“KDDL Limited
Q4 FY2019 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the KDDL Limited Q4 & FY2019 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 day of this call. These statements are not the guarantees of future performance and involved 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 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. Thank you and over to you Sir!

Yashovardhan Saboo: Good afternoon everybody and welcome to everyone for our Q4 and FY2019 earnings conference call. I am joined by Mr. Sanjeev Masown, CFO of KDDL and Mr. Raja Sekhar, CFO of ETHOS and SGA, our investor relations advisors. I hope everyone has had the chance to go through our updated investor presentation uploaded on the exchanges and the company's website. I will start by a brief on the financial performance on consolidated basis.

Consolidated revenue rose by 24% to Rs.624 Crores in FY2019 from Rs.502 Crores in FY2018. We continue to witness handsome growth in both our businesses; retail and manufacturing businesses grew at 24% and 20% respectively. Consolidated gross profit grew by 32% YOY from Rs.200 Crores in FY2018 to Rs.263 Crores in FY2019. Gross margins improved by 235 basis points from 39.8% to 42.2%. Consolidated EBITDA grew from Rs.44 Crores in FY2018 to about Rs.66 Crores in FY2019. EBITDA margins improved 170 basis points YOY to 10.5% in FY2019, better cost control, higher utilization of capacity and exclusive brand strategy in ETHOS are the main contributors to this margin uptick. Profit after tax after minority interest increased from Rs.17.1 Crores in FY2018 to Rs.22.1 Crores in FY2019 recording a growth of 29%. Our consolidated performance was impacted due to the loss in Estima our newly acquired hands manufacturing company in Switzerland. This company incurred an expected loss of about Rs.2 Crores. We have a detailed plan to turn the company around on which I will elaborate in the later part of the speech. Our debt equity ratio stands at a comfortable 0.75x. ROCE has increased by 50 basis points to 18.3% and we expect the uptrend in ROCE to continue. The Board of Directors has recommended a final dividend of Rs.2.5 per equity share subject to approval of shareholders in the ensuing AGM.

I now move to discuss the manufacturing business performance for the quarter and full year. Manufacturing business segment of watch components, precision engineering and ornamental packaging continues to grow on expected lines. Our standalone manufacturing revenue grew about 20% YOY from Rs.146 Crores in FY2018 to Rs.175 Crores in FY2019. The share of watch component business was 73% and precision engineering contributed 23% of the revenue. The revenue from both segments was broadly similar in the previous year in terms of proportions. The EBITDA margin in FY2019 stood at 18.5% and in Q4 it was 19.6%. We witnessed improving utilization level in all our manufacturing plants.

Swiss watch exports in 2018 witnessed an increase of 6.3% over the previous year, growth in the Switzerland watch business was particularly strong during the first half of the year, but slowed in the second half. Watches priced below Swiss francs 500 export price, fallen back in quantity terms by 5% whereas watches above 500 Swiss francs have seen an increase of 7.5% by value and 8.1% by volume. All major markets except UK and Italy have witnessed growth compared to previous year in the business of Swiss watches.

The Indian watch market is also witnessing positive traction in volume sales and this is adding to our sales growth. Our watch component business witnessed a growth of 19% in FY2019 in the domestic segment. This segment registered revenue of Rs.129 Crores in FY2019 compared to revenue of Rs.108 Crores in FY2018. We remain on course to delivering steady growth in this segment. The acquisition of Estima AG in Switzerland will further enhance our client reach and market share.

As mentioned during our last call we acquired 100% ownership of Estima AG in Switzerland. This company has been a leading supplier to Swiss and European watch brands in the mid price segment and has enjoyed a high brand recognition. However, the company was unable to keep up with changing market dynamics leading to market share loss and declining turnover. We have acquired 100% holding of the company at cash consideration of 400,000 Swiss francs in addition to taking over the existing debts of the company. We believe the acquisition of this company in Switzerland will help in creating a sound base for expanding our market reach to new Swiss brands and Swiss made regulations will help in further growth of the company. As expected, this company incurred a loss of about Rs.2 Crores, which impacted our profitability in Q4 previous year. However, we have chalked out a detailed strategy to turn around Estima AG and to curtail the losses going forward and bring it into profitability as soon as possible. With Estima we are confident of building a strong pipeline of customers in the mid to high price segment in Swiss and European watch market. We believe our own skill sets in component manufacturing developed over the years in India will help us immensely to turn around this business quickly.

A precision engineering business Eigen witnessed a revenue growth of 15% YOY from Rs.34 Crores to Rs.39 Crores in FY2019. During the year revenue for some months was affected as we shifted our facilities to the new location at the aerospace part near Bengaluru International Airport. The new factory is now fully operational and we anticipate that this division will continue strong revenue growth. Our plans to improve internal efficiencies and improve turnaround time will help in encashing the emerging opportunities for a profitable growth. The order book in this segment remains particularly healthy.

Let me now discuss our watch retailing business in ETHOS. FY2019 has been a very good year for ETHOS. Our efforts of the past have paid out well and almost all our metrics are improving, we reported the following, billings growth of 22%, ROCE improvement of 668 basis points on YOY basis for FY2019, ROE improvement of 544 basis points on YOY basis in FY2019 ,recorded a high gross profit and EBITDA margin, highest ever profit after tax, highest ever contribution of exclusive brands to the revenues. With the closure on FY2019 we assess our market share to be around 15% or 16%, we strongly believe there is ample room for growth in market share from current levels. We are playing out on the inherent strength of the business model, which will continue to increase our market share. The main points include being the largest network of luxury brands on a Pan India basis this enables us and the brands to coexist and grow the market in a synergistic way. The exclusive brand strategy, this is a unique proposition, which continues to play out well and contribute significantly to the growth of profit of ETHOS.

Digital marketing strategy, this allows us to make a lasting impact in the minds of the customer for everything in the world of luxury watches. Finally an enhanced store experience we are continuing to invest in renovations of major stores and installing new flagship stores. The positive impact on the sales of this renovated stores and flagship stores is evident from the improved sales performance.

The financial highlights for ETHOS are as follows. Our billings for FY2019 grew by 22% YOY to Rs.513 Crores. For Q4 the growth was 6% YOY to Rs.119 Crores. Billings of exclusive brands grew faster at 55% YOY to Rs.83 Crores in FY2019. In Q4 the billing of exclusive brands grew by 44% YOY to Rs.20.3 Crores. Exclusive brands contributed over 16% to the FY2019 topline and in Q4 to over 17%. Revenues for FY2019 grew 24% YOY to Rs.445 Crores while for Q4 the revenue stood at Rs.103 Crores versus Rs.97 Crores in the previous year registering a 6% YOY.

The growth in the second half of the year was somewhat muted on account of temporary supply constraints of some brands and our decision to postpone the annual promotion sales. Gross profits grew by 50% from Rs.86 Crores in FY2018 to Rs.129 Crores in FY2019, for the Q4 gross profit growth was 35% to Rs.35 Crores.

Gross profit margin increased from 24% in FY2018 to 29% in FY2019, an increase of nearly 500 basis points. Our gross margin for Q4 was at 33.8% versus 26.5% in Q4 of previous year. Normalized EBITDA that is the EBITDA before one-off foreign exchange items and a legal case provision has nearly doubled to over Rs.36 Crores in FY2019. For Q4 the normalized EBITDA stood at Rs.5.2 Crores. The normalized EBITDA margin stood at 8.2% for FY2019 versus 5.2% for FY2018 an improvement of about 300 basis points on YOY basis. For Q4 the normalized EBITDA margin stood at 5%.

Profit after tax jumped manifold from Rs.4 Crores in FY2018 to Rs.13.2 Crores in FY2019. The profit after tax stood at Rs.90 lakhs in Q4. The drop in Q4 FY2019 profits was on account of a loss in a digital marketing subsidiary cognition. The loss before tax was to the tune of Rs.1.2 Crores. The financial performance of cognition has to be looked on a yearly basis and not on quarterly basis. For full year FY cognition reported an EBITDA of Rs.3.5 Crores and profit after tax of Rs.2.2 Crores.

Cash profit increased 222% to Rs.18 Crores in FY2019 up from Rs.8.1 Crores in the same period last year. For the quarter the PAT was Rs.2.3 Crores. Stock carrying months at the end of March 31, 2019 was 7.8 months, which is slightly higher than the previous year. This is mainly due to new stores that were launched towards the end of the year for which stock obviously was included in the closing stock, but the sales was yet to start.

Debt equity stood at 0.5x at the end of March 31, 2019. ROCE increased by 668 basis points on YOY basis from 7.3% to 14% and return on equity increased by 544 basis points from 4.4% to 9.8%. During the year we opened four stores, our store count on March 31, 2019 stood at 47 it has now increased to 48. We are happy to announce that we have launched our largest store in Hyderabad measuring over 5000 square feet in May. The state of the art luxury showroom of watches is expected to be a game changer for the city of Hyderabad. We are now close to open a large format store in Kolkata and expect good traction from these large format stores.

Our exclusive brand strategy has played exceptionally well, during the first phase we entered in exclusive tie up with brands in the Rs.50,000 to Rs.200,000 price package having exclusive arrangements with many brands; we believe we now need to extend this strategy to higher price points. We are therefore keenly looking to add exclusive brands in the price point between Rs.200,000 to Rs.500,000 and also in the segment between Rs.5 lakh and Rs.10 lakh. We expect to increase our market share in this segment going forward. The growth opportunity is immense in watch retailing in India. Our strategy of strong brand relationship, a strong store network across India, digital marketing focus and a strong omni channel platform will enable us to maintain our leadership in the luxury watches market in India. The support from a dedicated after sales service watch center that we have opened in

Delhi last quarter along with the business of pre-owned watches will further make ETHOS a torchbearer for the luxury watch market in India. I now welcome your questions and participations.

Moderator: Sure thank you very much. We will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Ritesh Bafna from RB Securities. Please go ahead.

Ritesh Bafna: Thank you for the opportunity. I have a question on our capex plan. Can you just let me know what is the capex for the manufacturing segment and for the ETHOS segment for the next year?

Yashovardhan Saboo: Okay, do you have any other questions Ritesh?

Ritesh Bafna: One more thing the debt levels at Estima AG?

Yashovardhan Saboo: So let me take the manufacturing side. The capex planned in manufacturing in the current year is about Rs.18 Crores and this is mainly for the growth of the watch component business. There is almost no capex planned in the precision engineering business. The debt in Estima everything put together is about 2 million Swiss francs which is about Rs. 14 Crores

Ritesh Bafna: How many stores do you plan to open in the coming year?

Yashovardhan Saboo: So capex in ETHOS we plan to open 8 stores and the total investment in the 8 stores including stock stands at around Rs.50 Crores of which Rs.20 Crores is by way of equity and Rs.30 Crores is by way of internal generation.

Ritesh Bafna: Okay. Thank you so much. That is all from my side Sir.

Moderator: Thank you. The next question is from the line of Shalini Gupta from Quantum Securities. Please go ahead.

Shalini Gupta: Good evening Sir. Just wanted to check you had given the sales figure for Eigen and saying that the growth has been 15%, so if you could just repeat those figures?

Sanjeev Masown: I think you want to know the sales of Eigen business, precision engineering business. Last year we have reported Rs.39 Crores of revenue in that, which is almost 15% growth from the previous year.

Shalini Gupta: In the other business?

Sanjeev Masown: The other business, main business is the watch component where the revenue is Rs.145 Crores.

Shalini Gupta: Rs.145 Crores?

Sanjeev Masown: It is Rs.129 Crores in the watch component business and there we have recorded a growth of around 19%.

Shalini Gupta: Okay and Sir my second question was like you were saying that you are investing in renovation of existing stores, so like we have a sense of how much we are spending when you are opening a new store, but how much will you be spending on renovation?

Yashovardhan Saboo: So that the renovation in the existing stores is included in the capex that I had given you.

Shalini Gupta: Renovation is included, but if you can just give a rough figure of this Rs.50 Crores how much are you planning on renovation?

Yashovardhan Saboo: Again I need to get back to you on this, but as a ballpark figure I can tell you that probably the renovation will be to the tune of about Rs.4 Crores to Rs.5 Crores.

Shalini Gupta: Sir my last question is that you are saying that you will open 8 stores going forward in FY2020. Now this Kolkata store is coming up, which is going to be a big store like a 5000 square feet store, so that will be just one store and there will be 7 stores of the 1000 square feet each, so we are talking about adding 12,000 square feet in FY2020?

Yashovardhan Saboo: Your final figure is more or less correct; however, the store size of Kolkata is not as high as Hyderabad. Kolkata is about 3000 square feet and the other stores are not all 1000 there is one planned in Mumbai towards the end of the year, which will be about 2000 square feet. The others will be in the range of about between 900 and 1200 square feet, so average will be about 1000, so the total average that you come up, the total square feet increase is correct, it should be around 13,000 square feet.

Shalini Gupta: Yes, that is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Deepan Shankar from TrustLine PMS. Please go ahead.

Deepan Shankar: Thanks a lot for the opportunity. First of all, I want to understand this Q4 ETHOS growth has been a little lower than full year if we see, so what has been the reasons and what is the SSG growth for the stores and how do we see the shift from unorganized to organized happening?

Yashovardhan Saboo: Okay, do you have other questions Deepan?

Deepan Shankar: That is all Sir.

Yashovardhan Saboo: So, yes it is true that Q4 the growth has been lower and indeed the same store growth has also been low in fact same store growth in Q4 has been negative and there are two or three reasons. Main reasons are usually in February every year we used to run a very large promotion sale. This was timed with the Valentines' day. This year we decided not to do it. We decided to cut the number of sales we run during the year because basically we wanted to enhance the brand proposition rather than just sales, so obviously this led to a lower growth in Q4 compared to previous quarter this was one reason. The other reason was that one or two pretty prominent brands we have which had some restrictions in supply, which are temporary owing to which we had let us say lower almost a negative growth on one or two brands, which could not be fully made up by other brands. The third reason I also must say is that we experienced a little bit of market softness in Q4 possibly because of elections and uncertainties as has been seen in consumer durables market as well. So that has also played a little bit of part in Q4. Going forward we are starting to see a pretty smart revival in sales, also in this month we are seeing a good revival, so I have very little doubt that we will be back on the track of healthy growth and same store growth.

Deepan Shankar: Okay. This shift from unorganized to organized?

Yashovardhan Saboo: In the premium luxury watch segment it is not really so much organized and unorganized. There is this scope of Indians buying outside India, expensive watches lot of people buy outside India when they are traveling and now a lot of people are traveling, but what is lesser known, not many people are aware that actually watches are cheaper to buy in India than outside. So we continue to educate people and with that we are seeing a shift. Number of people are not preferring to buy in India than to buy outside India.

Deepan Shankar: So we are confident over next three to five years this 20% kind of growth will return back when consumption turns around?

Yashovardhan Saboo: Yes. This year we have grown 22%, this year right and now with the macroeconomic situations stabilizing we are all hopeful that now with the elections behind us, strong government in place, we can expect more decisive strategies. Certainly the easing of credit will help, so I think we can look, there are plenty of let us say upside to look at and as this actually plays out and assuming that the GDP growth will continue at 7% plus I think we can expect to have this growth rate, to maintain growth rate similar to what we have done in the last year.

Deepan Shankar: Sure Sir. Thanks a lot and all the best for the future.

Moderator: Thank you. The next question is from the line of Vikram Suryavanshi from PhilipCapital. Please go ahead.

Vikram Suryavanshi: Can you give the breakup between watch component business of Rs. 129 Crores, how much is the dial and hands and how is the scenario in export and domestic?

Yashovardhan Saboo: So while Sanjeev is pulling out the figures I can just tell you that dial and hands is roughly the same. They are approximately 50% each, so the businesses are quite evenly balanced there and overall watch component export is about 65%. There is higher growth in the dial business than the watch hand business. Last year the dials business grew by 26%, watch hand business grew by about 14%, but the overall sales in both segments is more or less 50:50. In terms of export, 66% is export and this is the same both for dials and for hands.

Vikram Suryavanshi: This Eigen obviously we have some disturbance because of shifting of location and probably the growth was much lower than what long-term growth we are anticipating, so how is that we are expecting in FY2020-2021?

Yashovardhan Saboo: So with Eigen it is true that the shift from Peenya to the aerospace part, it took longer and bit more complicated than we had imagine, we also lost in the sense some of the skilled workers and the staff who did not quite move, so there have been changes in the management structure and the staff as well and now more or less this is all resolved. We expect from this quarter onwards that we will start to see a pretty healthy growth in the sales from this quarter onwards and also the profitability to recover sharply from the next quarter onwards. So overall for this year we should get good significant improvement in EBITDA in the precision engineering business.

Vikram Suryavanshi: Can you just give what was total capital expenditure in standalone and retail business for FY2019?

Sanjeev Masown: For FY2019, capital expenditure for Manufacturing business was around Rs.30 Crores mainly in the precision engineering business.

Yashovardhan Saboo: In ETHOS, nvestment was about Rs.50 Crores, which includes capex and investment in stock for the new stores.

Vikram Suryavanshi: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Govind Saboo from India Nivesh PMS. Please go ahead.

Govind Saboo: Sir I have couple of questions. First question is related to this extraordinarily high GP in Q4 it was I think 34% and as you rightly said it was record GP, so this margin is extraordinary, exceptional or now it has become a routine or how do you explain this variation?

Yashovardhan Saboo: I am going to let Sekhar explain the details. I do know that it is a little exceptional because if this became standard we would be very, very happy, but anyway there is an uptrend. I am going to let Sekharsay what the reason why this was a little exceptional

Raja Sekhar: So Govind the overall gross margin in Q4 was about 33% and for the full year it is about 29%, so one of the reasons why it is high in Q4 is there was some back ending of incentive, the purchase incentive that we received from our brands, which is related to achievement of certain volumes. There was certain back ending that had happened because of which the gross margin increased in Q4. Also there is a slight change in the accounting treatment that we are doing for certain marketing related activities. Earlier we used to have reimbursements that we were receiving from the brands, which used to be netted off from the marketing expenditure. In the current year due to the change of structure these were required to be invoiced to the brands, which means that they were now included as a part of our revenues. If you were to sort of look at apple-to-apple comparison, this 33% will actually be 31% for Q4 and 29% in the entire year would be actually 27.5%, if you were to remove the impact of the marketing invoicing, so the correct comparison will then between 31% of Q4 and 27.5% for the full year and again the reason why it is slightly higher in Q4 is explained early due to the incentive that we booked in Q4. The figure that you should be looking at for the entire year should be 27.5% gross margin.

Govind Saboo: Just one thing regarding our market share, so I would like to know what is your market share in Mumbai and Delhi markets?

Yashovardhan Saboo: Govind, so overall we estimate our market share to be between 15% and 16% for the premium and luxury watch market. Premium and luxury defined as watches above Rs.10,000 all the way to whatever. I do not have the city wise market share.

Govind Saboo: I do not want the exact number, just a micro market guess?

Yashovardhan Saboo: We do know that about 26% to 27% of the all India market share is Delhi-NCR and about 23%- 24% is Mumbai and I know that the average of Delhi and Mumbai is the same as the average for the country, which is about 15% to 16%, but Delhi is higher, so we are probably at about 18% or 19% in Delhi and about 12%- 13% in Mumbai.

Govind Saboo: Got it. That is very helpful and what is the scope in these two major markets, are they matured enough for ETHOS penetration or market share acquisition or do you feel there is a lot of scope available in these micro markets?

Yashovardhan Saboo: My point is that today in the watch, luxury and premium watch there are not too many organized scalable players. Despite that we have only 12% or 13% market share in Mumbai that is because there are some other players, who concentrate only on Mumbai, they do not have any stores else where and the names are familiar to you like Time Avenue, Just in time and Art of Time

Yashovardhan Saboo: So we believe that going forward our model, which is scalable and has a very wide brand portfolio including exclusive brands. This offers a huge advantage over the 1, 2, 3 Mom and Pop Stores. They will maintain their positions fairly especially at the very high price points, but we will continue to grab market share from them and our goal is that over the next three to four years our market share on all India basis and definitely in the major cities Delhi and Mumbai should increase to between 22% to 23%.

Govind Saboo: Last question is regarding this brand restriction in Q4, which we just discussed, so do you think this is a systemic risk to our business or it is just an exceptional thing because you have been in the watch business for last 10 years or more than that I think?

Yashovardhan Saboo: I have been in the watch business for 30 years, so what is happening is that if you are in the watch business you will know this. Previously let us say 15, 20 years ago everywhere in the world on expensive watches you could go and negotiate discounts. In Singapore we could go and talk about 20%, 30% discount. In Dubai you could go to and negotiate 20%-30% discount, in India also we could go to a store and negotiate a discount. Today many of the important brands are saying that we do not want our brands to be selling at a discount and they are actually cutting back on the distribution and cutting back on excess supply. The reason why discounts happen is, if supply is more than the demand sooner or later some person will go and offer a discount.

Govind Saboo: Absolutely.

Yashovardhan Saboo: And this also feed to the grey market and grey market leads to its own problem, so brands are becoming extremely conscious about this and brands are take one after the other, many brands are talking the points, let us clean up this excess supply, let us stop this culture of discount. If you go to a brand like a Gucci, you go to a showroom of Gucci, Louis Vuitton, Tumi or any of these luxury stores you will not get a discount there right or at best you will get some 2%, 3%, So many of the watch brands want to move in that direction, so they are curtailing supplies. Some of them are buying back stock, some of them are curtailing production temporarily, but I think this is very temporary. You will see from the figure of Swiss watch exports, which I have also explained in the beginning of my speech. Export of expensive watches that means watches above 500 Swiss Francs is actually increasing at 6% or 7% a year, so overall the business is in good health, but except some brands is cutting back basically to reduce the discount in the market.

Govind Saboo: So those brands are losing market share in favour of other brands, is this the right way of understanding?

Yashovardhan Saboo: It is not really losing market share because let us say the brand was selling 100 and producing 110, the sale was 100 only.

Extra 10 was just moving around in the market here, there, grey market, here and there, all that was happening. Now they are reducing that.

Govind Saboo: No my question is Sir if you would have got more supply we could have sold more that is the whole point?

Yashovardhan Saboo: Yes, of course, but then my point is that part of the luxury brand is that there has to be a little aspiration. If you go to Gucci and you ask for a certain bag and they give you a discount on it, then you are not excited, but if you go and you ask your wife or anyone in your family who wants a particular handbag or you want the particular car and he tells you that there is a waiting list for three months and of course there is no discount. You feel that oh this is really good. What happens is that the resale value of it also goes up.

Govind Saboo: Goes up absolutely.

Yashovardhan Saboo: The brands are looking at this expenditure or investment as not expenditure, but an investment because the value will be retained.

Govind Saboo: Absolutely.

Govind Saboo: Just a small thing from the CFO just I am coming back to the margins point Sir, if we consider the normalized margin as 27.5% in FY2019, then are we seeing a gross margin dip in FY2020 going forward?

Raja Sekhar: No there is an improvement in gross margin compared to the previous year.

Govind Saboo: In coming year because due to some extraordinary or some accounting adjustment it was 31% for FY2019, so if we normalize it, it is 27.5%, so is it fair to assume that on a base of 27.5% there would be a drop in reported gross margin in FY2020?

Raja Sekhar: So not at all, in fact what I mentioned was Q4 was higher on account of certain purchase incentive that got booked towards the end of the year, which pertained to the entire year, but they got booked at the end of the year that is a reason why margin sort of shot up in Q4.

Govind Saboo: Got it, so it was a regular phenomenon, but only it was quarterly variation?

Raja Sekhar: That is right.

Govind Saboo: Okay. Thank you Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Sabyasachi Mukharjee from Centrum Broking. Please go ahead.

Sabyasachi Mukharjee: Thanks for the opportunity. I had a couple of questions. On the sales growth that we witnessed of 24% on the ETHOS business, what part it would be contributed by the volume and the value can you just break it up?

Yashovardhan Saboo: So the volume growth was 2%

Sabyasachi Mukharjee: And the rest would be contributed?

Yashovardhan Saboo: Rest is value growth and this is part of a conscious strategy to go a little bit higher on the price points.

Sabyasachi Mukharjee: Okay and if I remember correctly, last time in Q3 you said that the average watch transaction or watch value was around 80,000 and it was last year around 60,000. Do we maintain the 80,000 in Q4 as well as in FY2019 as well?

Yashovardhan Saboo: For the previous year it is Rs. 88,000

Sabyasachi Mukharjee: Okay fine. On the store expansion front, so you said around Rs.50 Crores of capex and also stock you invested on opening the ETHOS stores in FY2019 I believe you have opened around four stores in FY2019?

Yashovardhan Saboo: Yes.

Sabyasachi Mukharjee: And in FY2020 you will be opening around eight stores and you said that the total investment be around Rs.50 Crores.

Yashovardhan Saboo: Yes.

.Sabyasachi Mukharjee: Is it that a bit less compared to the last year metrics?

Yashovardhan Saboo: So for example some of the stores, which are coming up this year, Hyderabad is a good example, all the expense and everything was actually incurred already in FY2019 and that is why the store opened in April and we had the formal opening in May. So similarly Kolkata, which is now ready to open, most of the expenditures actually already been incurred in the previous year. If you balance it out and this Rs.40 Crores of course includes increase in stock as well and this includes at least four or five new house brands, which were introduced in the last quarter of previous year, so that stock was also taken up in this part.

Sabyasachi Mukharjee: Okay roughly Rs.50 Crores, can you give us a split of the capex and the inventory as in capex and the stock?

Yashovardhan Saboo: Which year?

Sabyasachi Mukharjee: Last year

Yashovardhan Saboo: So about Rs.13 Crores were capex and the rest was in stock.

Sabyasachi Mukharjee: And rest was in stock?

Yashovardhan Saboo: In working capital yes.

Sabyasachi Mukharjee: Working capital and this Rs.13 Crores of capex, so how much of net area was added last year?

Yashovardhan Saboo: So if I include the Hyderabad store for which expenditure was already incurred last year, so then we have grown by about 9,000 square feet.

Sabyasachi Mukharjee: 9,000 square feet and the total area would be around?

Yashovardhan Saboo: So it is 58,000 as of today.

Sabyasachi Mukharjee: Thank you. On the growth part that you were giving a guidance of around maintaining the similar growth rate here as well as in FY2020 about 20%, 25%, I believe you mentioned in the last calls that the part of it would be from SSG of around 10% and the rest would I believe from the new stores that you will add?

Yashovardhan Saboo: Correct.

Sabyasachi Mukharjee: So I just wanted to understand that when you open up a store, what is a typical time to mature for that store like you opened four stores in FY2019, how much time does it take to mature?

Yashovardhan Saboo: Different stores have different trajectory, but if I have to sort of average and give a typical store, I am not really sure what you mean by mature, but stores starts to break even in the second year, so between 12 and 20 months, so let us say between in the second year this store starts to break even.

Sabyasachi Mukharjee: Okay and if I may ask that what would be your break even cost?

Yashovardhan Saboo: That varies from store to store. Obviously the break even sale for a 1000 square feet store would be much lower than from 4000 square feet or 3000 square feet store. It also depends in what segment we are in because if it is an ETHOS summit store with a higher proportion of higher price brand it would be slightly different, so the numbers that I gave you was really an average.

Sabyasachi Mukharjee: Okay, understood. Just a last question on the brands front that can you give me the top five brands on the contribution may be value contribution side, what are the top five brands?

Yashovardhan Saboo: I might not be able to share that information. We do try to keep a little bit confidential. However, I can point you to something, if you go to Swiss brands and check out on Google the 10 biggest Swiss brands, our list is not very different from that.

Sabyasachi Mukharjee: Thank you Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Shalini Gupta from Quantum Securities. Please go ahead.

Shalini Gupta: You said you will be raising above Rs.30 Crores in fresh equity?

Yashovardhan Saboo: No, Rs.20 Crores in equity and Rs.30 Crores by internal generation.

Shalini Gupta: Okay, so Rs.20 Crores in fresh equity, so I mean if you can just give a sense, what is the valuation that you are hoping to get something on the valuation side?

Yashovardhan Saboo: This is an investment from the parent company, which is already planned.

Shalini Gupta: Investment by the parent.

Yashovardhan Saboo: Yes.

Shalini Gupta: I do not know why the parent is investing because I think there is enough internal generation?

Yashovardhan Saboo: Internal generation is Rs.30 Crores, we are putting Rs.30 Crores from internal generation and Rs.20 Crores from investment and frankly I think it is a very good investment right?

Shalini Gupta: Right.

Yashovardhan Saboo: So it is a good investment to increase its shareholding.

Shalini Gupta: And Sir one slightly sensitive question, Sir like, watch is sold for Rs.100, so within that, typically what are the margins that you get?

Yashovardhan Saboo: Perfectly open question gross margin is we tell you, so average gross margin is about 27.5%, it is higher for the exclusive brands, lower for the non-exclusive brands, average is 27.5%.

Shalini Gupta: Okay fine. Fair enough and Sir like you were talking about the export of Swiss watches and that it is increasing, so where can one get data for this, what is the source of the data?

Yashovardhan Saboo: Google Swiss watch exports you can get a lot of data from there.

Shalini Gupta: Thank you Sir.

Moderator: Thank you. The next question is from the line of Priyanka Singh from Atidhan Securities. Please go ahead.

Priyanka Singh: Good afternoon Sir. I just had few questions. Sir what is your plan for listing of ETHOS?

Yashovardhan Saboo: I think this is a matter, which we are discussing very actively at the board level. The listing of ETHOS there are some let us say regulatory impediments on that because in KDDL we have FDI investment from Saif partners and a few others and what we are told by our advisorsis this that under the new rules if ETHOS is listed as such, these FDI shareholders of KDDL will not be able to hold shares in ETHOS. So we are now under discussion for what kind of structures can they be a part of, these are important shareholders and they want to be a part of the demerged ETHOS whenever it is listed, so there are some discussions going on for that, this was discussed very actively at a board level in the meeting three days ago and we are expecting some further clarification from the advisors over the next two weeks after which it will be taken up for discussion again, but clearly one of the issues is that a direct listing of ETHOS will mean that all the FDI shareholding in KDDL will not be able to get part of that listing.

Priyanka Singh: Thank you. That is helpful.

Moderator: Thank you. The next question is from the line of Hiren Parikh who is an Individual Investor. Please go ahead.

Hiren Parikh: I just wanted to know whether you are providing financing options for buying watches to buyers or something like that.

Yashovardhan Saboo: Sorry, financing options?

Hiren Parikh: Yes, like EMIs and all that normally. Nowadays people do buy most of the stuff on loan?

Yashovardhan Saboo: Yes Hiren we do have the facility of EMI and that is available also on our website; however, I will also tell you that in the past we have not seen too much traction on this because it is not very popular for lower price points and price points above a certain value. Financing companies were not very keen to work on very high price points, so it did not really achieve the potential that we think this idea has, however, now I believe the time has come to look at these options. We have it in mind to take this up on a renewed basis.

Hiren Parikh: Most of them, everybody says that interest rates are going to go down, so that would be one of the good options for increasing sales?

Yashovardhan Saboo: Yes definitely.

Hiren Parikh: Thanks a lot Sir. Thank you.

Moderator: Thank you. As there are no further questions I would like to hand the conference back to the management team for closing comments.

Yashovardhan Saboo: Thank you to all for having participated in this investor presentation and call. I wish you a good day ahead. Thank you. Good bye.

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