"KDDL Limited Q1 FY2019 Financial Results"

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Moderator: Good morning ladies and gentlemen, welcome to the conference call for Q1 FY2019 Financial Results of KDDL Limited. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the 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, MD - KDDL Limited. Thank you and over to you Sir!

Yashovardhan Saboo: Thank you and good morning to everyone and warm welcome to all of you for our Q1 FY2019 Earnings Conference Call. I am joined by Mr. Sanjeev Masown, CFO of KDDL and Mr. Raja Sekhar, CFO of Ethos Limited our investor relations partner, strategic growth advisor. I hope everyone had a chance to go through our updated investor presentation which has been uploaded on the stock exchanges and the company's website.

Let me first begin by giving you an update on the recent fund raise, which we concluded both at KDDL and Ethos level. KDDL raised Rs.20 Crores via preferential issue at a price of Rs. 480 per equity share, in the second fund raise which has taken place at Ethos Rs.24 Crores was raised at a pre-money valuation of Rs.480 Crores by way of preferential allotment of 821, 917 partly paid up equity shares of Rs.10 each at a premium of Rs.282 per equity share. 50% of this amount is still expected to be received by December 2018. Post this allotment the consolidated share holding of KDDL directly and indirectly through its subsidiary Mahen Distribution Limited in Ethos Limited withstand at 72.26% on fully diluted basis.

This fund raise comes at an opportune time as we are in the midst of store expansion in Ethos witnessing a visible and significant uptick in the global watch industry and we are in a period of stable regulatory regime which is very positive both from a consumer and watch brand point of view. I will take you through the consolidated performance of Q1 FY2019. The consolidated revenue rose by 19.8% to Rs.145 Crores from Rs.121 Crores in Q1 FY2018. Both the businesses of watch retail and manufacturing have continued their growth momentum. Gross profit grew by 36% from Rs.44.4 Crores to Rs.60.4 Crores, gross margin improved by nearly 500basis points on Y-o-Y basis led by better operational efficiency and leverage. EBITDA stood at Rs.12.4 Crores for the quarter up by almost 140% Y-o-Y, margin doubled on Y-o-Y basis to 8.6%. Profit after tax after minority interest increased from Rs.20 lakhs in the Q1 FY2018 to Rs.5 Crores in Q1 FY2019 while cash profit increased by 162% to Rs.8.2 Crores.

I will now discuss the manufacturing business performance. The global watch industry has continued to show signs of improvement which is evident also from our revenue growth. The domestic watch segment has revived even more sharply which is a very encouraging sign. Our manufacturing revenue for Q1 FY2019 was Rs.43.4 Crores up from Rs.32.4 Crores in the previous year same quarter thus witnessing a growth of 33.8% on Y-o-Y basis. The revenue share of watch component business was 72% and the precision engineering contributed 23%.

Watch components our core manufacturing business is experiencing a good uptick in demand and the segment registered a growth of 21% Y-o-Y to Rs.32 Crores from Rs.26.5 Crores in the previous year same quarter. We continue to believe that this segment will maintain this momentum backed by strong growth in domestic market and healthy recoveries in Swiss watch exports worldwide. As shared in previous earnings call, we are expanding our capacity coupled with technology upgradation, automation and incorporation of some latest and new processes for improving efficiency and productivity. We expect during the year this business to grow in the range of about 8% to 10%.

The precision engineering business witnessed a revenue growth of 54% Y-o-Y in the quarter from Rs.6.7 Crores to Rs.10.4 Crores. The order book in this segment remains healthy and very strong. Our efforts and initiatives for marketing of our strong capabilities in tool making and ability to cater to multiple industrial segments is helping in a continuous flow of enquiries, leads and RFQs thus cementing a strong future growth in this business segment.

This division caters to various segments such as auto-ancillaries, electrical and electronic products, consumer durables, aerospace and defence and miscellaneous industrial applications. We expect this division to continue to show healthy revenue growth in the coming years. The existing facility of the precision engineering business are now almost fully shifted to the new unit near Bangalore Airport at the aerospace industrial park and the consolidated facility will be fully functional at the end of the month. We continue to add capacity for meeting enhanced requirements of customers and are also working on improving internal efficiencies especially to reduce the turnaround time that is the time to market benchmarking it to international levels.

Now let me discuss the performance of our retail business in a subsidiary Ethos. As you are aware, we have faced tremendous challenges in the last two financial years and also some time before that, on multiple regulatory issues; however, since October 2017 we have faced a stable environment and the entire ecosystem has accepted the changes made in policy and regulatory laws in the last two-and-a-half years. These changes were on account of pan card rules, tax collection at source, demonetisation and GST. Consumers and watch brands have now accepted these norms and we are witnessing a robust growth returning back to business. As we have witnessed, this is true in Q3 and Q4 of the previous financial year and it extends well into this year, into this quarter as well. The watch brands have also started recognizing the new way of doing business and are increasingly getting aligned with Ethos which not only offers them a pan India base, a large dedicated customer base and also a proven digital reach that no other watch retailer has been able to offer. This has led to more and more brands going exclusively with Ethos on three- to five-year arrangement.

The success that this exclusive brand strategy has brought in terms of increased visibility and sales has led to exclusive brands now offering us to be their distributors, the relationship is naturally very profitable for us and it now contributes nearly 16% of overall billings in Ethos and 26% of the gross profit. Over the last two years, we have remodeled our business in terms of inventory and have trimmed the focus on very high luxurious brands to now focus on our Swiss part of brands in the price point to Rs.50,000 to Rs.5 lakhs and this too have led to an improvement in our inventory and most importantly in our paid inventory. The results of the last two quarters have been very encouraging which have led us to believe and to target a position where Ethos in addition to being the number one retailer for Swiss watches in India, also now aims to be the number one retailer in all the cities of its presence. With this target, we are embarking on the journey of opening 25 stores in the next two to three years. The fund raise in Ethos will primarily be used for this purpose.

The new store openings will not the only in tier-1 cities, but will also cover tier-2 and tier-3 cities. Some of these stores are planned to be multi-brand stores and some are monobrand stores. A few of these stores will also be large format stores in the main metro cities and the tier-1 cities. These will become watch destinations for the city thereby strengthening the brand positioning of Ethos not only with its customers, but also the global watch brands. We have started the business of pre-owned watches since Q4 of FY2018. We will share more updates as we make material progress in this business. From the perspective of expanding the market of watches as well as making Ethos, the go-to destination for watches the business of pre-owned watches is an important piece in our overall strategy.

I will now move towards giving you financial highlights of Ethos. Billing grew by 5.5% Y-o-Y to about Rs.117 Crores in Q1 of this year up from about Rs.111 Crores in the previous year same quarter. Please keep in mind that the last year in the same quarter, we had to run various very significant promotions for liquidation of stock in anticipation of the implementation of GST. This had resulted in very high sales in Q1 of previous year especially in the month of June 2017. The gross profit grew by 46% Y-o-Y from Rs.18.8 Crores last year in the same quarter to Rs.27.5 Crores this year. The gross profit margin stood at 27.3%, an improvement of 830-basis points on Y-o-Y basis. The leverage from sales of exclusive brand as well as increasing operating efficiency is clearly being reflected.

Normalized EBITDA stood at Rs.6.8 Crores for the quarter up from Rs.1.6 Crores in Q1 of FY2018 a growth of 316% on Y-o-Y basis. Profit after tax for this quarter stood at Rs.1.5 Crores up from a loss of Rs.1.7 Crores in the previous year same quarter. Cash profit increased to Rs.2.6 Crores in Q1 of this year against a loss of about Rs.80 lakhs in the last year same quarter. Stock carrying months at the end of June 30, 2018 was 8.1 months. During Q1 FY2018 that is the previous quarter, we opened one new store, the Panerai boutique at the Chanakya Mall in Delhi. Please visit our website and see the pictures, this is the stunning store and it is only Panerai boutique in North India. Our store count at the end of Q1 FY2019 stands at 44 stores. As you are aware, we are in the process of exploring various options for listing shares of Ethos on stock exchanges and are moving forward to achieve this goal in the next financial year that is 2019-2020. I now welcome your questions and participation.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Ritesh Bafna from RB Securities. Please go ahead.

Ritesh Bafna: Good morning Sir. Thank you for the opportunity. Sir I have couple of questions. First of all I would like to know what our same store sales growth looks like in Ethos?

Yashovardhan Saboo: Ritesh, why do not you ask all your questions so we can answer them at one go?

Ritesh Bafna: Sure, my next question will be like you mentioned you all opened a store in India again, so what shall be the capex that you all envisage for FY2019 and how many stores you all plan to open?

Yashovardhan Saboo: Your second question is what is the planned capex in FY2019 and how many stores we plan to open?

Yashovardhan Saboo: On the second question on capex, we have a plan to invest about Rs.40 Crores during this year in new stores and we are planning to open eight stores this year.

Ritesh Bafna: Eight stores, so this will be in tier-2, tier-3 cities or the locations can you just let me know about that?

Yashovardhan Saboo: It is a mix of the metro cities I do know that we are opening a large flagship store in Hyderabad and a flagship store in Kolkata, so these will be large format stores and there are other stores planned as we speak in cities like Guwahati and Bhubaneswar as well.

Ritesh Bafna: Okay and I reckon that this will be largely through debt money?

Yashovardhan Saboo: Not really. The investment in these stores is really the reason why we have done the capital raise.

Ritesh Bafna: Okay and what about our same stores sales growth Sir?

Yashovardhan Saboo: The same store growth in this quarter has been -4%.

Ritesh Bafna: Okay, so can you elaborate on the reason for this negative sales growth from the same stores?

Yashovardhan Saboo: The most significant predominant reason is GST right, so last year in June 2017, we went through huge liquidation scheme and the reason was that on June 30, 2017 we would suffer the transition loss on products. … There were two rules that the government had specified under GST and if we carried that stock beyond June 30, 2017there would be a huge loss of GST so we went through a liquidation in June and that is the main reason why the same store growth in the current year is actually negative. If you compare over the same quarter previous year, the same store growth is negative but if you see the change in the gross profit and the gross margin, it is dramatically increased which is also because last year there was a huge sales but at a low margin because that was liquidation sale. This year we have almost matched the sales on same store growth, but have improved it on overall basis, but the increase in margin is actually dramatically better than they have been before. The same store growth has to be seen in the context of margin growth and that is important as it is turnover growth.

Ritesh Bafna: Okay, got your point. Thank you so much for answering my question Sir.

Yashovardhan Saboo: Ritesh, I also want to add because I think this is the question which will come up from many participants that you will also see the correction of this happening in the current quarter, so H1 you will see it fully corrected. Last year June sales growth was very high but in this quarter or last year in Q2 it fell down. This year of course it is more stable and normalized.

Ritesh Bafna: Okay. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Arshad Mukadam from Vibrant Securities. Please go ahead.

Arshad Mukadam: Good morning. My first question is on the gross margin. So there is increase over the last year, so could it be attributed towards the increase in exclusive brand proportion or is this just realization of other watches have also increased that my first question. The second question is on front-end manpower cost that has increased by roughly 2% I think Y-o-Y, so how do we see this number going forward and what is the reason for this increase?

Yashovardhan Saboo: I am going to let Sekhar answer the first question.

C. Raja Sekhar: So the gross margin improved from about 19% last year to about 27% current year and you are right when you say that the big reason for that is on account of the higher proportion of sales that we are doing on the exclusive brands. Last quarter, we were at about 13% of our overall sales through these exclusive brands and in the current quarter it as much as about 16% of our overall sales. Not only that we have also managed to improve the margins from these exclusive brands and that is why it is contributing towards the overall improvement in gross margins. Also as Mr. Saboo explained to your previous question, the discounts were also lower than what they were in the previous year. Previous year we were doing a lot of sales owing to the GST liquidation, we did not have to resort to that in the current quarter and therefore the discounts were also lower than last quarter. Both of these factors have contributed towards the increase in gross margins.

Arshad Mukadam: Okay, alright.

Yashovardhan Saboo: Arshad I will answer your question regarding manpower cost, yes manpower cost have gone up compared to the last year comparable period. We are actually now entering a phase of growth and we are preparing for a sustained period of growth, so we are adding strength and not only new stores, we open boutiques which are very high profile stores already very successful, but also at the back end especially in strengthening our marketing, so what you are going to see is completely new website going to be launched very soon, so marketing, content development, digital marketing these are areas that have been strengthen very considerably and that has led to this in spike that you see in manpower cost, but this will very soon the normalized there you see the sustained growth happening over the next couple of quarters and please keep in mind that the number of stores have grown from 36 to 44.

Arshad Mukadam: Yes, correct. Okay. Thank you.

Moderator: Thank you. The next question is from the line of Manan Mehta from M. M. Securities Private Limited. Please go ahead.

Manan Mehta: Thank you for the opportunity. So I have two questions Sir. The first question is regarding the funds that we have raised, so I want to understand more on how we plan to spend that in both KDDL as well as Ethos and the second question is that you spoke about in your speech, can you just elaborate on how and where we are on our listing of Ethos?

Yashovardhan Saboo: The fund raised in Ethos is really to fast track the expansion that we have planned to cement our position as the leading retailer not only All India but in every city that they are going to present in and the fund raise in KDDL will also essentially allow KDDL to further invest and maintain its shareholding in Ethos and also allow the expansion in Ethos to continue. So basically, that is the intention for the fund raise. Your second question was about listing. We have started the process, I must say over the last one or two months it went on a backburner because we were looking at lot of business opportunities and of course, this fund raise. As of two weeks ago it is back in focus and we believe that the process being initiated in full flow now will be completed in the next 12 months or so.

Manan Mehta: That is the timeline that you have set around 12 months?

Yashovardhan Saboo: Correct, we are within the timeline that the Ethos Board had guided us for which is couple of months ago we had informed that our goal should be to list within 15 to 18 months and we are still pursuing that goal and we are confident that it should happen. We have to go through the fairly elaborate procedure, so we cannot really say what happens there, but I am informed by experts that normally it should be done in about 12 months' time.

Manan Mehta: Okay, thank you Sir. I will get back if I have more questions.

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

Vikram Suryavanshi: Congratulations on good numbers and we have seen traction in manufacturing as well as stability in Ethos. Most of the questions answered I just wanted to know how is the debt and cash position on the standalone as well as consolidated?

Yashovardhan Saboo: Let me just give the stand to Sanjeev.

Sanjeev Masown: Hi Vikram, Sanjeev here. Our total debt including secured and unsecured is around Rs.55 Crores at Standalone level and at a consolidated level it is around Rs.120 Crores.

Vikram Suryavanshi: How we are seeing the growth in export for manufacturing side of business?

Sanjeev Masown: So as you have already seen our revenue growth in the manufacturing segment was very healthy and it is from both these segments of exports as well as domestic. We believe that this type of growth will remain there for at least in the next couple of quarters, there is a clear visibility, order position is good, Swiss market has revived, and month on month we are seeing their exports are healthy, so there is no reason to believe that it will be coming down, so we believe that this type of momentum will remain there.

Yashovardhan Saboo: Vikram I want to add one point over there, you remember two or three years ago and you have been a very steadfastly attending the conferences and also our meetings in Mumbai, about two to three years ago the launch of smart watches and Apple watch was seen as a huge threat for the Swiss Watch Industry and we were all sort of wondering whether it is going to be the predominant risk and that was followed by two years of Swiss watch export actually declining. There were eight quarters of successive declines, so it seemed to prove that something different is happening in the Swiss watch business. I never really believed that because as I understand the Swiss watch business has grown healthily after a brief pause and we are now seeing a validation of that opinion. For the last three quarters, I think Swiss watch exports globally has been growing at robust figures and in the last two quarters, it has been in double digit being around 10% year-on-year basis, now 10% year-on-year basis in a mature luxury industry in today's current business environment globally is an astounding growth, so what it shows is that business is back to normal and the whatever was the correction that had to happen over the last two years have happened, so I believe there is a very, very robust and a steady period of growth, which we can foresee in the next couple of years.

Vikram Suryavanshi: Okay. Great, that was helpful and Sir last question regarding we have seen some decline in margin in manufacturing side, so it is mainly because of shifting of the facilities or how do we see the margins going ahead?

Yashovardhan Saboo: I do not think it is really shifting of facility though, of course shifting of facilities always has a certain blip, but the margin thing is really because our strongest growth is happening in the precision engineering business that is growing at 40%, the watch component business is growing also, but slower and the margin in the precision engineering business is lower than the watch component business, so as that shift happens, there will be that little bit of correction in the overall margin.

Vikram Suryavanshi: Okay, got it. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Gaurav Sumani, an Individual Investor. Please go ahead.

Gaurav Sumani: Thank you for the opportunity. Sir my question is the fund raise, which you are doing is the dilution is actually fairly significant, so I just wanted your views on what is the long-term promoter shareholding, which you are comfortable with. Secondly I understand the opportunity, which we currently have is fairly huge, but going ahead with a fund raise and diluting the equity to expand, as you know, is not sustainable, so what you are views on probably going through a franchise model and when can we start using our own cash flows to expand or what is the mix between debt and equity, which you look at, so just wanted your views on a capital structure and the franchise route?

Yashovardhan Saboo: I have one question before I answer, when you said that there has been a significant dilution were you talking about Ethos or you are talking about KDDL?

Gaurav Sumani: It is the same, if you look at the overall market cap of the company Rs. 50 odd Crores then we are Rs. 44 Crores, so that is fairly significant for a shareholder of KDDL better off the Ethos as well?

Yashovardhan Saboo: Your question is really related. to the dilution at KDDL level?

Gaurav Sumani: Yes.

Yashovardhan Saboo: You know it is a very interesting question and let me answer it in a couple of ways. First of all to say that, I think the opportunity and our position in the retail business in India is so unique that we believe to grow as fast as possible and cement the position in the lack of any real credible and strong organized competition that is first and foremost in the interest of all shareholders including promoters. So that was the conscious decision that we took that even if it means a certain amount of dilution it is extremely important to move forward and grab the opportunity. This is something that was the foremost thing in our mind as promoters and the CEO of the company. Now when you say what is the promoter share that we are comfortable with, we are not really looking at any further equity infusion in KDDL, as you know the KDDL business are churning out cash more than sufficient to fund the expansion needs of KDDL, the leveraging is, the debt is very, very well managed and in case we need more funds for KDDL we can always fund it through debt, so for KDDL we do not require any more equity at all. As far as Ethos is concerned, again I think we have gone out and said that this round of equity infusion is all that we need, we have not increased debt, should there be a need for little balance there is the room to increase that, though we believe that that will not be necessary, the majority of the stores in Ethos are also now churning out cash and from here onwards, we believe that the internal accruals will be generally sufficient to fund future growth, so I do not think – we are looking at further dilution, does that answer your question.

Gaurav Sumani: Yes Sir and on the business model of using franchise versus our own stores because as we expand any thoughts around that?

Yashovardhan Saboo: Yes, I think that is again a very interesting question, we have examined the options of a franchising structure, we believe that once we have established our flagship stores in the main cities, which will catapult Ethos as a brand to a completely different level that would be the right time to roll out a franchise model, we are well aware about it, we are aware about the benefits that it allows, but I think we just have to wait until some of the flagship stores have come up and then we are ready to move forward on the franchise model. We are looking at probably about 12 months from now to take that step seriously, but it is well within our strategy going forward.

Gaurav Sumani: If I may one more question, we have our website to which we generate leads any plans around listing our products on other website like Flipkart, Amazon and probably trying to generate sales through those websites as well, is that on the anvil sometime in the future?

Yashovardhan Saboo: Gaurav, some of our products are listed on some of these large website, we have two issues over there, number one, many brands have rules as to where you can list them and where you cannot and obviously we do not want to violate any rules laid down by the brands that is one way that we have earned their most strong trust, so that is one. Second the price point, which we operate in those are not price points that are very successful on Flipkart and Amazon. Flipkart and Amazon whether it is in watch sales or other product sales typically even the largest majority of their sales happens at price points of 3,000, 4,000, 5,000, sometimes 10,000, the same is true for watches, whereas you know that our offering essentially focuses on price points above 25,000 and 30,000. We believe the time is coming that more and more let us say higher price products will also start to move and it will start to move without high discounting, I think this is where the future is added, so obviously we are tracking that very closely, even on our website where direct sales is possible, most of this is happening at price points below 20,000. Price points above 20,000 the lead is generated that is taken care by our information centre, which has 40 specialists trained to answer questions and then the customers are directed to the watch stores and the stores consummate the sale. So it actually the classic omni-channel platform that has been developed, which is only now that retailers of luxury products, the world over are now starting to turn to this model, we have actually practiced it over three years and that is the reason, why we are gaining market share at the cost of everybody else.

Gaurav Sumani: Just for my understanding, how does it probably work in global market, say do luxury watch retailers sell on platforms like Amazon abroad or how does it work?

Yashovardhan Saboo: No they do not.

Yashovardhan Saboo: You will not see authorized retailers selling luxury watches on Amazon, it is quite impossible.

Gaurav Sumani: Thank you Sir and all the best.

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

Pankaj Jain: Hi Sir, very good morning, Sir I had a couple of questions, so first would be how many brands are exclusive brands with us now?

Yashovardhan Saboo: We have a portfolio of at the moment about 19 brands.

Pankaj Jain: So they have exclusive brands with us?

Yashovardhan Saboo: Yes.

Pankaj Jain: Okay and Sir my next question would be the revenues regarding servicing business and preowned business, has the revenue started kicking in?

Yashovardhan Saboo: Pankaj I do not think these are kicking in any significant manner yet, we are faraway for this to become significant, it is going to take time, there are procedural and regulatory issues on preowned watches, which we are getting clarifications on, so that is one and as far as service is concerned, we have had a service network, which is spread across four cities and we offer All India services; however, going forward we are now moving to a strategy where we are consolidating the main service station in one large world class service centre and that process is going to take about three to four months, so the large service centre is going to be based in Delhi and in other cities that going to be smaller satellite centres, so that is also now on the cards, it is going to take three to four months to actually roll out, after which we would actually see an impetus in the service revenues and you can imagine that service and preowned watches are going to be very closely interlinked because when you offer preowned watches you not only have to make sure that they are serviced, but it is also a very clear strategy that we will be offering an Ethos guarantee with preowned watches.

Pankaj Jain: Yes, okay Sir, my next question would be Sir, what is the status of your representation on import duty increase in February?

Yashovardhan Saboo: You mean to bring down the import duty?

Pankaj Jain: Yes a sort of.

Yashovardhan Saboo: So the representation has been made, but to be very frank we have been advised this is a not a very good time to follow it seriously, right now is not the global environment for reduction of tariffs, we are aware that the general mood not only in our country, but globally is not to reduce tariffs, but to increase them, so we have been advised to lie a little bit low on this until this mood clears and then to take it up. We also have to be aware that at the moment the environment is pretty stable and we expect that if the stability continues without any changes, we are going to grow strongly, so the underlying sort of thought is that let us not disturb the fabric right now.

Pankaj Jain: Okay that answers me well. Thank you Sir, that is from my end.

Moderator: Thank you. We have one more question that is from the line of Hemanth Sreeraman from Elysium. Please go ahead.

Hemanth Sreeraman: Hi Yasho, Sekhar and Sanjeev good morning to you guys. Firstly, I must commend you and your team for wading through the very, very difficult time over the past, two, two-and-a-half years, really happy to see you getting stronger.

Yashovardhan Saboo: Thank you, we are enjoying looking back at the bad days, now that we are out of them.

Hemanth Sreeraman: Likewise, couple of questions, one is on the precision engineering business, just wanted to double check on that, could you spend a few minutes talking about the nature of that business, who do you compete with and what is the customer profile that if you are looking at and how do you run through for say over three- to five-year timeframe?

Yashovardhan Saboo: You want me to answer that or if you ask your questions and I will them all at one go?

Hemanth Sreeraman: You can go ahead, yes, yes we can just have a conversation.

Yashovardhan Saboo: So the precision engineering business that essentially consists of two parts, one is making precisions tools which is a press work and we have also started to make moulds so precision plastic moulding, but the major part of what we are doing is press tools for high precision components and the other part is making the component themselves, so metal components which are pressed and stamped with overlays with plastic injection moulding parts and small subassemblies made from them. So these are the two basic product lines. The business has huge applications in very diverse range of industries as I had mentioned earlier there is electrical goods, electronic goods, industrial applications, instrumentation, defense and aerospace, automobile components. So , all of them require these precision stamped components, it is a very diverse range of industries that we are already catering to and more than 50% of our business is either direct export of sales to global companies who have their base in India whether for procurement or for procurement and manufacture, so that is really this business, we have grown about 54% this quarter compared to last year. We expect overall annual growth to be in excess of 30% this year and the same rate of growth to continue over the next couple of years. The infrastructure that has been setup in the aerospace park in Bangalore is ready to help us to get over Rs.100 Crores turnover in this business and effectively once you are approaching that mark, we know that the business potential is enough to carry us to Rs.500 Crores and a Rs.1000 Crores. In terms of what are the…we got pretty impressive customers in the global space already within our fold and wanting to increase business with us and also a very strong list of prospective customer, so we believe that we have got a strong funnel developing over there. Does that answer your question or is there something I missed out.

Hemanth Sreeraman: Yes absolutely. Thanks for that. Second question is on the Ethos business, if you take the example of one store and assume that had hit steady state, let us say over a three- to five-year timeframe, what kind of a peak EBITDA, would you be happy with as an entrepreneur, running this business, what would you expect this store to deliver once it hits steady state?

Yashovardhan Saboo: As we have targeted on a company basis to hit 10% to 11% EBITDA, this was our projection two-and-a half years ago before we hit the storm and now that we are out of it, we believe it is still the target and we can achieve it, accelerating towards it, so we are now going to have two-and-a-half year gap from what we have thought earlier. At a 10% to 11% EBITDA company-wide would require a store level EBITDA to be about 15% or so before central office expenses, what we do see is that some stores are delivering this, in fact some stores are even delivering better and we are moving toward this on a store-wise basis, not every store will deliver 15%, but there will be stores that will deliver well in excess of 15%, there will be store that may deliver a little bit lower, it depends on the profile of the store and what strategic goals it may achieve, but obviously if a store is not even going to achieve in up to the second year something like a 10%, 11% EBITDA we would seriously question that store, as we have done for some stores in the past.

Hemanth Sreeraman: Got it and one final question, it is more a 30000 feet you have spoken about it in the past, but generally in the interest of a wider audience, it has been 15 years since you have been in the Ethos business and you personally has been a long-time watcher of the Indian watch industry over the past three decades, would you comment on the next 15 year trajectory of people buying watches in India, how would you see it given your point?

Yashovardhan Saboo: That is always an interesting question and I am very clearly of the view that watches as an accessory is going to continue for the next 15 years, the watch industry especially the premium and luxury industry has had its epitaph and its gravestone prepared at least three times over the 50 years, I do not want to go through the history of that, but when I started KDDL it was almost predicted the watch industry is finished, it is not going to revive and the same thing happened 10 years ago and now the same thing is happening again, but I believe that watches will continue for a couple of reasons. Number one it is jewelry and it is an aspiration and it is an expression of celebrating one's own achievement, think of what else celebrates it, just like jewelry does for women, watches will do for men and not every woman only likes to wear jewelry, so watches will continue, yes there will be the presence of smart watches, digital watches that will be there, but this will also be incorporated and engulfed just like Quartz watches in the 1980s were engulfed within the premium and luxury platform, so will smart watches, so I think watches will evolve, but the basic human emotion of wanting to buy something that is unique, something that tells people and tells themselves look I have been a successful person, I want to wear something special to show others, to show myself, I do not think that emotion is going away, I believe in India, there is a very large aspirational population that is going to grow and continue to aspire to get these premium and luxury watches. I have no doubt in my mind that for the next 15 years this business is going to grow in double digits.

Hemanth Sreeraman: I agree, well on that note let me just drop off. Thank you once again. I really commend for a great performance and nice to see you come back through very tough times and I look forward to look next five years.

Moderator: Thank you. The next question is from the line of Gaurav Sumani, an Individual Investor. Please go ahead.

Gaurav Sumani: Sir just book keeping question, did you see any impact of rupee depreciation on KDDL or Ethos business this quarter?

Yashovardhan Saboo: Rupee depreciation?

Gaurav Sumani: Yes.

Yashovardhan Saboo: Well, no surprises, whenever the rupee falls a bit, in the short-term, it helps export business, slightly detrimental to import business like everywhere, so it is the same with us, overall we are sort of – as a group we are almost neutral on this front, but as you know that on, as far as Ethos is concerned more than 70% of our business is purchasing from domestic subsidiaries of international companies, so it is they who are exposed to the rupee depreciation not us.

Gaurav Sumani: But the watch becomes expensive right because of that and that might affect our sales or does not really happen?

Yashovardhan Saboo: The watch does not really become expensive, the MRP changes are not done every sort of month, every now, MRP changes are done every once in a year, it is very rare that is more than once in a year, so that does not usually happen and when it does if let us say the rupee depreciation is permanent and sustained then it will happen, but who are we comparing the prices with, the price of the Rolex watch or Omega watch or a TAG Heuer watch is compared globally, so if the rupee depreciates the global comparison is not changed.

Gaurav Sumani: Is there any significant impact on the demand because of it?

Yashovardhan Saboo: No I do not think the impact for premium and luxury goods is impacted by a 3%, 4% increase here or there.

Gaurav Sumani: That is it Sir. Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question, I now hand the conference over to the management for their closing comments.

Yashovardhan Saboo: I would like to thank everyone for the interest in tracking our performance and participating in this call, I hope we have been able to respond to your queries adequately. If you have any further request for information please get in touch with SGA our Investor Relation Advisors. Thank you very much, have a good day.

Moderator: Thank you. Ladies and gentlemen, on behalf of KDDL Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.