Please go ahead.

**Tejas Sethia:** Sir, you mentioned about the gross margin decline and you gave a couple of points why it has been the case. If we look at the last four year's gross margin profile it has been falling continuously. Can you please elaborate on that?

**Yashovardhan Saboo:** So Tejas, I think, two years it was steady at about 27% then it came to about 25.8% and this year it has fallen. So you are right, over the last two years definitely there has been a fall. Partly, it is related to a change in the product mix, where we have a larger part of our sales coming from high priced brands and high priced products. So as a proportion what were selling at price points above Rs. 2 lakh has gone up quite significantly over the last two years to three years and this is one thing which has impacted. This was not something which was unexpected. What did not happen was that, we were expecting to be able to counter it by pushing the sales of brands exclusive brands where we enjoy higher margins. Unfortunately, that did not happen as much as we had expected which is part of a very different strategy and a different gear shift which we are doing on that part. That is really the main reason. Last year as I mentioned, one of the things which led to this contraction was also the fact that typically when the rupee goes down, as it went last year also, over the year it was down by about 4% or 5%, watch brands do increase their prices. Typically, watch prices increased by about anywhere between 5% to 7% every year. Last year, the first year in several years when it does not happen. In one brand it did not happened even in the previous year. The reason why it did not happen is that as you know, Swiss Watch itself business went into a slowdown from the beginning of 2015 and because of that watch brands are facing an over inventory situation in important markets and they are afraid to increase prices in this situation. Until this sort of plays itself out, there will be that impact. We believe that this over inventory position in the watch business globally will take another three months to six months, after which it should revive. What we also know is that, currently the rupee is trading at about Rs. 67 to Rs. 68 and if this continues to trade at this level, there will be pressures on the brands to increase the prices to go up for price revisions towards the middle of this year.

**Moderator:** Sure. The next question is from the line of Vikram Suryanvanshi from Phillip Capital. Please go ahead.

**Vikram Suryanvanshi:** Sir, basically what I want is that clarification on employee cost in consolidated numbers employee cost is around Rs. 10 crores and if you add standalone is around Rs. 9 crores and then Ethos is around Rs. 5 crores so, is there any adjustment in employee cost this quarter?

**Yashovardhan Saboo:** Sorry, I did not understand your question clearly.

**Vikram Suryanvanshi:** Employee cost in consolidated results what we have publish this quarter is slightly lower compare to last quarter or even if you add standalone number and Ethos employees cost there has been difference of around Rs. 5 crores so, I just do not....

- Yashovardhan Saboo:** Let me get back to you on this.
- Vikram Suryanvanshi:** Yes, sure. And second thing is this high cost inventory you said, that it will take around five months to six months to bring back to the targeted level, is it right?
- Yashovardhan Saboo:** Yes.
- Vikram Suryanvanshi:** Okay. And what would be the strategy to liquidate this inventory or there is still demand which probably will take six months to liquidate, is that what we are looking or the discount will continue on this high price
- Yashovardhan Saboo:** So Vikram there is always a discount right, especially on the high price watches there is always a discount. And you know these are pretty well known brand in their price segments. So of course we will sell them. May be to clear out some of them we have figured a slightly higher discount. The main point is that we will not be replenishing. So typically in a brand if you sell out two prices - three pieces in a month you would replenish those to maintain your stock level to maintain your assortment and stuff like that. Now if we want to bring down a slot of a particular brand from let us say 25 pieces to five pieces or ten pieces by the end of the year we would continue to sell but not replenish. Of course, there are customers still, right.
- Vikram Suryanvanshi:** Right. And how is basically our experience now in terms of servicing revenue from the servicing activities and repair and servicing?
- Yashovardhan Saboo:** Repair and servicing is going up Vikram. There is an increase, there is a development in that segment. Unfortunately, it has not grown as much as we wanted. I think I shared it in the last meeting also. The Senior Manager that we have appointed to head this segment, he has been unwell- he has gone through rigorous phase of chemotherapy and so on. And because he is a very strong person in this field, we do not want to make any changes. He is going to back to work soon, we believe that the service segment will be revived. But there has been a growth in the service segment as well.
- Vikram Suryanvanshi:** Okay. And we also were looking to have like accessories and jewellery to some of the stores so...
- Yashovardhan Saboo:** Yes, so in fact if you remember, when we spoke last I mentioned two specific global brands with which we are doing are the accessories expansion- it was Montblanc and Chopard. And indeed that has moved ahead we have finalized with Montblanc on six locations and Montblanc accessories are already available at four locations and other two will be starting soon. Similarly, for Chopard we have finalized three locations, so this is very much on the move. We will also be adding, we are discussing addition of accessories at slightly lower price points for one or two brands. So Montblanc and Chopard are typically at the highest price point but we are now in discussion to add two brands at medium price points of such accessories. Having said that I would also like to say that, compared to watches, accessories is a pretty small business. So while it increases portfolio of products for consumer interest, it is

not going to move the needle in terms of sales very largely or very significantly. Typically accessories in the watch segment, even in the brands that do well they typically account for only 10% to 15% of the business.

**Vikram Suryanvanshi:** Okay, sir. And last question sir about this Precision Engineering are we really seeing the kind of new opportunities opening up or talking about like aerospace, defense and all that...

**Yashovardhan Saboo:** Absolutely. This is one of our most exciting parts in the business and as I mentioned in my speech we have a much better funnel management, we have great visibility on what are the new enquiries, from which customers were getting the new enquiries and we are quite confident that the results at that bottom of the funnel are going to be significantly better this year than last year and we are going to see a pretty robust growth in this segment not only from existing customers, larger share of the existing customer, but also some important global customers.

**Moderator:** Thank you. The next question is from the line of Tejas Sethia from Rare Enterprises. Please go ahead.

**Tejas Sethia:** Hi, sir I was checking with you about the competition last few quarters we have been mentioning that competition has been increasing and we have been doing more discounting I think that would also be a big contributor to the decline in margin so, if you can elaborate more on that?

**Yashovardhan Saboo:** So it's true that discounting has gone up, what we call competitive discounting, has gone up and this is mainly in higher price points that means on summit related price points, it has gone up. It is not something that you can very easily quantify because it changes across brands and locations. It also depends on what stock you have and what the customer has or what the competitor has. But yes, this is true, it has gone up. What let me speak a little bit about, what we are seeing as our model, going in future. We believe that if a brands is going to be available across multiple retailers in India, there will be no way to stop this competitive discounting. Some brands can control it to certain extent, but it cannot really be eliminated. To step away from this competitive discounting, we have to deal with brands that are exclusive or with a limited distribution. And that is a strategy on which we have been building our platform from the second-half of last year actually. And we have identified a portfolio of 9 -10 brands, across price points going from Rs. 50,000 to about Rs. 10 lakhs where we are negotiating agreements that are either exclusive or on a mutually agreed distribution platform- which is a restricted distribution. That means that brand is not going to distributed by more than in our case in some cases only us otherwise in some cases two retailers in the country. You will see these agreements and you will see these arrangements unfolding during the course of the year. You already know of some of these brands Carl F. Bucherer, for instance is a brand that is exclusively with us and it grew by 62% last year with an improved margin. This year we are already seeing, despite the Pan Card problem we are already seeing a growth which will be in

the region of about 30% to 40%. And I remind you again that this is a brand that is exclusively available with us.

Similarly, there is a brand called Titoni. Titoni, is a well-known brand in India until the early 70's, during the emergency they went away. And it is one of the most it is one of the bestselling brands in the price segment Rs. 1 lakh to Rs. 2 lakhs in China. Almost, second only to Longines & Rado. We have finalized an agreement with Titoni for exclusive distribution in India. We are starting with five points of sale this year and going on to increasing this in a business plan. Similarly, there are advanced discussion with a host of other brands, as I said we are in discussion with nine brands or ten brands and this is the portfolio that we are going to build which will be our strategy to protect and increase our gross margin while obviously still continuing with an important position on all the well-known brands. Typically, you will not able to get an exclusive distribution for a well-known brand. So, we will continue with our brands with the well-known brands many of which you know, we are the number one partner in India for most of them. Very important partners for them and we continue with them but on the side we build our portfolio of exclusive brands which have a higher margin, lower discounts and therefore a higher earnings potential.

**Tejas Sethia:**

So, just I mean where is this competition exactly, I mean given there is no E-commerce competition, no E-commerce selling of higher price point watches so, where is this competition coming from? I mean, I am little confused about it because is it like the exclusive brands, the brands are opening up their own showrooms or....

**Yashovardhan Saboo:**

No, so if you go every city has one or two retailers, owner-managed and these are the retailers for expensive watches & have existed for 30 years - 40 years. So for example, if you are on Mumbai you probably see, you are aware of Time Avenue in Bandra or Watches of Switzerland- these are typically, they are one store or two stores - three store in Mumbai, okay. Similarly, you have similarly in Bangalore, you have in Delhi, you have in Kolkata. So there are retailers for every brand. The best known brands like Omega, Rado, Rolex, they have these retailers which are one-off stores in each city. So there is no pan India sort of network that they have. But in one city they are, right. And they are the ones and you know, many of them have launched their own websites as well. So it is not that obviously our will be only pan India chain. If you go you will obviously see some other names as well. So these are the retailers who also offer the well-known brands which leads to the competitive discounting.

**Tejas Sethia:**

So basically these you know local competitors like regional players are there who are giving us the competition?

**Yashovardhan Saboo:**

That is right.

**Tejas Sethia:**

So you just mentioned that they have their own website as well. Does that mean they are selling through their website just like us?

- Yashovardhan Saboo:** No. so we are not selling through the website either.
- Teja Sethia:** And we are using the platform....
- Yashovardhan Saboo:** We have lead generation model. So no one is allowed to sell through the website that is a fact. So they have a website but I the cutting edge that we have on our website- is our information center, our trained watch specialist and they respond to queries, they catalog queries and the customer data base that we have of more than 2.5 lakh users of premium and luxury watches and the fact that we are pan India. So, I think these are the cutting edges, it is not only having a website but how we actually use that. The other thing which you are welcome to please go on the internet and check our website versus some others and you will see simply in terms of content- the richness and the diversity of content that we offer, the traffic that we get and many a times today if you go to one of these the city shops and you call them and you ask them the price- they will actually tell you to go to the Ethos website and check the price because the Ethos website has now become a reference point for the legitimate prices MRPs across India. So while you know putting it shortly, I think while all the other retailers have put up some websites, I think the cutting edge on the omni-channel platform is really with Ethos.
- Tejas Sethia:** Yes. So sir, given the pressure on our margins at the moment and these pressures are not something that is you know, within our control one is that you know competition is there, other is demand is not much there, other is currency fluctuation because of that we are facing this thing. How do we plan to reach 8% EBITDA margins because it is a big gap that we need to merge?
- Yashovardhan Saboo:** The basic plan that we are working on that is still valid. Last year has been like a gap year. We will see a recovery to EBITDA, as I mentioned to 4% this year and thereafter going on to 8% over the next three years. How this is going to happen I think, it is going to be a combination of operational leverage. We continue to grow at 20% and while costs do not go to that level we have seen that actually this year. We were seeing that clearly happening until Q3 of the previous year as well. It is a stagnation which happened in Q4 that created a problem. The second part, is of course what I mentioned to you- the increase in business with the exclusive brands. Currently, exclusive brands account for about 5% of our business. The margins on the exclusive brands are significantly higher and we believe that over the next three years, this share of business with the exclusive brands can go up, up to 18% to 20% of the business. And that itself will lead to a margin expansion. We believe that margin expansion by about 2% to 2.5% will come through the product mix and about 3% from the operational leverage. So 5.5% from where we are would bring us to 8%. And this is based on very sort of real projections of cost as we are seeing them going forward and the assumption on margins for the exclusive brands based on historical data of those brands.
- Moderator:** Thank you. The next question is from the line of Arun Malhotra from Santalum Capital. Please go ahead.

- Arun Malhotra:** Mr. Saboo, just wanted to understand what will be the total industry size for these luxury watches?
- Yashovardhan Saboo:** It depends at what point you start to define them as luxury. But typically this is done as, we take premium and luxury watches together and premium really means price points above Rs. 10,000 and our estimate of the markets size here is about Rs. 3,000 crores.
- Arun Malhotra:** Got it. Combined it for both premium and luxury, right?
- Yashovardhan Saboo:** Premium and luxury, yes.
- Arun Malhotra:** Okay. And currently what would be the sales of branded or exclusive stores vis-à-vis the retailers what would be the segmentation?
- Yashovardhan Saboo:** When you say exclusive stores do you mean Mono Brand Boutiques?
- Arun Malhotra:** Yes.
- Yashovardhan Saboo:** So first just want to give a clarification, that Mono Brand Boutiques are operated by retailers and there are Mono Brand Boutiques operated by us. So for example there is a Rolex boutique in Bangalore that is operated by us. There is an Omega boutique in Bombay, which is operated by us. So it is not that the brand is operating their boutique.
- Arun Malhotra:** So that would not be counted as an Ethos store?
- Yashovardhan Saboo:** It is. In our count of store, it is counted as an Ethos store, it is mono brand store.
- Arun Malhotra:** Okay. So how this 3,000 crores market be between you are one player then who is the next closest to us?
- Yashovardhan Saboo:** You know as I was mentioning in the previous question, every city retailer who have been operating in that city for 20 years - 30 years and they have a pretty large client base and therefore a large turnover. I would say our estimate is that in the turnover range of about Rs. 150 crores or so, there would be several players based and Delhi, Bombay, mainly in Delhi and Bombay and then you have all bunch of players in the Rs. 50 crores to Rs. 100 crores kind of range. To give you a name, I mentioned, Time Avenue in Mumbai, I do not know if you are familiar with that, Watches of Switzerland. In Delhi you have Kapoor and Johnson. So there are a couple of names like this. I should also mention Helios, which is a division of Titan, is also active in premium watch retail. Helios has a chain of. 46 stores.
- Arun Malhotra:** Okay, all right. And in terms of mature stores how many of our stores would be mature by now in terms of you know let me rephrase it the other way how many stores would be breakeven?
- Yashovardhan Saboo:** Okay. 29 of the 39 are breakeven or profitable.

- Arun Malhotra:** So what I am saying is how long it takes for us to breakeven? I understand it will also be a function of the location but typically what would be the average?
- Yashovardhan Saboo:** It is a function of the location, and it is function of the format of the store. It is typically, luxury store takes longer to breakeven and of course it is a function of what is the rent we are paying, so typically airport stores now the rents have gone up. But an average store should breakeven in the second year, at the end of second year if the stores reach breakeven, we are pretty satisfied about that.
- Arun Malhotra:** And has there been any store where we have closed the store Ethos?
- Yashovardhan Saboo:** Yes, we are pretty active in taking decision to close stores which either are not doing well after two year or we do not see a great potential in the future which may be because of various reasons.
- Arun Malhotra:** So a number of such stores in last year?
- Yashovardhan Saboo:** So, we closed eight stores last year. So, store closure happen because lease runs out and we do not think it is worth renewing or in general we now believe that very small store are not going to be viable in the long run. So we are getting out of small store and moving towards larger stores. So there are lot of reasons why we close down stores but we monitor it pretty closely.
- Arun Malhotra:** Sure. A couple of things more. One is, number of repeat customers then the rental cost as percentage of the total sales and thirdly, the capital requirements in the next one year or two years.
- Yashovardhan Saboo:** Okay, let me go one by one. Repeat customers as a percentage or repeat sales we have got 23%, okay. Rent as a percentage of sales is 8.3% - this is steadily headed downwards and your last question was about capital requirements. So, we are actually looking at a requirement of about Rs. 20 crores to Rs. 25 crores. At the same time, I do want to add a rider here that, one thing which we are looking at- two flagship stores. You are in Mumbai and you know about the Reliance retail project coming up in Bandra Kurla Complex. We are in discussions with them to create a flagship store there and if that should happen, we would have to reassess the capital requirement but as of now we are looking at about Rs. 25 crores of capital requirement.
- Arun Malhotra:** And how would you fund that Rs. 25 crores?
- Yashovardhan Saboo:** We would be looking at an investment through KDDL.
- Arun Malhotra:** Through KDDL or a step down Ethos?
- Yashovardhan Saboo:** We are basically looking at strengthening KDDL's shareholding in Ethos and so the investment would be through KDDL.

- Moderator:** Thank you. The next question is from the line of Sangeeta Tripathi from Sharekhan Limited. Please go ahead.
- Sangeeta Tripathi:** First, I would like to understand, how soon are we going to hit this 20% to 25% growth that we have been clocking historically in Ethos?
- Yashovardhan Saboo:** I cannot wait to hit it again in Ethos. But unfortunately it depends on various things. I do not think it is going to happen overnight. As I mentioned, every quarter we should see some increase but I definitely believe that by the end of this fiscal year we should be back at the 20% growth rate.
- Sangeeta Tripathi:** See why I am asking is because your Slide #5 of the presentation says that in the month of April you are already seeing a 16% billing growth on a year-over-year basis?
- Yashovardhan Saboo:** So, 12 years in this business, I know that we should not get either too excited or too depressed by one month's results. So, I think it is more reliable to consider quarter-on-quarter. I believe to get to a 20% growth, I mean I feel very happy if we can start showing it from this quarter onwards. But realistically speaking, we expect that it back on track towards the end of the year. You know, a lot depends on consumer sentiment in this business. It is no secret that consumer sentiment has been depressed for the last 15-18 months. We are starting to see a certain revival now. People tell me that there will be bottoming out, we are perhaps already seeing the signs of it. A good monsoon would help, lower interest rates would help, GST would certainly help. There are so many factors which are there but I think consumer sentiment does play a large part of this. We hope that helped with that we should get to this, hopefully in the third quarter but definitely by fourth quarter of this year.
- Sangeeta Tripathi:** Okay. And for this year for FY17 you are guiding for a 4% kind of a EBITDA margin as far as Ethos is concerned?
- Yashovardhan Saboo:** Correct, we are hoping we will be back to where we were two years ago.
- Sangeeta Tripathi:** Okay. Secondly, I need to understand what are the margins in the Precision Engineering business because you are expanding out there. So if you can just give me margins for the Precision Engineering the EBITDA margins.
- Yashovardhan Saboo:** We are currently experiencing EBITDA margin of about 16%. We believe over time this will go up but as we will be investing in this business not only in terms of CAPEX but also in terms of manpower, it will take time. But we are pretty confident that it will hold its own at the (+20%) EBITDA in the years to come. Currently it is at about 16%.
- Sangeeta Tripathi:** And this Rs. 25 crores of investment that we are putting over a period of three years what kind of revenue that will give on a full potential basis.
- Yashovardhan Saboo:** I am just giving it to Sanjeev Masown to answer this.

- Sanjeev Masown:** Sangeeta, basically we are looking for in the next four years to five years reaching a revenue of Rs. 100 crores from Precision Engineering business.
- Sangeeta Tripathi:** Okay. Rs. 100 crores out of this Rs. 25 crores, right?
- Sanjeev Masown:** Some more investments but major I think we will be hitting by this number. It is possible to reach Rs75-80 Crores with the improvement in efficiencies and additional capacity we are doing and may be in the third year some more CapEx will be there.
- Sangeeta Tripathi:** Okay, lastly you have increased your take in Ethos by a preferential allotment 2% increase in the stake for Rs. 4 crores, right? So apparently the press release mentions that it has been fairly valued by an agency, I mean going by that standard if I look so Ethos has been valued at around Rs. 200 crores which utilize 0.6x FY16 sales I just wanted to understand who is the independent valuer out there and don't you think the fair value of Ethos supposed to be low in my context, what I understand Rs. 200 crores value of Ethos for the kind of business that we are in. So want to understand what basis this valuer adopted for valuing this stake in Ethos?
- Yashovardhan Saboo:** So, it's been done by a recognized merchant banker and the method used was Discounted Cash Flow- pretty much a recognized method. I do want to say that this valuation was done about a year ago. So, it is part of a shareholders' approval that was a year ago. I think the shareholder's approval was in April, if I am not mistaken it was in April 2015 and it was valid for one year, up to April 2016. So we pretty much did all the investment at the same, without going in for a fresh shareholders' approval.
- Sangeeta Tripathi:** Okay. So now you are coming out with equity dilution, you want to raise equity through KDDL, right?
- Yashovardhan Saboo:** To clarify, further fund raise will be considered in case of additional requirement. And for this we will explore all the options available to us at that point in time including fund raise through equity issue to KDDL)
- Sangeeta Tripathi:** So any timeline by when you want to do this equity raising?
- Yashovardhan Saboo:** It will be subject to if and when we require additional funds. And accordingly we will start discussion on this, with our current stakeholders and understand what is the best way forward.
- Sangeeta Tripathi:** Okay, sir and finally, you were talking about rental in the pre-owned watches so, new development as far as Ethos is concerned. So any status on that, any update?
- Yashovardhan Saboo:** Yes, unfortunately there are legal issues which we have not been able to resolve fully both in the pre-owned watches and related to that in the watch rental scheme. It seems it is not as simple as we had thought. We are still working on it to handle this but there are some complications that we need to go through. So, I do not see a very early break through on this.

- Moderator:** Thank you. The next question is from the line of Mithun Soni from Geecee Investments. Please go ahead.
- Mithun Soni:** Just a couple of questions. So we have as on FY16, Ethos has an inventory of about Rs. 164 crores. Would you be able to broadly give us a break up as to how is the mix, as you gave for sales in terms of the inventory for products worth above Rs. 10 lakhs between Rs. 2 lakhs.
- Yashovardhan Saboo:** I do not have that break-up right here with me.
- Mithun Soni:** The reason why I am asking is as we get how much capital can we release because while you will take the way which is 7% of it top-line you will not require to the same extent on the other segment so the simple reason because you said that the turnover is higher over there in inventory turnovers.
- Yashovardhan Saboo:** Well if we assume that the business is not growing then what you are saying is absolutely correct. If we say that we can grow the business by 20%. But since the business is going to be growing, we will need stock in the lower price points as well. What I know will happen, is that at higher price points, the stock turn is lower and therefore, to the extent we can substitute lower price points for the higher price points there will be on the margin improvement & stock turn and to that extent you can say there will be a release of capital. But it is not that the capital is not going to get reemployed in stock. It will get reemployed but had we stuck to the higher price points, we would have needed more capital.
- Mithun Soni:** Let me put it in a different sir, up till Rs. 5 lakh price point, the watches what we sell what will be broadly inventory turns? See the reason why I am asking is very simple, like we are high value product retail, so EBITDA, gross margins is something which we should be aware even if we do about 25 goes up to 27-28. It is the inventory where the capital is block and the key to our coming to 20% ROE, will be higher inventory turns that is because it is, the faster the inventory we can turn if we are able to bring up to 2x to 2.5x inventory turn that is where we are able to achieve the high ROEs and ROCES and that is where we become a self-sustaining model without requiring to dilute equity for growth. So simple question comes is, where do we see our inventory turns with all the changes in the strategy settling over the next two years to three years.
- Yashovardhan Saboo:** So it also depends are we talking about- paid inventory turns or are we talking about total inventory turns, right. So, there is the element of what credit conditions you have- that also plays a part in this. Typically, we believe that an average of two stock turns the business becomes nicely profitable. It would really mean a stock of six months on cost basis. Currently, so that really is our goal. As I mentioned, previous year we closed 8.4 and this year closer we are down to 7.8. So, still a little way off until six months of stock. But that is our goal, so I am pretty confident that in two-years maximum three years will be down to six months of stock. So, we can get to the two stock turns that we are talking about. Now, two stock turns will not be two stock turns across all brands. Today, we have brands that have stocks turns of 2.5 and

even 3 and obviously they are profitable, more profitable than the brands where the stock return was only 1.2. But sometimes we need the portfolio, right. So for example, if it is a brand like Cartier or a brand like Rolex or Brietling- I am not saying which is high stock turn and which is not. But some of the brands may have a low stock turn but in terms of creating a portfolio and visibility and attracting customers we still need that brand. So you know there are various considerations over there.

**Mithun Soni:** Agree I am talking at the portfolio level.

**Yashovardhan Saboo:** You are absolutely correct, we need the stock turn of two. That is our target and I think we are well on the way to it. Some of the silver lining of the last quarter and there were few because it was a disturbing quarter for us. Despite all of that, we were able to make sure that we kept to our target of stock and that is only due to a very robust sort of inventory management system that we put in place and we believe that it will further go down end of this fiscal as well. So 6 months inventory at the end of two years- doable but tough. Six months at the end of three years- definitely.

**Mithun Soni:** Yes, my second question is with respect to the infrastructure- the stores. Even someone who wants to buy Rs. 15,000 - to Rs. 20,000 watch looking at something like Titans of the world and all that or whatever Titan and lower end of the Rados of the world. He is someone who may not be willing to travel. But in my analysis, what I have done, people from all over Bombay are willing go to Time Avenue they do not mind going from South Bombay all the way to Bandra because there are spending Rs. 2 lakhs - Rs. 2.5 lakhs - Rs. 3 lakhs because this is an important involvement and for a man since watch is an important accessory they are involved in that decision it is a high involvement asset, they do not mind traveling to that extent. So my question here is that is it fair or is it possible that rather than having a lot many stores have three or four marquee stores, so that will help us control on our inventory and that is the where we will be having a lot more Rs. 2 lakhs to Rs. 5 lakhs or above up to Rs. 10 lakhs of items and all these stores should just be having run of the mill or small, do we feel that sort of change is required or not?

**Yashovardhan Saboo:** So Mr. Soni I am going to invite you to become a strategist for us because that is pretty much our strategy in a nutshell you pretty much captured the strategy that we are working on. A) Yes, we believe flagship stores are the way of the future. Flagship stores- which means what you call marquee stores, where the large collection of brands, some hard to find brands, large collection of products. So when a person is buying an important or expensive watch, he will go to that, he does not have to go his neighborhood. He will travel half an hour, one hour for that. So clearly the direction especially in larger cities is fewer stores, larger stores one or two marquee stores. In my speech I already told you we have signed up our flagship location in Chanakyapuri in Delhi. And I also mentioned that we are looking at a flagship stores at the Reliance Mall or the Reliance Convention Center which is coming up at Bandra - Kurla. I just want to underline over here what is the size of the store we are talking about. Currently our largest stores are in the range of 1,200 square feet to 1,400 square feet. What we have signed

up in DLF Chanakyapuri is 2,300 square feet. What we would like to sign up in Mumbai is going to be something of the order or 3,500 square feet or 4,000 square feet. Absolutely in the definition of marquee stores that you are saying and corollary of this would that we would be closing down the smaller stores. No need to have 10 stores in one city. However, Mumbai is not really one city, so perhaps we would need across Mumbai two marquee stores and two smaller stores or three smaller stores.

**Mithun Soni:** The reason is you know like for example you have a store in Nariman Point. So, you may have small stores but it is not the store which is putting pressure. It is the inventory if we have to put at the Nariman Point Store, you are not going to attract that much amount of sale because now not many people come here versus you will get as much of business coming from BKC itself.

**Yashovardhan Saboo:** You are right, so that is the point and that is also the reason why despite of omni-channel or a website we need a presence even in cities like a Jaipur, like a Lucknow. Because earlier we thought that we will be able to serve that purely through our internet and lead generation program but a presence is important. So direction in future- in larger cities, marquee stores with fewer stores and a presence also in the Tier-II cities. It is a change from the strategy that we have done two years ago. But it's an evolving market and clearly the omni-channel platform is also forcing us to relook at all our assumption. So essentially absolutely, right what you are saying that is exactly our strategy.

**Moderator:** Thank you. The next question is from the line of Pritesh Vora from Incedo. Please go ahead.

**Pritesh Vora:** My question is on the same inventory level. How the inventory cycle actually works- does it belong to KDDL and how do you dispose of the unsold items what do you do in the inventory cycle.

**Yashovardhan Saboo:** So most of the stock is owned by us, so we buy the stock. How it is disposed of depends a little bit on what segment we are talking about. So typically in what we call the fashion segment, which our price points below Rs. 20,000 - Rs. 25,000, we have arrangement with most of the brands- we have arrangement of return of stock, unsold stock. But typically they also do what are called End of Season Sales- in which sometimes the entire promotion and whatever benefits are given to the customer they are taken by the brand and sometimes it is shared with us. So that is what happens at the fashion price points. At higher price points, with some brands we have the arrangement of exchange, while with the best known brands there is very little possibility of a return or exchange. But these are also brands where products do not become obsolete. So typically in a Rolex, in Omega or Cartier- you will see the products are on the catalog for 10- 15 years - 20 years. If you see a certain Rolex model it has been on the catalog for 20 years and very often we do have stock which is two years old, but that when it sells itself & sometimes it has the price increase benefit which actually helps us to sell it at a better margin than it was when we would have got it as new, you know, when it was just recent. So, it depends. To answer your question, it depends really on which segment and which brand we are talking about.

- Pritesh Vora:** So as per policy fashion you will definitely dispose-off after one year, is it correct way to put it?
- Yashovardhan Saboo:** Again I do not think there is a hard and fast policy. There is an arrangement and an understanding that we have with brands. So, clearly if it is a sale or return kind of arrangement then we will return it, they will exchange the stock.
- Pritesh Vora:** Okay. I just want to understand what kind of management control the do you have on your inventory when you decide who takes the decision, whether we get....
- Yashovardhan Saboo:** This is taken by our merchandizing department. So we have guidelines as to what to do when stock reaches a certain level in terms of age, what is to be returned, under what arrangement, if it is not to be returned what kind of a discrete promotion are we going to offer to dispose it off. At the same time there may be some models where even if it has been there for 18 months we would say, no need because we know that it will sell.
- Pritesh Vora:** So you mention on the higher price point there are certain brand where there is no exchange with the brand owner. So what kind of percentage of inventory these kind of items occupy at present? If I want to bifurcate all of your inventory into fashion segment, higher price point with exchange, and higher price point without exchange.
- Yashovardhan Saboo:** I do not have that break up right here Mr. Vora.
- Pritesh Vora:** Okay. But how do we assess your inventories are you know healthy level what kind of how do we assess as an investor?
- Yashovardhan Saboo:** We have 7.8 months of inventory compared to 8.4 months in last year I think what is useful is also to benchmark internationally. So with a 7.8 months we are within the international benchmark for inventory holding in the premium and luxury segment. We would like to go down to six months. Six months would be pretty much the cutting edge. Internationally, in Asia, you have inventories between seven months to eight months, and in Europe and USA you have inventories of nine months to ten months. We cannot really compare with them because their cost are 2% and 3% compare to 12% and 13% for our but typically in the business we are pretty much in the benchmark level and with six months we will be at the cutting edge.
- Pritesh Vora:** Right. And my final question is sir, have we done any equity raise in the recent past?
- Yashovardhan Saboo:** AT KDDL, yes we have.
- Pritesh Vora:** When it was raised and how much money?
- Yashovardhan Saboo:** It was raised in August 2015, we raised equity of about Rs. 30 crores.

- Pritesh Vora:** What price it was raised sir?
- Yashovardhan Saboo:** For the price of Rs. 297.50 per share.
- Moderator:** Thank you. We have a follow-on question from the line of Naysar Shah from Capital 72 Advisors. Please go ahead.
- Naysar Shah:** Sir, would it be possible to quantify the gross margin across three segments less than Rs. 2 lakhs, Rs. 2 lakhs to Rs. (+10) lakhs?
- Yashovardhan Saboo:** We do not have it right now but we try to get it to you.
- Naysar Shah:** Inventory turns for say less than Rs. 2 lakhs - Rs. 2 lakhs to Rs. 10 lakhs and above Rs. 10 lakhs.
- Yashovardhan Saboo:** Yes, so we will work that out and we will provide that you.
- Naysar Shah:** Okay. And sir, in your presentation you said that you are taking some steps to rationalize the manpower cost and rent and all so, can you just elaborate a bit on that?
- Yashovardhan Saboo:** Okay, Mr. Shah, I am not sure exactly which part of speech you are talking about. It is true, we are looking at rationalizing the cost okay, this is not in my speech but in the presentation, Yes.
- Naysar Shah:** Sir, it is on Page #8.
- Yashovardhan Saboo:** Yes, I got that. So, it is basically to improve the operating leverage, we are looking at- what is the man power we need per unit of sales, per value of sales; which are the stores that are inefficient in this respect and also what we can do by restructuring the business differently to save on man power cost. It is a little bit of an elaborate exercise which is difficult to explain just on the phone, but to give you an example- most of the airport stores, including the domestic airport stores, over the last two years they have converted to an extended time operation. So airport stores now have to remain open until 11:30 at night and required to open at 4:30 in the morning, I am not talking about international stores but domestic stores. And the reason for that is that you have to open in time for the first flight and close after the last flight has left. This typically has required us to go into three shift operation in the stores. Without really commensurate increase in the sales. So, we are looking in how we can rework this and have a skeleton staff operation at certain times, what we can do. Also how we can combine some of the airport stores with some of the domestic stores. This is what I meant by restructuring.
- Naysar Shah:** Okay. And sir, in one of your earlier comments that you want to increase the share of exclusive brands, okay, so while margins would be higher would it not require you to store more inventories again there because these are exclusive brands?

- Yashovardhan Saboo:** You are right. So we do not expect the stock turn to be exactly the same as it would be for the better known brands. But we believe that it will be possible to enhance that gradually over two years to three years to a focus marketing efforts. What I did not mention or elaborate too much on, was how we are going to push the strategy of exclusive brands through marketing. You know I had mentioned that this is something that we had planned to do this three years - four years ago as well. It did not work then. So a valid question would be what is going to be different now and the reason is simply is 4-5 years ago when we wanted to push exclusive brands, we did not have the means of doing that in terms of marketing. Typically, these brands would not have crores of marketing budgets and five years ago there was no other way except to advertise or promote in the mass media. Today with our database of 2.5 lakh customers, 7 million visitors on the site- we have the means of establishing lesser known brands which are exclusively in Ethos, at a fraction of the cost it would have taken four years - five years ago. So, in our strategy we are actually increasing our marketing spend and a larger part of the marketing spend being to promote the exclusive brand. So yes, to answer your question yes, in the beginning the stock turn on the exclusive brand might be a little lower than the stock turn on well-known brands. But the higher margin will more than compensate for that. We would also like to mention that on many of these exclusive brands, we have payment terms which are very favorable. For some of them, we have payment terms which are 150 days as compared to 60 days for some of the well-known brands.
- Naysar Shah:** Okay. So if I just look at the say inventory days and say payable days you know net of that so, it would not be worse of is it?
- Yashovardhan Saboo:** No, it will be favorable.
- Naysar Shah:** And sir, I have few more questions from the manufacturing side, so is this new facility will be commissioned by FY17 end, right?
- Yashovardhan Saboo:** Correct.
- Naysar Shah:** And sir, also you said you know you will be making few investments there over the next few years so what is I mean initial investment of Rs. 25 crores what kind of sales you can generate and may be few more investments with investments in next couple of years what would the ideal sales that would come from that facility?
- Yashovardhan Saboo:** We believe that the foundation has been laid to create a Rs. 100 crores business over the next three years to four years in this. I will just elaborate that a bit shortly. You know our main line of business right now is Precision Stamping and Toolings for these Stampings. That in itself is a pretty large market and it is growing- both export and domestic. However, that gets multiplied manifold if you can combine it with a couple of critical operations. Currently, we are either outsourcing or we are not doing those operations. Which are these operations- they are injection molding so, with precision injection molding and combining it with stamping you start to go into sub-assemblies for high precision components whether they are in electrical

field, whether they are in aerospace field or whatever. There is the other thing which you can combine it, is with electroplating, third thing is with machining. Now these are the three main areas that we are adding. The first investments for injection molding has already been done and the first results are extremely encouraging. So we want to actually go ahead with that. In the new facility the thing that we will establish right away, is the electro plating facility, which becomes very important for connectors, relays and all kinds of electrical fittings. So that is the second point over there. Machining is something that we would leave to the third phase. So this Rs. 25 crores investment is also not going to happen at once it is going to happen over the next two years, we are estimating about Rs. 15 crores this year and the balance next year. We believe this gives us the potential to increase the business from the current level to about Rs. 100 crores we believe that beyond Rs. 75 crores to Rs. 80 crores some more investment in another Rs. 5 crores - Rs. 6 crores may be required. But typically with the Rs. 25 crores to Rs. 30 investments we should be getting to Rs. 100 crores in the next four years.

**Naysar Shah:** Okay. So sir, may be say Rs. 30 crores of investments and you are already doing Rs. 20 crores of business- precision engineering right now so, Rs. 30 crores investment and additional Rs. 80 crores sales is that the right way to look at it?

**Yashovardhan Saboo:** Yes.

**Naysar Shah:** Okay. So about 2.5x asset turn.

**Yashovardhan Saboo:** Yes.

**Naysar Shah:** Okay. And, sir, what kind of working capital requirement for this business?

**Yashovardhan Saboo:** I am going to let Sanjeev answer that.

**Sanjeev Masown:** Mr. Shah, basically in the engineering business normally for the working capital, we require three months of working capital, put together both inventories and the debtors.

**Naysar Shah:** Inventories plus debtors' minus creditors, right?

**Sanjeev Masown:** Yes.

**Naysar Shah:** Okay. And sir, you said that KDDL would be increasing the stake in Ethos and so KDDL would be investing , you mean dilution at Ethos level right, because you raise money last year so KDDL would be investing from its own internal accruals and KDDL will not be diluting right?

**Yashovardhan Saboo:** You are right, so KDDL will be investing from its internal accruals as it has done in the last year.

**Naysar Shah:** So there is no dilution in KDDL just to clarify that?

- Moderator:** Thank you. We have a follow-on question from the line of Aditya Iyer from Dimensional Securities. Please go ahead.
- Aditya Iyer:** My second question actually would more regarded to the ticket sizes and the lead generation and over the past quarter or so despite the Pan Card rule so have the ticket prices moved meaningfully in terms of both coming from online lead generations as well as walk-ins that is one. And second, the lead generation have you seen any changes in those, as in, are you like getting greater number of leads which are not converting or are the leads itself lower?
- Yashovardhan Saboo:** Mr. Iyer so overall the average price point has moved up from around Rs. 58,000 to about Rs. 62,000 in Q4 compared to previous year. However, the price point on sales from lead generation has come down from Rs. 1 lakh to about Rs. 80,000 and this is evidence of the facts that leads for very high priced watches have come down and this is clearly evident, people are hesitating to buy very-very expensive watches whether in the stores or even enquiring for it. In terms of numbers of leads, that information we are no longer sharing but what I can tell you is that there has been an increase in conversion not a reduction in conversion. The conversion has gone up and it has gone up more than just marginally.
- Moderator:** Thank you. We have a follow-on question from the line of Sangeeta Tripathi from Sharekhan Limited. Please go ahead.
- Sangeeta Tripathi:** I just wanted a clarification you said that by the end of this year you will be doing an equity dilution in KDDL, right, is my understanding right on this part?
- Yashovardhan Saboo:** In this year, there will be an investment in Ethos by KDDL. This will funded through internal accruals, as per our stated plan of action. However, if and when there is any additional requirement, we will explore all options available to us at that point in time including fund raise through equity issue to KDDL.
- Sangeeta Tripathi:** Right, okay. So what would be the quantum I mean if you can elaborate on that?
- Yashovardhan Saboo:** This is still something which is not a very urgent requirement as of now.. If you remember, I had mentioned that we are looking at whether the investments will be required for the flagship stores and really based on that we will be able to check what is the investment we need.
- Sangeeta Tripathi:** Okay. So this can also be a rights issue rather than a QIP. I am asking you because promoter stake already in KDDL is around 47.6%, around 48% so, further dilution if it happens through a QIP route that will lead to diluting the promoters holding much more. So, at what shareholding level are you comfortable as a promoter in the company?
- Yashovardhan Saboo:** So you know I am not the only shareholder. so I really answer for everybody and frankly I really do not want to answer as a shareholder in this meeting, I am really here to answer questions as the management of this company. I think decision on the shareholders Sangeeta is going to be taken pretty much by shareholders and theoretically it is true, there can be either a

rights issue or there can be a QIP or you know whatever. When we are ready to do this, we will talk to all the stakeholders including shareholders and experts and well-wishers like you to guide us as to what would be the right way.

**Moderator:** Thank you. As we there are no further questions, I would like to hand the floor over to Mr. Yashovardhan Saboo for closing comments. Please go ahead.

**Yashovardhan Saboo:** I would like to thank everyone for joining on the call. And I hope we have been able to respond to your queries adequately. For any further information please get in touch with SGA, our Investor Relation Advisors. Thank you once again and have a nice evening.

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