"KDDL Limited Q4FY15 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q4FY15 Earnings Conference Call of KDDL Limited. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Yashovardhan Saboo – CEO, KDDL Limited and CEO, Ethos Limited. Thank you, and over to you, sir.

Yashovardhan Saboo: Good evening to everybody, and a very warm welcome to all the participants. I am Yasho Saboo here, I am joined by my colleague Mr. C. Raja Sekhar – CFO of Ethos, our retail arm, we also have with us representatives from SGA, our IR advisor. Mr. Sanjeev Masown – CFO of KDDL who usually joins, is not able to do so as he is traveling abroad for an important business meeting. I hope you have received our Financial Results and the Presentation, it has been uploaded on the BSE website as well as our website. I will give a brief update on the Business followed by a Commentary on Financial Results and as always we will have Q&A afterwards. Let me begin with the consolidated results. In FY15, the company registered revenue growth of 23% to Rs.412 crores from Rs.335 crores in the previous year and EBITDA of Rs.39 crores representing a growth of 30% year-on-year. EBITDA margin of 9.5% was recorded, this was higher by 50 basis points compared to the previous year. Profit before tax grew by 28% year-on-year to Rs.13.9 crores from Rs.10.9 crores in the previous year. The tax for the year was significantly higher than the previous year; however, we have been able to maintain the net profit at around the same as the previous year Rs.8.9 crores. The cash PAT for the year is at Rs.21 crores, a growth of 24% compared to the previous year.

Coming to standalone results for KDDL: For the year, the company registered a revenue of Rs.127 crores, year-on-year growth of 14% from Rs.112 crores in the previous year. EBITDA grew by 22% to Rs.25 crores in absolute terms, growing by 137 basis points to 19.64% of net sales. The profit after tax stands at Rs.6.5 crores, a growth of 54% year-on-year, net profit margin improved by 134 basis points to 5.1% of net sales. Watch Component revenue grew by 13% year-on-year to Rs.101 crores with an EBITDA margin of about 25%. Revenue of Rs.21 crores came from Precision Engineering, growing by 26% year-on-year, the EBITDA margins in this business rose to 17%. We expect that the growth will be maintained in the current year as well with Precision Stamping business enjoying a greater growth than the Watch Component business in the turnover. The sale of Watches worldwide is witnessing lower growth due to subdued macroeconomic conditions in key markets such as China, Russia, Europe, and Middle East, though the US market is showing good buoyancy. The emergence of Smart Watches led by Apple is expected to create a transition in the Watch business with several brands opting for developing their own versions of Smart Watches or some waiting and watching the situation until the market trends become clear. We as a business are already seeing large new opportunities in the business of Smart Watches… and I will refer to this later.

On the policy front, there has been one significant development related to export of Watch Components, which impact us. We have been earning an export benefit of 5% from the government under a scheme called the "Focus Product Scheme" to encourage exports of non-traditional products. We have anticipated this benefit to be reduced from 5% to 3% in the current fiscal year as part of the overall reduction of export support. The benefit has actually been reduced to 2% for most countries, but surprisingly, for some countries, it was reduced to 0%. Switzerland, our main export destination, falls surprisingly in the 0% category even though it is one of India's major trading partner in the Watch business and several other segments. We have taken up this matter at the highest level with the government with Chamber of Commerce directly and also the Swiss India business hub and we expect the benefit will be restored to at least a level of 2%. We are of course trying for it to be reinstated with the highest level of 5%. However, it will take a few months for this to be achieved. As a result of the above development, we expect EBITDA to go down by about 100-200 basis points in Q1 & Q2, this is the time we feel it will take to restore that benefit and also for the transition period in the Watch market to end. But we expect the EBITDA levels to be restored thereafter. As mentioned, we expect the turnover growth to be maintained. In terms of CAPEX, we are not planning any major CAPEX in the Manufacturing business in the current year. Total CAPEX of about Rs.5 crores is planned which will be met through internal generation. No increase in debt level is foreseen for this purpose.

Now, I come to the Discussion on Ethos, which is our Retail Arm: As on the year ended 31st March 2015, the company has 46 Stores across the country, 9 Summit Stores, 3 Duty-Free Airport Stores, 5 Duty-Paid Airport Stores and 29 Ethos Stores, comprising 46 Stores in total. During the month of April and May we have closed 3 Stores – 1 Store in Bengaluru, 1 at the international duty-free area of this Delhi Airport, this was a kiosk store, and 1 Domestic Airport Store at Ahmedabad. This brings the Store count to 43 as on date. We are keeping a tight watch on Store wise performance and a few more closures might happen. On the other hand, we have won the tender for a large new airport store at Terminal-II at Mumbai Airport Domestic Departure. This new store is expected to become operational in August 2015. We will also start the new store in the Luxury Hotel, Park GVK at Mumbai International Airport Terminal-1. This is the only hotel at Mumbai airport that is directly connected with the airport terminal, as such we expect it to enjoy a lot of traffic of business travelers and we expect our new store there to break new ground in this segment.

I would like to reiterate our strategy to continue our growth at 25-30% year-on-year without relying much on growth in store count, instead, we will continue growing by extending reach through our Online model and creating an Omni channel presence. Our website, www.ethoswatches.com has helped us to expand on network and the catchment area of every store. In the previous year we received nearly 6 million visitors on the website. This is double that of the earlier year and it makes us the #1 visited website in the world among authorized Multibrand Retailers of Premium and Luxury Watches. In FY15, the average unit MRP for Watches sold through the Online leads stood at Rs.96,000 for the Online-lead generated sale whereas the overall level for the chain as a whole was Rs.58,000. Thus, the unit MRP for leads from Online is significantly higher than the overall average. With the objective of maintaining the growth momentum, we continue to invest in advertising and marketing initiatives with a great focus on Online marketing; our marketing spend in FY15 was 2% of sales, up from 1.7% in the previous year. In absolute terms, the marketing spend increased from Rs.3.7 crores to Rs.5.6 crores, an increase of 51%.

We also continue to invest in required IT infrastructure to implement efficient logistics and put in place the service leads generated from the Online platform. These efforts are showing the desired results. Sales from Online-lead generation rose to 24% of the overall sales in FY15 as against 16% in the previous year. In the current year, we are targeting to reach 28-30% of the overall sales through the lead generation. Thus, the Online lead generation revenue has grown by almost 90% in FY15, much of this growth has been achieved by better conversion. Our conversion rate from lead to sale has increased to 6% in FY15 from 4.3% in the previous year. This reiterates our belief in the potential of this platform.

I would also like to share that we have commenced direct eCommerce from our website with a few brands having received confidence from these brands, the most prominent among these are Fossil, Armani, Michael Kors and some others too. Other brands are expected to become part of our direct eCommerce portfolio in the coming months and we expect this to play a significant part in our omnichannel retail strategy in the years to come.

One of our most important focused areas in the current year will be improving the asset turnover ratio by better rotation of stocks. The improvement in this parameter has been rather gradual over the past few years. This year we are working on an aggressive strategy to use analytics and an aggressive strategy of purchasing replenishment and stocking and we are confident of achieving a significant improvement in the stock-to-sales ratio in the current year.

Coming to the Financials of Ethos: In FY15, our revenues have grown by 28% year-on-year to Rs.281 crores net sales. This is significantly higher than the estimated market growth. The same-store sales growth for the year stands at 13%. Our sales are being aided by our Online platform as I have already mentioned which creates lead for sales which are then fulfilled at the store. This lead generating online platform have contributed 24% of the revenue in this fiscal year as against 16% in the previous year.

Growing proportion of revenue from Online platform is enabling us to reduce front end expenses on account of rental and employee cost. So with the revenue growth of 28% year-on-year, front end expenses grew by only 12% year-on-year. Looking at it from a percentage of sales perspective, front end expenses have reduced from 13.4% as a percentage of sales in

FY14 to 11.7% in FY15 which is a reduction of 169 basis points. Supported by this reduction in expenses, EBITDA margin expanded by 100 basis points to 5.1% in FY15, EBITDA for the year was at Rs.14 crores as against Rs.9 crores in FY14, a growth of 63% higher, significantly higher than the revenue growth of 28%. Profit before tax for FY15 is at Rs.4 crores, a growth of 114% year-on-year; however, this growth was offset by a higher tax rate in the current year and the net profit for the year grew by 8% to Rs.2.4 crores. Cash PAT for the year was at Rs.6 crores as against Rs.4 crores in the previous year.

With this I would like to thank you all for the patient listening and would like to open the floor for Question-and-Answers.

Moderator: Thank you, sir. Participants, we will now begin with the question-and-answer session. The first question is from the line of Rohit Balakrishnan who is an individual investor. Please go ahead.

Rohit Balakrishnan: Just want to understand first of all what is the EBITDA margin for our Mature Stores and the overall store level economics that we have for an individual store and how many stores do we have which have not yet broken even at an aggregate level?

Yashovardhan Saboo: The EBITDA margin for Mature Stores for the previous year is at 9.8% without annual expenses and 25 Stores are profitable.

Rohit Balakrishnan: Is it possible to take through the store level economics, what is the typical cost that we incur in setting up the store and assuming our average sales per store which is about Rs.5 crores if I look at FY14, then what kind of margins do we look at an EBITDA level if we look at the overall economics of the store, here want two data points – one would be our fixed cost and the store running cost and then another cost for you would be inventory. So just want to understand for a specific store, what is the kind of economies do we look at both in terms of profitability and in terms of capital employed?

Yashovardhan Saboo: I am going to let Sekhar, our CFO, answer the details.

C. Raja Sekhar: From an investment point of view, there is a large variation in terms of formats of stores, for a typical store, the biggest investment is in the form of inventory, if it is a typical Ethos store, the amount of inventory that we need to put in is roughly around Rs.2.5-3 crores, in addition to that, the store interior , the fixed asset related to building the store will take something like Rs.40 lakhs to Rs.50 lakhs. That is the entire investment that goes into a certain store. A typical store is expected to do anywhere between Rs.2.5-2.8 crores of sales in the first 12-months of its operation. We expect that in typical Ethos store, in the first 2-years itself that is in second year of operations it does a complete breakeven. In terms of EBITDA, we are aiming that for a store that has a life of about 3-4 years should achieve the EBITDA of about 10% before allocation of rental office expenses.

Rohit Balakrishnan: When we say 40-50 lakh fixed expenses, these are asset or expenses?

C. Raja Sekhar: Asset.

Rohit Balakrishnan: What was the running expenses of the stores?

Yashovardhan Saboo: Again, the biggest cost in terms of running expenses are rental and manpower cost. A typical store which is normally in the region of about 900-1,000 sq.ft., the rental cost is somewhere around Rs.300-400 per sq.ft. In addition to that, the manpower cost typical store employee anywhere between 3 to 5 people, with the total manpower cost p.a. is in the region of 12-15 lakh p.a. These are the two major expenses. In addition to that, there are running expenses which are normally in the range of about 2% of the sales.

Rohit Balakrishnan: If we say Rs.2.5-3 crores is the sale that we look at, so if we see our gross margins are in the range of about 25-26%, is that right?

Yashovardhan Saboo: That is right.

Rohit Balakrishnan: So if we assume 25%, about Rs.70-80 lakhs would be our gross profit and if we say Rs.400/sq.ft. which would be about Rs.50 lakhs in terms of rental.

Yashovardhan Saboo: Yes.

Rohit Balakrishnan: So our EBITDA margins are slightly lesser than about 10% if we do this calculation?

Yashovardhan Saboo: Yes, initially, store takes a while to ramp up its operations, typically, a store that opens in year-one, grows at the rate of 25% to 30% in the first three-years. So the ramp up happens quite fast, whereas the ramp up in terms of expenses is lesser than the increase in the revenue.

Rohit Balakrishnan: You said Rs.1.5-2-3 crores is what we start with, what would be typical stable revenue per store that we would look at?

Yashovardhan Saboo: In our experience now, we have seen growth happening even in the oldest of our stores, stores which have had a life of more than 5-6-8 years, are still growing at the rate of 15-20%. To answer your question, there is no rate at which it sort of stabilizes, we do see that after some time the growth in revenues tend to taper off at about 15-20%, which is what the market itself is growing at. But that is quite late, that happens probably in the year-6 to year-8.

Rohit Balakrishnan: Would it be possible for you to share let us say the best store margin that we have which at this point of time the highest in terms of sales per store, what kind of margin would be?

Yashovardhan Saboo: We do not have store wise data right now, but that is something that we can look into and get back to you.

Rohit Balakrishnan: For Ethos, when you said our EBITDA margins are about 9.8% for our mature stores before rental expenses, at a consolidated level, what kind of EBITDA margins are we looking at two-three years out?

Yashovardhan Saboo: Going forward in the next 3-4 years, our aim is to increase EBITDA that we have achieved a 5% last year to around 10%.

Rohit Balakrishnan: And this would be driven largely by our increase in sales per store?

Yashovardhan Saboo: Yes, it will be driven by an increased sale which is continuing to have at the rate of about 25-30% year-on-year, so essentially it is operating leverage, so when sales grow at the rate of about 25-30% year-on-year, the expenses not increased in the same manner, coupled with the fact that even at the gross margin level, we are looking at the improvements happening due to vendor negotiating in terms of vendor margins and also curtailing discounts that are prevalent in the market.

Moderator: Thank you. The next question is from the line of Jitu Punjabi from EM Capital. Please go ahead.

Jitu Punjabi: A couple of questions: one, in the last quarter we saw Ethos sales slowdown. Can you throw some light on what was behind this, which market, which segments that happened and what do you see in terms of the trend going forward?

Yashovardhan Saboo: It is true that in the last quarter there was a bit of slowing down, essentially this is due to slowing down on three stores and all of them are at airports, I do not think there is an underlying pattern to that, but let me just tell you, for example, the store at Terminal-1 at Delhi Airport, this was non-operational for the entire quarter, the lease has ended towards the end of the calendar year, it was renegotiated and the store was then fit up. So this is an important store that is completely non-existent for Q4 of last year. Two other Stores – Duty Free Store at Bangalore Airport, that has been relocated and it started operations in January at the new location, so there was bit of a gap in the first part of January; however, the sales have been very low there, because if you know Bangalore Airport, the new area which came up, ours is one of the first stores to start in the near area, but due to some reasons, the main duty-free segment which is your liquor, tobacco and perfumes, that did not start until April, as a result the entire area under duty free segment in Bangalore remain much lower than previous year, a big slow down over there. And third, again Delhi Airport International, they have changed a little bit the routing of the flow of passengers, they were experimenting with the new layout in preparation for a revamp of the duty free store area which is expected to happen later during the year. So, that was also another disturbance that was created. And these were the three main reasons why we saw some slow-down in the Retail operations in the last quarter.

Jitu Punjabi: Have the growth rates normalized again to …?

Yashovardhan Saboo: Yeah, had that not been there, if we eliminate these three effects, then we would have grown at about 28% overall and like-to-like growth would have been 17% if the effect of these three stores were eliminated. Now, coming back, we see a strong evidence that this is corrected because in the first two months of the current year that is April and May, we are up about 27% over the same months of the previous year.

Jitu Punjabi: Second question is can you talk a little bit about the inventory side, what are the inventory days and has that remained tight and what was it relative to the same time last year?

Yashovardhan Saboo: We ended the inventory days in terms of cost curve, we ended at about 8.4-months, now I must admit that 8.4-months were higher than what we had planned, but it was lower than the previous year, previous year closure was at 8.5-months, this is at 8.4-months, I must also say that this includes something that is called SOR Sales Or Return is a strategy that we are working with some friends and with increasing number of banks we are trying to negotiate this Sales or Return term because essentially though the inventory is on our books, but the payment is made only when the goods are sold. Inventory net of liabilities is actually smaller, but even then I must admit that we ended the year with an inventory that was higher than what we had estimated, although it was lower than last year. This year going forward, this is one of our most important focus areas and we are writing this using two or three different tools – one is we are working with analytics, our data is allowing to do that, second, we are combining the analytics with working with brands to create core collection, aggregating on the basis of SKU wise velocity, that is something that our IT backbone has now aligned up to track SKU wise velocity. So we are changing the entire concept of merchandise range to base it on core collections and to replenishment strategy based on that. We believe that there will be a significant correction on this during the current year and we should be able to see it quarter-on-quarter.

Jitu Punjabi: You articulated in your opening comments that there were some change in some tax structure or something because of which you will see gross margins go down in this quarter and the next quarter. Can you just reiterate what you said and explain that in a little bit…?

Yashovardhan Saboo: It is not a tax structure. On the export of Watch Components, there was a government export benefit under the scheme called "Focus Product Scheme" So, this was a incentive given by the government to cover for certain disadvantages in India, lack of clusters, certain infrastructure bottlenecks, all host of reasons and this was a 5% benefit that we had enjoyed. Now, it has been articulated that this is going to be reduced as part of the overall thing of reducing that expenses. And we had anticipated a reduction from 5% to about 2.5-3%, and that has been taken part in our outlook for the year. What actually happened in the new Ministry of Commerce notification was that the 5% benefit on Watches and Watch Products export was reduced to 2% but in addition the countries were divided into three pools and for two of the pools the benefit was reduced from 5% to 2% and for one of the pools it was reduced from 5% to 0%. Surprisingly, Switzerland was put in the pools at 0%, it is not known high, even though

Switzerland is clearly the largest partner in the Watch business and for several other businesses, and all of the other EU partners are in the 2% category. So, this was a surprise thing that we have not anticipated at all. And obviously once that has happened we have represented through Chambers of Commerce, through the Swiss India Chamber of Commerce, whatever for is available to us and we are in discussion, we are confident that it will be reinstated at least to the 2% level that is the same as the other countries, but typically these things take some time to convince the government, to get a notification and we expect first two quarters to be impacted by removal of this export benefit.

Moderator: Thank you. The next question is from the line of Chiranshu Kumar from Girik Capital. Please go ahead.

Chiranshu Kumar: Actually, I had just a couple of questions: First was on the line of leads generated and transferred to the stores during the quarter, if I see the last 4-5 quarters it has been falling both in absolute numbers as well as a percentage of the visitors on website. So your comments on that?

Yashovardhan Saboo: The focus is really on the quality of the leads and therefore conversion. Given where we are today and the scale of the company and with the limited marketing budget, we see an increase in the cost of marketing. So it is easy to keep advertising and throw money the cost per click is going up. What we are focusing on is not to just increase the number of leads, but really to increase the quality of leads. So that is one thing which is happening. And the other thing that we are focusing on is for the conversion of the leads to be much better. As I mention to you, conversion has gone up dramatically during the year and we can see a quarter-on-quarter increase happens, so for example, in Q4, the conversion went up to 8% , for the year as a whole it went up from 4.3% to 6%. Now, as you can understand the increase in conversion percentage is extremely cost-effective. That means I am getting more band for the same marketing bucks. The billing have gone up tremendously by more than almost 90% during the year.

Chiranshu Kumar: When you say conversion, how do you define that, conversion would be like calculated as how?

Yashovardhan Saboo: The leads were actually converted to sales. The lead which is sent to the store actually converts to a sale. Your question is how it is getting monitored, so we have got a very effective program, it called sales force. That is an international lead management software and that really tracks every lead from a very first point to the various interactions all the way up to its conversion, recording and this whole process being available for the next time the same visitor visits us. It is a very robust system to track the leads all the way up to the conversion.

Chiranshu Kumar: On this Online billing front, if I see the last three-years, Q4 is always something like less than the Q3. So is there like a seasonal thing in the business that happens?

Yashovardhan Saboo: There is a seasonal thing, I think in all Retail and it is well-established that October-November-December quarter is the peak period… wedding season and the festival season and so many things. So that is so. However, this year the internet billing has actually been higher in Q4 than in Q3 and that has been so in the previous year as well.

Chiranshu Kumar: On the working capital front, what is your expectation moving forward? If I see last two years it is pretty much more or less constant and we had the expectation of falling down.

Yashovardhan Saboo: As I mention to Jitu, this is the biggest focus area for us which is to increase our stock turn, to increase the sales by 25-30% with a much lower increase in stock, thereby increasing the efficiency of use of capital for stocking. We expect there to be a significant increase. It is true what we are saying over the last year, the improvement shown is very marginal, it is not as what we had expected, of course, as I mention also in the earlier question, it also include the part of SOR sales, which means basically inventory that we have on quasi consignment base, we do not pay for that inventory until it is sold and this part is increasing. So therefore, actually net paid stock has gone lower than what is reflected but even if I adjust for the net level of inventory improvements is not as what we had expected; however, this is the focus area for this year and we are quite confident that quarter-on-quarter we will see an improvement and over the years there will be a significant improvement in the reduction of inventory per rupee of sales.

Moderator: Thank you. The next question is from the line of Hemal Parekh from Interface. Please go ahead.

Hemal Parekh: Three quick questions: One, any plan to merge KDDL and Ethos or demerge Ethos from KDDL? Second question will be are you looking at expanding through the franchisee route? And thirdly, are you trying to increase your product offering from Watches to anything complementary or supplementary to the Watches?

Yashovardhan Saboo: KDDL and Ethos merger or separate listing: Ethos was a part of KDDL, it was demerged and made into a separate subsidiary company several years ago because we felt the businesses were different. I believe going forward in the future as Ethos ramps up, gain more momentum, there is a strong case to list Ethos independently, that is certainly on our minds, I believe this is a very good possibility in the years to come, I do not think we have decided on a timeframe yet but broadly speaking I sort of believe that we need to get to a turnover higher than Rs.500 crores, looking at Rs.1000 crores, market cap which certainly higher than Rs.500 crores, and that would be an appropriate time to think in terms of independent listing for Ethos. I think that is more likely than Ethos and KDDL merging again, but again, these are all which are in mind, there is no definite decision that has been taken on it yet, but we are very open to any suggestions and this is a very open discussion that is going on in the company and also with other shareholders. On your second question which is expansion through the franchisee route, I do not see that as of now, because as I already mention, our strategy is not really to expand too much with additional dose. We have seen it in the past that adding dose adds to cost faster than it adds to sales. Our strategy really is very clearly focused on improving EBITDA and we see a very clear strategy to do it using our Online/ Offline combination with Omni channel, which allows us to increase top line without increasing number of stores. I do not say that there would not be any increase in store, there will be some strategic stores that will be added as we are adding this year at Bombay Airport, but I do not see a big expansion in number of stores.

Hemal Parekh: In how many cities are you present currently in terms of Stores?

Yashovardhan Saboo: We are currently present in 14 cities.

Hemal Parekh: So do you not think there is a lot of scope beyond this 14 cities?

Yashovardhan Saboo: Hemant, our prior experience tells us that theoretically, there is, and over time that market builds up, but initially going to any new city has a very long gestation period and it does not reward in terms of EBITDA, we are actually happier reaching out to new geographies through the internet mechanism and getting our existing stores to deal with that. There are some exceptions of course, for example, we are not present in east at all. So I do expect we will establish a presence in the east and the presence will be in more than just one store, so whether its Bihar, whether its Kolkata, whether it's going beyond to Assam and beyond, I think there is a large scope over there and in that geography we need to have some physical presence. So that is clearly some place we would go. Apart from that there may be some strategic additions, but when you see the actual economics of the stores it is far-far better and more profitable to use the Online/Offline combination to grow the business rather than go physically. There is one more issue with franchises, as you know, this is a business that is heavily knowledge-centric, even sales staff which has a good knowledge about the products and brands, they are many times better in sales and performance than some of the others. So therefore it is a very knowledge and passion based kind of business. Difficult to expect the franchise to do that especially when margins to be shared are not that high. So for all these reasons I do not see an expansion through the franchisee route. Third product offering expansion very much under discussion, one of the obvious product offerings very complementary to what is Jewelry, we are discussing we are trying to explore more about this especially how we can use the huge Online traffic that we are getting to leverage that for the Jewelry business or for other lifestyle luxury products which are in the same basket as a luxury customer would put then he buys watches. So this is under discussion. I think some directions will emerge this year or the next year. Meanwhile, the bulk of the focus is going to remain on Watches and making this really profitable for us.

Hemal Parekh: Do you expect any competition from Titan, who is also thinking on similar lines like you in terms of selling Watches on Online/Offline basis through their existing stores, the imported brands?

Yashovardhan Saboo: Titan format Helios is really a format very similar to Ethos, so Helios is a multi-brand store, they want to go premium in that, they have an active website, they are following it, I believe that Titan is trying to follow what we are doing, Titan I think is a great competition to have, but at the moment I think we are outperforming the Helios format quite strongly, we have grown over the year by about 28%, I think Helios of Titan grew by some 3 or 4% in the whole year. So I think we have certainly outperformed Helios, but in the future, "Whether it will be competition?" "Perhaps Yes."

Moderator: Thank you. The next question is from the line of Viraj Mehta from Value Quest Capital. Please go ahead.

Viraj Mehta: What I wanted to understand your inventory levels if I compare it with any of the other retail players also seem to be extraordinarily on the higher side, I am not talking next quarter or next year, but is there a substantial room for improvement let us say 5-years from now or this is what it is going to be?

Yashovardhan Saboo: Viraj, I think we here to benchmark it against other players in a similar business of Luxury Watch Retail and there are international benchmarks available, there is Hengdeli, there is Hourglass, there is Tourneau if you look at that, there are plenty of listed companies in this space, and most of them have inventories in the level of about 7-months, we are at about a little over 8-months. So while we are higher than the international norm we are certainly within the normal Sigma limits. That said I believe in India we need to be more efficient than international players because our margins are lower and cost of capital is higher and therefore we are looking at focusing on this pretty strongly. We believe that over the next 2 or 3-years, it should be possible to bring this down from the current 8.4-months to something in the region of 6-months, which would be lower than every other international players in this field that I know of. Whether it will be possible to bring it down from 6 to something lower? I do not say it is impossible, obviously, it gets tougher but working with the Online/Offline combination as we are, I think it cannot be ruled out. So our goal really is to bring it down to 6-months over the next 2 to 3-years and then look for a further reduction with the omni retail channel.

Viraj Mehta: You mention in one of the participants question about the cost of opening a store, you said fixed cost is close to Rs.50 lakhs apart from the inventory, in the same breath it was mentioned that life of a store is probably 3-4 years and it gets relocated probably I am assuming that. So, does the same fixture and furniture also get relocated or they have to be depreciated over the next whatever 3-4-years?

Yashovardhan Saboo: So first of all I think you misunderstood that the life of a store is 3 to 4-years. 3 to 4-years is the period of rapid growth, after which growth starts to taper out, most of the stores that we have are with us for at least 9-years, typically, the leases are 5 or 6-years with the repeated repetition clause, sometimes it is 9-years. So we would hardly ever get into a situation where the life of a store is only 3 to 4-years even when airport leases tend to be 3 or 5-years but then there is a repeat clause. To answer your question about whether the furniture is reused, the stores are designed where furniture is plug-and-play so furniture can be reused, so in the case of a relocation after 5-years, most of the furniture is reused, the cost of civil works which cannot be sort of saved, there is a relocation, is depreciated over the period of the contracted life of the store. So if the contract period is 5-years, the fit out costs are depreciated over 5-years.

Viraj Mehta: On dividend payout, the company has maintained a very generous payout but to an outsider it seems slightly high looking at the debt-equity position of the company. Are you comfortable as a company with high such debt-equity ratios?

Yashovardhan Saboo: I think over the years with the company as a whole we have maintained payout ratio of about 30%, that is something that we believe is a norm that is something that we believe shareholders should be rewarded with. The debt-equity ratio I think it is within acceptable limits, perhaps on the higher side of an acceptable limit, perhaps you do know that we are looking at augmenting capital in KDDL and routing it through to Ethos, and with that equity infusion I think the debt-equity ratio should be corrected. We are not looking at adding too much debt whereas on the equity side of course there will be an improvement.

Viraj Mehta: But sir, to actually give it to shareholders in terms of dividend and then mopping up equity from the market just leads to a very tax inefficiency ratio, because what you are giving to the shareholders gets deducted by 17% which is the tax, but the equity which you will bring to the firm will dilute the shareholders by the equal amount. But post this equity augmentation, do you think you should be okay on your debt-equity side?

Yashovardhan Saboo: I do believe so, of course, the whole issue of what should be the dividend that is obviously something that is debated extensively at the relevant board meeting. Debt-equity both companies put together is at about 1, and both separately is also at 1.

Viraj Mehta: No, I was looking at the consolidated balance sheet taking out the minority interest, not including it probably. So that is why there might be a mismatch in how I thought about it?

Yashovardhan Saboo: That would be a mismatch. As I told you I do not think it is not something that we are worried about, but I do agree that it is a bit on a higher side and I believe it will be corrected with this equity infusion that will happen.

Viraj Mehta: Because I was looking at shareholders capital which was around 51 crores and long-term and short-term borrowings were close to Rs.107 crores, so it was more than 2x. I just thought I will ask you.

Yashovardhan Saboo: Okay.

Viraj Mehta: Have you in the past ever took inventory hit on the Watches because they were probably slow moving…I know it must be a regular process but has there been any time where it had a huge one-time impact on your P&L at any given point?

Yashovardhan Saboo: Viraj this is something that has been extensively discussed with our auditors KPMG who have verified it year-on-year. In our business at the fashion end typically where Watches go above a certain period there is an exchange or an end of season sale which is done and no hit is necessary, that is provided in the year itself, and actually it is not significant at the lower end. At the higher end of the price spectrum, typically, Watches do not get obsolete, over the years in fact due to price increases their value increases, and if some Watches do get beyond 2-3-years, we have mechanism by which these are offered through our multi-program to loyal customers at attractive prices and they are moved out. So in the 12-years there has never been an occasion of a significant hit, in fact having studied this, KPMG agreed with our contention that there is no need to make a provision on this, and this is obviously something that is monitored every year very closely.

Moderator: Thank you. The next question is from the line of Avinash Dulani from Astute Investment Management**.** Please go ahead.

Avinash Dulani: I just want to understand the movement of below Rs.1-5 lakhs watches and above Rs.5 lakh in over three years, can you give me this ratio for this year and three years back?

Yashovardhan Saboo: Avinash, we would not have this information readily.

Avinash Dulani: My second question is Airport Stores. Are they profitable? And what is the sales growth you are witnessing compared to other Stores?

Yashovardhan Saboo: Broadly, I can say Airport Stores are profitable. On Airport Stores the growth depends very much on the traffic, so typically when traffic goes up, the sales and the performance of the Airport Stores goes up. As I mentioned in an earlier part, it also depends on some movements, how this store was organized, so, for example, at the Duty Free Store in Bangalore in Q4 of the previous year, there was a relocation that was done and our store was one of the first to be relocated, the other stores in the area did not come up and therefore we saw a dip in the sales. At Delhi Airport Duty Free there was a temporary reorganization of other stores, not of our store, but that diverted the flow of traffic in another direction and we saw that has since been restored but for a couple of months that had an impact. That said I think Airport Stores we are seeing a good growth and profitable performance at the Airport Stores.

Avinash Dulani: So can I say that it is growing at a higher rate compared to other malls and somewhere?

Yashovardhan Saboo: Not in the last year, in the year previous to that the Stores showed a growth of 19% which was more than the other stores, but last year it was lower especially in Q4 for the reasons that I told you.

Avinash Dulani: I am not sure about this thing, but I have heard that TAG Heuer is paying import duties from his pockets to make India as a competitive price player to other geographies, is that right?

Yashovardhan Saboo: There is a little half-truth in it; TAG Heuer imports watches into its subsidiary and then serves it to retailer, but most times, most brand with subsidiaries in India are doing it, Omega is doing it, Tissot is doing it, Rado is doing it, Breitling is doing it, Seiko is doing it, they are all importing the watches into their 100% subsidiary and this means they are paying the import duty, but we as retailers are buying it from the subsidiary, so they are selling it to us but obviously they are adding the import duty. Now the fact is with many of the brands are also despite the high import duty they are keeping, the final selling prices in India very competitive with the rest of the world which means that their wholesale margins are thin, and their ex-factory prices from Switzerland to their Indian subsidiary are also competitive.

Avinash Dulani: In introduction you said about "how Apple Watches and these things would change the economics of business I will be presenting to you later."

Yashovardhan Saboo: So the point which I wanted to make over there was that we do believe Smart Watches is going to have a change in the industry. We believe that is huge area of opportunity for us. Why do we feel? A), whether its Apple whether it's any other brand, ultimately, it is a wrist wear and it is going to provoke a whole lot of new people interested in wrist wear, we ourselves both as retailers and as suppliers see new opportunities in supplying to these brands, especially on the retail side you will notice that some brands of Smart Watches are already featured on our website, so LG, for example, is already featured and we are in touch with other brands to feature Smart Watches on our website and perhaps at our stores as well. So Smart Watches is something including Apple which I think is a huge area of opportunity for us.

Moderator: Thank you. The next question is from the line of Saurabh Jain from Astute Investment Management. Please go ahead.

Saurabh Jain: Just following upon what Avinash was saying, I just had two questions here; for Luxury Watch industry internationally, what is the sort of mix between offline and online and internationally this happen at all through horizontal retailers like Amazon for online or is it very specialized? The second question I have is that a stake in the Ethos subsidiary is 79%. How much does it effectively go to after the fund raising and what ratio are we comfortable going down to and any further fund raising plans you could have in the next two or three years?

Yashovardhan Saboo: To answer your first question Offline/ Online, there are not too many in the Premium and Luxury space authorized retailers that are following an aggressive Online/Offline strategy the way we are. We do not know of any who is doing it in the same way. I suspect this is going to be the model that many others will follow. I think in the Watch segment internationally we are playing a bit of a pioneering role. It is true that on the offline there are large players in the US, in Europe, in China… and in China I am not sure what online strategy, in Europe and USA they do have online strategies, but I do not think they are combining them seamlessly with the offline strategy. I believe at Ethos we are playing a pioneering role in that. On the online space, obviously, players like Amazon, Flipkart in India they are active in the Watch segment but you will notice that their watch offering is pretty much with an average price point of Rs.5,000 or so, they are not really there in the Premium and Luxury segment for a simple reason that the Watch brands are not comfortable being on these discounted websites, so therefore these websites are not able to offer the guarantee of a genuine and a new product, this is a market place model, they cannot control very strongly who is selling what, whereas on Ethoswatches.com, we absolutely guarantee that every Watch sold is a genuine Watch, it is a new Watch it is not a refurbished Watch and it is backed by all valid papers which is not something that many of the other websites can do. So for Premium and Luxury products I believe for the moment we stand pretty alone.

Saurabh Jain: Globally also, the online would account for less than say 10% or 5% of Luxury Watch sale?

Yashovardhan Saboo: I would say so, that is the hunch but I do not have any real figures to say otherwise but I would be surprised if it is more than that.

Saurabh Jain: Even for the distribution in India, you do not see any threat from any horizontal retailer to be start selling Luxury Watches?

Yashovardhan Saboo: You mean one of the big e-commerce guys?

Saurabh Jain: Yes.

Yashovardhan Saboo: I do not see that coming at least in the next couple of years. Your second question was about the stake of KDDL in Ethos. 79% it is as we stand today but on a fully diluted basis with the number of outstanding sales and all that taken care of, it is at about 70.26% with the expected equity infusion we believe it will go up to about 77%, we are comfortable with this rate, we do not expect the further dilution over the next few years because with this equity infusion whenever it comes through I think we are pretty well set to achieve our target growth rates and coming to profitability after which it should become self-sustaining at least to maintain this 25% year-on-year growth.

Saurabh Jain: So what you are saying is after infusion of Rs.25 crores this stake will go up to 77% effectively?

Yashovardhan Saboo: About.

Saurabh Jain: You do not see any reason to dilute further in the next 2-years in the subsidiary at least?

Yashovardhan Saboo: We do not foresee that, no.

Moderator: Thank you. The next question is from the line of Sadanand Shetty from Taurus Asset Management Company. Please go ahead.

Sadanand Shetty: Since the time you launched your direct eCommerce, this is the first conference call. Would you like to update on that and will it emerge as a separate growth engine for you?

Yashovardhan Saboo: Sadanand, I think Direct eCommerce will become stronger as a segment, I believe also more and more brands will embrace this segment. Also, "Will it become as strong as our lead generation model?" I think it is little early to say that. The reason is this — in the Direct eCommerce segment, we sort of compete head on with the Flipkarts and the Amazons whereas on the Premium and Luxury segment we have a unique position which I think rests on two or three very strong pillars; A), it is the product range and the brand range. These are brands which worldwide are not available to other than authorized retailers, and worldwide the large format e-commerce players are not authorized by Premium and Luxury brand. The second is the facility of the human support through our watch specialists at the information center. I am sure you have experienced the website. When you go to buy a Premium and Luxury Watch the exchange of information, the guidance that our watch specialists provide customers, the advice that they provide customers, I think is a very-very valuable input and this is something that we are building on to provide more knowledge and expertise to the watch specialists. So I think these are the two important pillars by which the lead generation model will continue to hold its own. Direct eCommerce becomes extremely relevant at the lower price points of 20,000-25,000. Here again the experience on our website is very-very important. So where I think we will outperform the large format retailer is in being able to provide a better experience even at the price point of Rs.20,000-25,000 watches and then go into Direct eCommerce. With that we believe that A), the international watch brands will see us as a legitimate format to embrace eCommerce with; and B), even watch lovers at Rs.20,000 and 25000 price point would prefer to come to Ethoswatches.com than to go to other large format retail side. This is our premise. We have just started on these 2-months ago, we are seeing increasing trend, but I think over the next 6-months, we will really know how much momentum we are gathering on this, but for sure it will become an important part of our portfolio.

Sadanand Shetty: Does the trade execution and payment happen online?

Yashovardhan Saboo: Yes, the payments happen online and the fulfillment is online, the fulfillment center is based in Chandigarh and it is fully operational.

Sadanand Shetty: What is the number of Watch Specialists currently you have and what is the road map for that for next 2-3 years?

Yashovardhan Saboo: I think we have 23 or 24 Watch Specialists, we are going to expand this to about probably between 30 and 35, I do not see a great expansion in number of Watch Specialists beyond that, I will tell you the reason why. Beyond a certain point our focus is going to be on the quality of leads and the quality of conversions. So typically we want to differentiate between a lead which is a meaningful lead and a lead which is let us say a little bit irrelevant. So therefore we are optimizing on the time and knowledge of the Watch Specialists. We are already seeing conversion rates climb up dramatically. In the last quarter, the conversion was at 8%, for the previous year it was 4.3%. So we are seeing the potential of improved conversions, and I can tell you Sadanand we are just scratching the surface right now in terms of giving knowledge and the ability to pass on this knowledge communication skill to our Watch Specialists.

Sadanand Shetty: What is the target for advertising percentage to sales for Fiscal '16 in terms of percentage and absolute amount?

Yashovardhan Saboo: In terms of absolute amount I think it is about Rs.9 crores, up from Rs.5.6 crores in the previous year. I think as a percentage it is coming to about 2.2%.

Moderator: Thank you. The next question is from the line of Rohit Balakrishnan, who is our individual investor. Please go ahead.

Rohit Balakrishnan: On the previous question itself, that you mentioned mature store is making 9.8% of EBITDA margins and we see group level it was level EBITDA margins to be around 10% in 3-4 years. Just wanted to understand do we expect our individual store margins to increase to more than 9.8%?

Yashovardhan Saboo: Yes, so a couple of things will happen; individual store EBITDA margins will go beyond the 10%, some of the stores which are currently 9.8% much below that will either match up to that or we will close them down, so the average EBITDA margin of the store level will certainly go above 10% and the center expenses as a percentage of sales will come down. So net of that we expect the overall margin to be at about 10% EBITDA over the next 4-years.

Rohit Balakrishnan: So basically, I was thinking is that if the margin at store levels are going to be 10% odd, will not the margins at the group level have to be less than 10%?

Yashovardhan Saboo: No, may be you did not catch this Rohit, the margin at store level will be more than 10%.

Rohit Balakrishnan: What would be the lever for that increased throughput?

Yashovardhan Saboo: As we mentioned, as the sales is growing, the costs are not going proportionately, so rental cost, manpower cost and running cost at the store as a percentage of sales will be coming down and EBITDA margin as a percentage of sales will be going up.

Rohit Balakrishnan: On my question that what is the stable state revenue for us, you said, all the stores are still growing by 15% odd minimum even the oldest one. So, do we expect such kind of a growth in coming 3-4 years for all the stores?

Yashovardhan Saboo: Yes, we expect all stores including mature stores to continue to grow, and the reason is that the market is growing, and even for our existing stores, we are extending the market using our Offline/Online combination, so we are expecting the geography to extend.

Rohit Balakrishnan: About a couple of other either subsidiaries or divisions that are not very profitable for us. What is our plan regarding that like there is packaging division and there is unit which is not operational, like there is a JV which is not operational?

Yashovardhan Saboo: So I think those are pretty well explained in the previous year's annual report, but let me share that very briefly with you; first of all the Packaging division is a division of KDDL, we are seeing some challenges in this, this has not been growing, in fact this has been losing money, and despite the efforts to revive it, it has not happened, we are seriously reviewing this and unless there is a very quick turnaround we will take a call to get out this business, it is not a large business, it is not moving the needle for us, unless we see it doing something significantly positive for us, we will probably get out of this business. The joint venture… that is a thing that was already called off some years ago, we are now in discussions with the collaborator in Switzerland to find a way to liquidate the company and stop it, we have already made the necessary provisions for that in our books. The third subsidiary is our subsidiary in Switzerland. That is a very interesting project because that was set up in anticipation of a new legislation in Switzerland to increase the Swiss-made element in Swiss Watches for the Watch Components. In anticipation of that we have set it up, unfortunately, the legislation went into cold storage, and therefore the unit had to be mothballed for a period. The legislature is back on the table, it has cleared one run in the parliament, it is expected to become law by 2017, and that would be an excellent opportunity for the company to revive its manufacturing operations in Switzerland. So that is the company which is sitting in limbo waiting to be revived with an excellent forecast for us in the future.

Rohit Balakrishnan: In that case, starting 2017 probably more of the dials will be manufactured from the Switzerland unit and less will be produced in India?

Yashovardhan Saboo: That is not true. What happens is from the Swiss unit we will be able to accept customers that it is not possible to access from India. Higher level customers that usually would buy only from Swiss manufacture.

Moderator: Thank you. The next question is from the line of Apurva Shah from Dimensional Securities. Please go ahead.

Apurva Shah: I wanted to know your store expansion plan. Second thing is on when you say you want to achieve 10% EBITDA margin in Ethos, so when you move from Offline to Online model and when you do a combination so there will still be some drastic improvement in margins. What is your observation?

Yashovardhan Saboo: The first question will actually answer the second; we do not have a great store expansion plan; if you heard the speech we are actually down to 43 Stores today which is more than what we started more than 2-years ago but obviously, our turnover is still growing at 25% or more year-on-year. Going forward we do not expect a great store expansion to take place, may be some new stores will be opened, may be some will close down, but the number of stores will not expand by too much. On the other hand, our top line will continue to expand at 25 to 30%. Now what this means is that if stores do not expand the expansion in stock, the expansion in rent, the expansion in manpower, first, all of this gets curtailed, and as a percentage of sales, all these costs start to come down, and therefore the model clearly shows that it is directly reflected in an improvement in EBITDA both at store level and the company level. And with this we are confident of growing the EBITDA to about 10% over the next 4-years or so. It is not that heavily based on an improvement in margin.

Apurva Shah: One more clarity; in the recent budget there was some introduction of pan card requirement above Re.1 lakh purchase. So how will it impact our model or …

Yashovardhan Saboo: It was mentioned in the Finance Minister's speech, there is no clarity about how it is going to come and when it is going to come, it has not been notified yet, we have been in touch with the government authorities to understand how it is going to be, as I told you there is very little clarity on this, we are expecting a notification, we do expect this to come, you might have noticed that the Jewelry business all over India has been protesting very heavily against it, the expectation is that the limit may not be Re.1 lakh but may be Rs.3 lakhs or Rs.5 lakhs, but again this is all speculation, I think the government have said that they are serious about this, so we expect something to come, we do not know what are going to be the implications, what are going to be the responsibilities and requirements. I can only say that for us a certain part of sales above Re.1 lakh is in cash, we get the cash, and we deposit it, so all our transactions are official. We expect there will be some short term impact from this, but I think it will be very short. Very soon most of our customers and our customers are very heavily either they are professional, they are fund analysts, they are entrepreneurs they are not really the very wealthy people with a lot of cash in black money. So for us the impact will be short and it will be not too heavy. But, when it comes in for a small period of time I think there will be an impact. What we can tell you is we are already educating our customers on the importance of buying through cheque because it enables you to get a full bill, that enables you to get Insurance, we are offering Insurance on Watches, and we are offering EMI on watches. All these benefits are possible when you buy officially with a cheque and you declare it and you have a proper invoice. Most important that is the only way of 100% guarantee that you are getting a genuine watch and a new watch because there is a business of refurbished watches and when much of it happens when someone tries to get an extra special deal at a discount buying in cash and then you later on figure out what you bought was a refurbished watch. So we are educating our customers, if you go to our website you will see a section saying five steps or five things that every customer should know before you buy an expensive watch and that is something that you will find an interesting to read.

Apurva Shah: My only apprehension was like Jewelry they have a strong industry body, but in Watches, I do not think so, there might be some strong body which might be represented into our finance ministry, so that is…?

Yashovardhan Saboo: We do have an All India body and we have represented through Chambers of Commerce and we have met the concerned persons as well.

Moderator: Thank you. The next question is from the line of Saurabh Jain from Astute Investment Management. Please go ahead.

Saurabh Jain: Two quick questions: How much percentage of our sales are actually in cash?

Yashovardhan Saboo: I do have a percentage of sales in cash above Re.1 lakh, because that is a question that we have been asked often. Our sales as a percentage of our overall sales that happened in cash above Re.1 lakh is about 30%.

Saurabh Jain: This EMI on Watches, is this something new or we have been doing it since a while?

Yashovardhan Saboo: It is relatively new, we tested about 3-years ago, we have restarted it because seems to be gaining a little more traction, there are some issues in the EMI which we are in the process of resolving, this is essentially working with credit cards, and how to work it without blocking credit limits on cards, but overall we expect this to take off because we are pursuing a format that is also similar to cars, we are saying that if people are buying Rs.10 lakh, Rs. 20 lakh to Re.1 crore car on EMI why should not the same be valid for watches? It is just a paradigm shift that has not been sort of looked into yet but we are very confident that this is going to be something going to take off like a rocket when it does.

Saurabh Jain: Any number as to what percentage of our sales are actually coming from this?

Yashovardhan Saboo: At the moment I do not think it is a significant number that can move the needle, but what I do want to tell you is that another similar scheme that is getting a huge amount of traction is Insurance, we are offering Insurance on Watches and for anybody who has bought an expensive watch and has accidentally damaged it, so accidental damage is not covered in the warranty period… warranty is a manufacturing defect like most products, and the Insurance has proven to be a very-very useful tool and actually the cost is there but we are offering it free of charge and that is a huge benefit that customers are getting. So like EMI we have introduced Insurance and that is already getting traction and I believe dealing with EMI soon too.

Saurabh Jain: Insurance is basically free of charge for all customers?

Yashovardhan Saboo: We are offering Insurance free of charge, at the moment, yes.

Saurabh Jain: Would it be fair to assume EMI sales would be less than say 5% or 1%?

Yashovardhan Saboo: I think it is less than 5% for sure, I do not know about 1%.

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 everybody again for joining on the call and I hope we have been able to respond to your queries adequately. For further information please get in touch with SGA, our investor relation advisors. Thank you again everybody.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of KDDL Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.