"KDDL Limited Q3 FY 2017 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 LIMITED
MR. C. RAJA SEKHAR -- CHIEF FINANCIAL OFFICER, ETHOS LIMITED

Moderator: Ladies and gentlemen, Good Day and Welcome to KDDL Limited Q3 FY 2017 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.

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I now hand the conference over to Mr. Saboo -- CEO, KDDL. Thank you, and over to you, Sir!

Yashovardhan Saboo: Good Afternoon, everybody and thank you for joining us at quarter three and nine monthly FY 2017 Earnings Conference Call. As usual, I am here with Mr. Sanjeev Masown -- CFO of KDDL and Mr. Raja Sekhar – CFO of Ethos limited our retail arm and also our Investor Relations Partners Strategic Growth Advisors.

I hope that all of you have had the chance to go through our Presentation which is now uploaded on the BSE website and our company website.

Last quarter as you know witnessed major government policy in the way of demonetization to curb black money in the economy. This has slowed down the growth pace for the country, but we also convinced that it is only a temporary phase and in the long run, we strongly believe it is a step in the right direction for our economy bringing more transparency and credibility among all stakeholders.

However, as expected there has been a noticeable impact on the company due to demonetization, it was most severe in the month immediately after the demonetization and over a certain period of time we are seeing the effects being gradually wearing out. However, the impact on us, has been much less than that of competition because just 35% of our transactions were in cash whereas it was much higher for most of the competition. Still one can say that our results for the quarter would have been significantly better otherwise.

As I mentioned, the impact of demonetization will take another one quarter or two quarters to be neutralized and for the growth vector to kick-in once again.

Having said that, let us start the discussion with the key financial highlights of the nine months ended 31st December, 2016. On a consolidated basis, the total revenue stood at Rs. 352 crores for the nine months FY 2016, as against Rs. 341 crores of the same period in the previous year marginally growing by 3%.

The gross profit stood flat at Rs. 132.5 crores for the nine-month period with a margin of 37.6%.

During the nine-month period profit after-tax showed a drop of 86% to Rs. 1.3 crores versus Rs. 8.9 crores for the corresponding period last year. This drop was majorly due to the business of Ethos which we will discuss in detail in a while.

Now, I give you an update on our manufacturing business. Our standalone revenue in Q3 FY 2017 grew to Rs. 29.5 crores from Rs. 26.6 crores in quarter three of FY 2016, witnessing a growth of 11% year-on-year. Similarly, the cumulative revenue up to Q3 FY 2017 grew by 8% year-on-year to Rs. 95.2 crores from Rs. 87.9 crores for the same period of last year.

The EBITDA margin for Q3 stood at 17.4% compared to 14.1% in Q3 of the previous year; and the nine months' margins stood at17.5% against 16.8% in the similar period of last year.

The revenue of watch component business and precision engineering components for the quarter grew by 8% and 40% compared to the similar period of last year. However, the watch component business for the quarter declined by 9% from the previous quarter i.e, Q2 of the current financial year, due to the continuing sluggish environment in the Swiss market.

I should inform you here that the year 2016 has been one of the sharpest declines in the Swiss watch business for over 30 years and therefore in the light of that decline, the performance for our nine-month period and the watch component business almost 70% of which depends on the international watch business has been quite creditable.

The precision engineering business segment continues to witness healthy growth and the revenue for the quarter grew by 13% compared to the previous quarter.

The revenue in watch component and precision engineering components for the nine month has grown by 5% and 27% respectively compared to the nine months of the previous year. As a result of which the share of revenue for the precision engineering business segment has improved from 16% to 19%.

The expansion project of the precision engineering segment is progressing as per schedule and we plan to commenced first phase of expansion by setting up the electro plating facility by the end of quarter one of the next financial year.

We are confident that this business will continue to grow at a healthy pace with the addition of new capabilities and the enhancement of stamping and tool making capacity and will indeed become the fountain head of growth in the manufacturing business of the company in the period to come.

Now, I shall discuss our retail business under Ethos. With the many legislative changes, Ethos continues to face difficult times and very strong headwinds. For quarter of FY 2017, revenue for Ethos was Rs. 93 crores down 10% on a Y-o-Y basis. However, we are meeting the challenges by focusing our attention on operational improvement specifically on improving margin and capital efficiency.

The cornerstone of our strategy remains our focus on the exclusive brand strategy. In the last quarter, we have entered into strategic partnership with a well know and a very historic global watch brand Favre Leuba for those among you who are familiar with the world watch an international watch presence in India in the 60s, Favre Leuba was one of the best known Swiss brand in India at that time.

Ethos now are the exclusive retailers of this brand in this country. In addition, we are in advance discussion with two other well-known brands to enter into exclusive arrangements with the addition of these two brands expected to be concluded quite shortly, we will have an exclusive and limited distribution arrangement with 13 brands which will be a very strong portfolio to launch our exclusive brand strategy as part of our overall brand strategy in Ethos.

I am very happy to inform you that this strategy seems to be gaining traction, the sales of such exclusive brands continues to raise ever quarter thereby helping improve our overall gross margins.

As you may have seen our gross profit margins are at a 15-month high of 23.4% in fact, quarter three FY 2017, we have clocked 30 basis points higher than the margin of quarter three FY 2016. We are also taking measures for maintaining lean-cost structure. Our strategy of closing down non-profitable stores and stores that are taking very long to breakeven is helping us maintain a lean cost structure. Besides the four stores that we closed in the current year till December 2016, we have closed another two stores in January 2017, one store at Terminal III at the Delhi Airport which was bleeding and was unlikely to become profitable anytime soon. And another store in Vadodara bringing the store count to 35 as of date.

At this point, I would like to mention that while we have been closing stores we have also been actively scouting for new store opening and we will start on some new stores at very-very good locations over the next few months.

Further higher proportion of sales generated from online leads helps us to service a larger customer base without having physically operated a store; 31% of our total billing came from online business to Rs. 87 crores a growth of 6% year-on-year. We have highly trained customer service team which makes online lead generation easier and comfortable through the customers and continues to prove a great success for our model.

All these factors are helping us to improve our margins. Our EBITDA margins improved by 50 basis points and are at 15 month high of 4.9% compared to 4.4% in the same quarter previous year. We are also taking steps for ensuring capital efficiency especially for the investment in inventory. Our inventory carrying month now stand at 8.5 months at the end of 31st December, 2016 which is lower than the 8.9 months that we carried on the same date of the previous year.

On PAT, that is profit after-tax we achieved Rs. 1.7 crores, a growth of 62% over the same quarter last year and cash PAT at Rs. 2.6 crores a growth of 30% year-on-year.

We have taken cognizance of the recent union budget announcement banning cash transaction about Rs. 3 lakhs with effect from 1st April, 2017. Given that we have already taken steps since last year for reducing our exposure to sales in higher price points, we believe that the impact of the new rules will not have a significant impact on our model. We believe we have been able to tackle the pan card issue and demonetization phenomena and we are confident that we shall see margins starting to climb up from here on.

With this, I open the floor for question-and-answers.

Moderator: The first question from the line of Dhruv Agarwal from Cressida Investments.

Vijay Sarda: Two things just wanted to understand if you can dwell upon. Now, what we have seen in terms of last 1 year and 1.5 year, you see we have seen pan card regulation now this demonetization and everything, and as you rightly said the major portion of your sale use to come from cash and all that? So, how you see scenario unfolding going forward so, three months post demonetization where things have been standing? So, how you see scenario unfolding for you in terms of overall growth? Means last four years out of our last year we were growing 1%, 20% more than that but because of the hick-ups that what we experience the growth has been slow down. So, going forward for next two years, how much time do you feel these things will stabilize and when we will continue with our 15%- 20% kind of journey in watches?

Yashovardhan Saboo: Okay, is there any other question or that is it?

Vijay Sarda: And second, on the precision engineering, last two quarter performance has been quite good. So, are we going to face some capacity constraint with the way the growth is coming up or this capacity is coming on time so that we would not get impacted because of the capacity constraint there?

Yashovardhan Saboo: Let me answer both the questions quickly. It is true that the last 12 to 15 months we have faced very strong headwind by way of Pan Cards and tax collection sourced and demonetization and now you can say the Rs. 3 lakh and we have seen the results of that where the growth of almost 20% has slowed down this year and will probably end up to the flat year. You see one thing I want to correct is that you mentioned that the major part of the sale was in cash that was not true. Our sale in cash was much less than our competitors and therefore, even in this year though we have not had a sales growth, it is a year in which Swiss watch imports into India has actually declined by 13% and we have remained, our performance has remained pretty much flat. So, therefore, in terms of market share we have actually picked-up market share, which is the reflection of the strength we have because as you know in difficult times the strong players actually gain the weak players lose. So, that is one point which I want to mention. Second, we have taken very quick and proactive steps to adjust this change in the business environment for luxury business. We have opted to get out of the very high price point and instead have chosen a more reasonable price range which is Rs. 50,000 up to Rs. 5 lakhs and our goal is to really dominate this segment with the most powerful set of brands, many of them on exclusive basis so, that is really cutting us away and differentiating us very strongly from the competition. I think these are the two big huge cornerstones of where we stand. And on the basis of this, and also on the basis of seeing how our progress has been in the phase of very heavy headwinds, I am pretty confident that we will see growth inching back. I do not think it is going to be suddenly one day to the other it is going to go from 0% to 20%. But over the next financial year, you will see quarter-on-quarter the growth returning and by the end of next fiscal year we should definitely be back to the rate of about 20% growth. We are going to have new stores which are in the pipeline. Please understand that this year we have also a lot of store closures. So, that has also impacted the overall growth but that is also being reversed, a lot of new stores are planned, they are in the pipeline and they will come on stream in the first six months of this calendar year. So, all-in-all, we see a return to growth over the next couple of quarters. A lot depends also on how the microeconomic environment shapes up. We are waiting eagerly for the GST to come in, we hope it will not have any rude shocks or surprises. We have a lot of confidence that it will bring in much needed reform in the country and again, simplification perhaps a downward correction in interest rates over the next year. I think, all of this rationalization of taxes, all of this suggest that the worst will soon be over and we will be looking at growth years again. Now, to answer your second question precision engineering is growing. There is a pretty robust quarter-on-quarter growth which is planned. Investments are going online, the new capacity being created; it is pretty much on schedule. So, I really do not think that there is going to be any speed breaker on the growth for the precision engineering business, it is going to be a steady growth, I do not think you will see it like a rocket taking up but it will be a very steady and strong growth over the next couple of years.

Vijay Sarda: That is great sir. Sir, just last thing in terms of this private label, the way you spoke about in the past as well. So how this is catching up as an overall pie of your business and how you see that as a percentage in next two years - three years? As you rightly said, because this private label and this exclusivity will also yield you higher margin.

Yashovardhan Saboo: This was a very nascent idea and I can tell you in the previous fiscal year for such kind of brands our business was less than 3%. Our target this year was to touch 8%, we are already clocking 10%. How far this will grow it depends on what are the kind of strategies and what are the kind of marketing investment that the brand is likely to put in. But I think a very steady growth so as to achieve something like 25% share of our business coming from exclusive brands, is something that is well within reach over the next couple of years. So, around the 3% level in the previous year.

Vijay Sarda: Okay. Sir, this margin differential between the regular and this will be quite good in terms of margin?

Yashovardhan Saboo: Yeah, I think. Our goal is to have a clear difference of at least about 10% to 12%.

Moderator: The next question is from the line of Vimkar Suryavansi from Phillip Capital.

Vimkar Suryavansi: Just I missed the how much would be currently our share of cash transaction? I just missed that number.

Yashovardhan Saboo: I would not have exact number but I do know, it is definitely less than 20% and in earlier times it used to be 35% to 40%. These are not exact figure but I am just telling you. If you need exact figures, we will have to get back to you on that.

Vimkar Suryavansi: No, approximate number is good enough, sir. And this 25% revenue share you said is from exclusive brand I guess over a period of time and current is 10%?

Yashovardhan Saboo: Yes, correct.

Vimkar Suryavansi: You already discussed almost everything in detail but in terms of opportunity size and where we can see the precision engineering in two year or three years down the line in terms of revenues and any capability potentially?

Yashovardhan Saboo: Vikram**,** that is a very interesting business and you know an expansive answer would take a lot of time and understanding about the business. But let me try to summarize it to you. The precision engineering has a very huge spread and debt both international and in the country, it spans various businesses from arrow space and defence to electronics medical instruments, consumer durable. So, it is a very fast plan, anything to do with mechanical, precision, connectors, electronic uses these parts, and our capability are rooted in very high precision pooling and stamping and we are adding complimentary capabilities, very vital capabilities like precision injection molding, the ability to create sub-assembly, electro plating which is vital for many of the electrical electronic businesses. So, adding all of this, the scope of the business is huge. It is now for us to establish a strategy as to which segment we want to focus and specialize in. We have got a strategy of that in place. But of course, we are still very small. So, whichever place we look and we put our effort in, we see a lot of potential there and we do already experience that the potential and earnings from export in the U.S. and UK markets is looking at the moment more profitable business in India but obviously that comes at an own gestation period. So, we are balancing our strategy for the Indian market and export market and we certainly see a year-on-year growth in access of 25% for next several years.

Vimkar Suryavansi: And can you give absolute amount of revenue for this quarter or nine months in precision engineering if possible?

Sanjeev Masown: Yeah. This quarter revenue of precision engineering was Rs. 6.5 crores.

Vimkar Suryavansi: Okay, sir. And just a final question, this post GST, in precision engineering do we see that we are getting more benefit because are we seeing small unorganized player will find it difficult and that kind of business we can receive in precision engineering or we will just compete with existing large players?

Yashovardhan Saboo: I do not anticipate a huge change in the engineering business due to GST. I do believe that the overall business environment will improve a lot. We already see the green shoots, we already see that happening and with GST I think that much need flip and confidence to the business environment in overall will happen. I think, India will also be seen international as a more efficiency and business friendly country to deal with. I think that will have a huge impact in all our discussion with some of our existing and potential foreign customers. I think they are very interested and keen on India developing as a source as an alternative to other countries but they also would like to see India to become more business friendly and it think GST will send a very strong message. So, we are looking forward to those indirect benefits mainly.

Moderator: The next question is from the line of Abhishek Agarwal from Fortune Interfinance Limited.

Abhishek Agarwal: Sir, I am very regular visitor of your stores especially at Mumbai and pretty much actively tracking your company. Now there are couples of questions I wish to ask. First of all, with regards to fund raised recently, we have seen that saif partners have invested and of course, as promoters you guys also have invested. So, can you throw some light on that what is the purpose of fund coming from and where are we going to utilize them since at one end we are closing down the stores, ofcourse you guys are handling but then more towards that like how do we see Ethos or KDDL as a company going forward? May not like to have a number in place as far as revenue targets are concerned but what is the overall story?

Yashovardhan Saboo: So, the fund raise has gone through as you rightly said, saif partners have invested and the promoters have invested. The goal is really to further the overall plans of KDDL and as I have explained in my talk and in previous answers we have a pretty aggressive plan for growth in the precision engineering business. There is also growth planned in the watch component business which does require CAPEX and this investment is really meant to achieve that. Meanwhile Ethos will require investment but with the CAPEX needs of KDDL being taken care by the new capital infusion in KDDL, the surpluses of KDDL then become free to be invested in Ethos to meet the needs of Ethos. Now it is true that in Ethos we have closed down some stores. Then really a measure to focus very sharply in Ethos on earning and good performance, so while we have closed down some stores, as I mentioned you will soon hear if a lot of new opening as well and including a flagship store in the top mall in Delhi and new Emporio Mall coming up in Chanakyapuri which is going to be the top luxury mall in the country and we have taken a large space over there. We have taken up new store space in some cities where we are not present. For example, Jaipur we will be opening; Lucknow, we will be opening; we are entering Pune. So, there is growth planned in Ethos and there is a fund requirement for that as well. So, I think overall that is the story going forward.

Abhishek Agarwal: Just a loud thinking from my considering that we know that we are still a very developing economy and with the recent government action of course, we have more than Rs. 3 lakh in a single trench in cash, you cannot do more than Rs. 2 lakh because you would require a Pan Card. So, in both the scenario, somebody who may be aspiring to buy a big brands and of course, when we say I am talking about upwards of Rs. 5 lakh then in that case how are we going to tap that demand since there is a demand but because if somebody has to put in check that is a big issue and that is a big fight and probably the other competitor whatever business package they are following, we can take over a market even though there is a demand how do we ensure that we are taking that piece of demand in our company.

Yashovardhan Saboo: Abhishek, that is difficult and that question has a very long and in the end we may still not agree because it depends on one perspective. I do not believe that people in India will stop buying watches at Rs. 5 lakh simply because now cash cannot be used. I do not buy that thesis as a general thesis. As we know there are some people who do not even buy Rs. 50,000 thing in cheque, they want to pay cash even for a Rs. 20,000 purchase and there are some people who will buy Rs. 10 lakh and Rs. 20 lakh things with the cheque, I think it is a mindset issue. It is true that to change the mindset will take some time. There may be 5% or 10% of the people whose mindset will never change and there will be 5% or 10% whose mindset has already changed for the balance 50%, 60%, and 80% the mindset will take time to change. I always ask one question, people buy a Rs. 20 lakh, Rs. 30 lakh car or Rs. 1 crore car by cheque not in cash. It is mindset. Similarly, for watches there will be period where people will think, can I buy in cash and then they will find it is very inconvenient, how can they buy in cash? Nobody is allowed to sell a watch officially in cash. So, if they are selling a watch then it is smuggled watch. When it is a smuggled watch what is the guarantee of his watch, I will tell, I will point you to scores of customers who come to us and complain that this watch is not working when we open the watch and service we find that it is a pre-owned watch, it is an old watch, or it is filled with straight parts. So, these are all signs of a maturing economy. Some people will try at once or twice they will get their fingers burned. Some people may think, I will not buy in India, I will go abroad and buy, and then they go abroad every time. Tomorrow there is wedding in the family or a gift has to be given will they think that I will go abroad and buy, how will they get the money outside India? They will have to take it from here; the might as well buy it over here. So, this is all a period as I said, it will take some time for people to get used to buying these products with cheque. Some people will get used to this early, some people will get to used to late, and some people will never get used to. Does not matter, I think for us our positioning is clear, our strategy is clear, the trust that our customers enjoy is clear. So, we are going on that strategy, I have absolutely no doubt that at price points that we are playing in now our sweet spot, we will be the strongest, we have will have weak competition and we will dominate that segment.

Abhishek Agarwal: Okay, sir. Satisfactory. My third question comes from the Satva Jewellery that is our company which we recently, it is a jewellery company. Can you throw more light on that? I mean what exactly this company is all about?

Yashovardhan Saboo: So, this is a company that was started in a joint venture with a Swiss business, it was 50-50 joint venture. It started several almost ten years ago. The goal of the company was to mount diamonds and other precious stones on watch dials and other watch components. You see these watch cases which are completely covered with diamonds or stones embedded on that but in the local jeweler kind of way. But in the kind of quality that the top brands like Omega, Rolex, Cartier would do. So, this was joint venture which we had done. It was quite successful for some time but hen differences happened with the Swiss partner and for the last couple of years, it has remained non-operative because it was a 50-50 joint venture so the Swiss partner decided to stall operations and basically we reached a log jam and being 50-50 we could not sort of overrule what the partners decided. Over the last few years it has remained a non-operative company and we finally could reach an agreement with the Swiss partner to buy off his shares completely and the purchase has been done at negligible almost at zero value. So, that is it. It is eventually brining to a close and the operations of this company are being assimilated into KDDL now.

Abhishek Agarwal: So, where there will be any advantage, since you said that it was line like that and now we just acquired for nothing a very notional value?

Yashovardhan Saboo: You know to the extent that the demand for these expensive kinds of dials and cases will pick up in future, yes it will be an advantage.

Abhishek Agarwal: Okay. Last question on your recent partnership in your presentation you suggested Raymond Weil and Favre and power grid. So, of course will you say that this brand use to exist. But the point is that this brand was bought out by Titan and now, I do not understand why Titan is not marketing themselves in their own store and what kind of exclusive arrangements are? I mean are they only to sell through you in India or even you can sell this brand abroad since this brand probably was not in personality for some time.

Yashovardhan Saboo: So, Abhishek, I will tell you what I can, I mean I cannot speak for Titan. It is true that the brand was purchased by Titan. It is also true that the brand is managed exclusively out of Switzerland and that the CEO, the management team based in Switzerland, the CEO is Swiss. The watches are produced completely outside India, in Switzerland. And they are positioned at a very high level of luxury, I do not know if you had a chance to look at the watches, I think they are some fabulous watches and the history of the brand is something quite remarkable, I do wish to state that it is the third oldest watch brand in the world and if I am not mistaken this year they will be celebrating a very special anniversary I think, it is 250th year or something like that. So, it is an extremely historic brand. They are producing some fabulous watches and it is true at the moment we have the exclusivity, we are the only retailers for this watch brand in India. To answer your last question, no, we do not have the right to retail it everywhere in the world. The arrangement is for India alone.

Abhishek Agarwal: I had visited a store, I had a look of the watch, and I was looking to buy it. The problem came only to the extent of recognition of the brand compared to any other brand. And to be honest, I do travel abroad but I have not seen this brand in most of the places where I have visited so you know this thesis of this.

Yashovardhan Saboo: So, just to tell you, the brand was an extremely well known in the 60's and 70's, then it went through three ownership changes, it changed hand three times because the original Favre family divested and then it was changed three times and obviously, with that change it lost a lot of sale and one full generation went by without noticing this brand. But obviously, Titan being the visionary company it is, they realize the value of the brand, they realize the brand value in India and several other markets and they purchased the brand and it has been revived, I think it is a great story which is just starting to happen. You know the first watches which have come out now they are like in my opinion they are collective items because in several years when this brand becomes an epic like some other global brands operated by the TATA Group. I am sure, you will be glad to have bought one of the first pieces which will collective pieces. So, Abhishek do consider visiting the store again.

Moderator: The next question is from the line of Manan Mehta, who is an Individual Investor.

Manan Mehta: Sir, I have two questions, sir. First is on an outlook of Swiss brands in India like, we have seen exclusive arrangements with Titan and yourself, so this the trend that is going to go ahead in the future?

Yashovardhan Saboo: So, Manan, if you can ask all the questions then I can answer all of them at a go.

Manan Mehta: Yeah. And the second one is sir; it is regarding our margin. Our margins have actually moved up very sharply in this quarter. So, I wanted to understand are these sustainable? These are basic two questions.

Yashovardhan Saboo: Okay. So, you know for the Swiss brands, there is no arrangement that all brands that we are going to deal with are going to be partnered or work together with Titan, there was no such arrangement. If so happens that for some brands, they have a good spread in India and we were keen that the distribution is either exclusively with us or if one other partner has to be chosen then it should be partner who shares same value, same professionalism and that they are not going to do anything which is illegal. They are not going to destroy the market by all kinds of nefarious activities. And therefore, when some of the brands proposed they could work with Helios which is a Titan chain, we came to some agreements in the case of I think two brands. That is we have also finalized with many brands on an exclusive basis, they are not with Titan.

Titan have some brands that are exclusive with them, they are not with us because we do not think that it will fit with our plan. May be in the future we cannot rule out that some other brands will be with us and Titan and of course, we are certainly talking to all the brands to be exclusive and with Titan. So, I think it is on a case to case basis, there is no trend or there is no policy that we can sort of say that has been adopted. As far as the margin is concerned, I am just going to let Shekhar answer that because he has the figures with him.

C. Raja Sekhar: So, Manan, yes, in the last quarter we did see increase in the gross margins happening and as Mr. Saboo had explained previously much of it is on account of fact that our house plans, we are seeing great attraction happening in our exclusive brand strategy. Exclusive brands that we negotiated with have much higher margins at the gross level compared to our other brand and higher proportion of exclusive brands that we are selling was at the overall weighted average of margin which is improving. To answer your question whether this is sustainable, we believe it is, we continue to give our focus to the exclusive brands and as Mr. Saboo had pointed out, we are looking to improve the proportion of such sales from the current 10% to about 25% going forward in the next two years to three years which automatically mean that the weighted average gross margins would improve.

Moderator: The next question is from the line of Sameer Kapadia from Fortune Interfinance.

Sameer Kapadia: Just wanted to like to know how many stores you are expecting to open this year and next year?

Yashovardhan Saboo: We expect to open six stores this year; there may be one or two replacement stores because as I mentioned that we are closely watching stores that marginal in performance, we are trying our best to turnaround stores but after best efforts it does not happen, we are looking at alternative locations. But we expect net addition of about six stores this year.

Sameer Kapadia: And what is the Capex for the same?

Yashovardhan Saboo: By this year sorry, I mean the financial year 2017, financial year 2018.

Sameer Kapadia: Okay. And what would be the Capex for opening the stores?

Yashovardhan Saboo: The approximate outlay in all these stores put together would be about Rs. 20 crores but that is not really Capex. Most of it is actually the stock that has to be added for these stores.

Sameer Kapadia: Okay. And secondly in your Annual Report you had mentioned in regards with expanding your product base by introducing new luxury products basically into Montblanc and Chopard so, any update on that side?

Yashovardhan Saboo: With Montblanc we have gone ahead pretty much as per plan. So, our number of stores with Montblanc products is already in double-digit and I think we will be ending up with something like 14 points or 15 points of sale with Montblanc which is an expansion as planned. So, that has worked very well. On the other hand, with Chopard**,** it has not been so good as a lot of accessories has included the Chopard branded jewellery and the accessories are also rather expensive and with the new Pan Card and other regulations, Chopard**,** as a brand is one of them which is at a very high price points, and we are actually reducing our exposure with Chopard.

Sameer Kapadia: Okay. So, any other plans apart from this by introducing any other brand or like diversifying your luxury portfolio?

Yashovardhan Saboo: At the moment for the next couple of months, Sameer, we are pretty much focused on expanding our foot print in a number of stores and getting the margin back on the watch business. You know watch business may look challenging at the moment but it is far more challenging for our competition. We are gaining ground. Everybody is actually losing market share, we are gaining market share and therefore this is actually the time to strengthen our presence in the watch business which is what we are doing.

Moderator We have the next question from the line of Tristi Jain, who is an Individual Investor.

Tristi Jain: I just wanted to know, in our manufacturing business, what kind of capacity utilization are we seeing?

Yashovardhan Saboo: Are there any questions, Tristi? If you ask all of them I can answer them all one after the other.

Tristi Jain: Okay, yeah. I also wanted to know since, we have installed all this new Capex recently, next year onwards what kind of asset turnover are we expecting?

Yashovardhan Saboo: Let me answer the first question and then I am going to ask Sanjeev to answer the second one because I am not very sure, what Capex you are referring but I will let him answer that. So, our capacity utilization, it is different in the different business, in the watch component business also there are different segments in the business. So, we do have fair capacity on the export side of the business because this has seen a downturn but we expect this to start growing again. As far as the precision stamping business is concerned, we are working at fairly good capacity utilization now. In our business, it is not a process industry, it is bank processing and it is all range of products that we make using a common sort of a capacity. So, a lot of the utilization also depends on the product mix that we get. Given that the product mix remains sort of on an average the same, our capacity utilization in the precision engineering business is pretty high and that is why we are now to expand capacity by setting up the new plant and we have purchased new high tonnage presses and all of this is actually leading to growth that we have experienced in the quarter three and we have experienced in the next quarter and the next years to come. So, capacity utilization is high. But in certain pockets, there is still room for taking more orders. But overall, I think specially on the precision engineering business we are running fast to increase our capacity. Sanjeev, would you like to answer the second which is on the Capex?

Sanjeev Masown: You have mentioned about the major capacity I think, I like to correct it. There has not been any major Capex during the current year.

Tristi Jain: Okay. But relating to our precision engineering division?

Yashovardhan Saboo: Let me just tell you about precision engineering. During the current year, we are doing the construction of the new factory which will be over in next couple of months and by first quarter we will be commencing the production of the manufacturing there. The investment which has gone into land and building. If you are looking at the turnover of that, the Capex maybe it will be less than one. But all the productive assets which are being deployed and then our turnover to asset ratio will be between 1.5 to 2 that is the target we have.

Moderator: Thank you very much. That was the last question. Ladies and gentlemen, as there are no further questions I would like to hand the conference back to the management for any closing comments.

Yashovardhan Saboo: So, I just wish to thank everybody for joining in this conference call and I hope we have been able to answer your questions and we look forward to the next interaction again. Thank you very much.

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