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Trading Symbol : KDDL

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Subject: Q2 FY2021 Earnings Conference Call Transcript

Dear Sir / Madam,

Please find enclosed herewith a copy of transcript of Q2 FY2021 Earnings Conference Call held on 18th November, 2020.

Kindly take the same on record.

For KDDL Limited

Brahm Prakash Kumar
Company Secretary



“KDDL Limited
Q2 FY2021 Earnings Conference Call”

November 18, 2020



MANAGEMENT:

**MR. YASHOVARDHAN SABOO – CHIEF EXECUTIVE
OFFICER – KDDL LIMITED**
**MR. SANJEEV MASOWN – CHIEF FINANCIAL
OFFICER - KDDL LIMITED**
**MR. RAJA SEKHAR – CHIEF FINANCIAL OFFICER
– ETHOS LIMITED**



Moderator: Ladies and gentlemen, good day and welcome to the KDDL Limited Q2 FY2021 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 date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Yashovardhan Saboo, CEO for his opening remarks. Thank you and over to you, Sir!

Yashovardhan Saboo: Thank you and very good afternoon and welcome to everyone for our Q2 FY2021 earning conference call. I hope you and everybody around you is safe and in good health. As usual, I am joined by my colleague, Mr. Sanjeev Masown, CFO of KDDL and Mr. Raja Sekhar, CFO of ETHOS and SGA our Investor Relations Advisors and I hope everyone has had a chance to go through our updated investor presentation.

During Q2 FY2021, we witnessed an encouraging recovery in businesses as compared to the previous quarter. Our retail business Ethos has almost reached similar levels to last year whereas our manufacturing business also continues to gain traction month-after-month.

I will start with a brief on financial performance on a consolidated basis for Q2 FY2021. Consolidated total income for the quarter stood at 139 Crores as compared to 158 Crores in Q2 of last year down 12% YoY. Consolidated growth profit for Q2 FY2021 stood at 54 Crores as compared to 68 Crores in Q2 FY2020 down 21%. Consolidated Q2 EBITDA stood at 17.4 Crores as compared to EBITDA of 18.1 Crores in Q2 of the last year down only 4% YoY. We were largely able to contain the fall in EBITDA with strict control over expenses.

Our Q2 FY2021 EBITDA margin expanded by 110 basis points YoY to 12.5% on the back of various cost optimization initiatives. Consolidated Q2 FY2021 profit after tax stood at Rs. 3.8 Crores as compared to loss of Rs.1.3 Crores in the same period last year.

You must be aware that our financials are impacted by the application of Ind-AS 116 Accounting Standard, which impacted EBITDA and PBT. Hence our Ind-AS 116 adjusted financials are also published in the investor presentation.

I now come to the business wise updates. Our manufacturing business comprises of watch components, precision engineering and ornamental packaging business. In Q2 FY2021



manufacturing business revenues stood at 34.6 Crores as compared to 49.4 Crores in previous year. The revenue share of watch components and precision engineering business was 71% and 27% respectively for the quarter. EBITDA for Q2 FY2021 was Rs.5.3 Crores as compared to EBITDA of 9.2 Crores in the same period last year. Profit after tax in the quarter stood at 0.6 Crores as compared to profit of 4.2 Crores in Q2 FY2020.

Revenue from watch components business stood at Rs.25 Crores in the current quarter as compared to Rs.35.8 Crores in previous year same quarter and 15.7 Crores in Q1 of this year. Revenue from precision engineering business stood at Rs. 9.4 Crores in Q2FY21 as compared to 12.2 Crores in Q2 of last year and only 5 Crores in Q1 of this fiscal year.

During Q2 FY2021 the revenue improved by more than 60% over Q1 but we are yet to reach the pre-COVID-19 levels of business operations. Due to the second wave of COVID-19 virus especially in large Swiss Watch export market such as US and Europe the improvement in demand for Swiss Watches has been gradual. Nevertheless, Swiss Watch exports are continuously improving and are expected to reach previous year levels by Q4.

Some of our customers have deferred their orders but we have not witnessed any significant cancellations of orders. Our order position for the next few months is as per or better than our forecast but a lot depends on the true sales of watches in the festive season in most of the important global markets between November and January.

Our Precision Engineering business, EIGEN witnessed a decent recovery in Q2 and its revenue improved from Rs.5 Crores in Q1 to Rs.9.4 Crores in Q2. This improved position is still lower than the revenue recorded in the previous year corresponding period. Some of the industrial sectors especially aerospace and electronics have been severely impacted due to COVID-19, but we expect that these sectors may reach normal levels by next year.

We continue to witness an encouraging increase in the flow of enquiries and RFQs both from domestic and export markets from other segments such as auto ancillaries, industrial and instrumentation industry. Also from consumer durables and some of the segments that accounts which show healthy potential in the coming quarters.

We also believe that the initiative of the government Atmanirbhar Bharat and increased budget allocations for defence sector will provide ample opportunities for our EIGEN business. We remain confident of achieving healthy revenue growth in the Precision Engineering business.

Various cost initiatives taken by us during these last six to eight months have helped us to lower our breakeven points considerably. This is also evident from the fact that the



company reported profit for the quarter despite the revenue being lower by nearly 30% compared to the previous year same period. We believe that with the normalization of market conditions, the profitability of the company will be healthier and stronger due to the cost rationalization measures.

We expect the business operations of the manufacturing business to reach pre-COVID levels in the next two quarters. We continue to believe that this prevailing situation will also create exciting new opportunities for the company as some of the weak players might exit the market.

Briefly about Estima AG our Swiss subsidiary, our EIGEN brand. With the acquisition Estima AG was to expand our footprint in Swiss manufacturing. COVID-19 has increased the lead time for turnaround of this business, but we see an encouraging times all around. During this quarter, Estima reported revenue of 342,000 Swiss Franc and was at a breakeven level on EBITDA basis. This is broadly in line with our internal plans and expectations. Estima reported a PBT loss of 69,000 Swiss Francs during this quarter.

Let me now discuss our Watch Retailing business ETHOS. It gives me immense pleasure to share with you that our watch retailing business is coming back on track with a strong performance in Q2. This is due to the strong foundation of the omnichannel strategy, exclusive brand tie ups, pan India network, flagship stores and emphasis on after sales services. We are optimistic that the momentum will continue to gain ground during Q3 and Q4 and give us results which are better than our original COVID forecasts.

Let me now give you financial highlights of ETHOS for Q2 of this fiscal year. Our billings for Q2 FY2021 were Rs.120 Crores as compared to Rs.123 Crores in Q2 of last year and 32 Crores in Q1 of FY2021. That means there is a huge improvement over Q1 and we are almost back to previous year for the quarter. Of which the billings for exclusive brand for watches contributed nearly 32% and accounted for 44% of the total gross margin.

Consolidated total income for Q2 FY2021 stood at 108 Crores as compared to 107 Crores in Q2 FY2020 and Rs.33 Crores in Q1 FY2021. Consolidated gross profit for Q2 FY2021 stood at 31.5 Crores as compared to 29.1 Crores in previous year same quarter, a handsome growth of 8.5% on YoY basis. Gross profit margins expanded by nearly 200 basis points YoY to 29.3% in Q2 FY2021 as compared to 27.3% in Q2 FY2020.

Consolidated Q2 FY2021 EBITDA stood at 16.9 Crores compared to EBITDA of 10.8 Crores in Q2 FY2020 registering a growth of 56.3%. Consolidated profit after tax stood at 3.3 Crores in Q2 of this year as compared to a loss of 2.8 Crores in the same quarter of the previous fiscal year.



Stock carrying months at the end of September 2020 was 7.9 months again an improvement. We continue to work towards cost optimization in various ways. The store rationalization the store count at the end of the quarter stood at 47 stores, in the current year we opened one store each in Lucknow and Delhi while we closed down eight stores. With respect to cost optimization strategy, from our negotiations with the mall owners and real estate partners, we have been able to achieve a handsome reduction in rent and waiver at most of our stores and we have also deferred various expenses which can be delayed in the medium term to prudently conserve cash. All of these can be seen in improvement in our expenses and in our bottomline.

In our digital strategy, we continue to spend on marketing through digital mediums as we have witnessed continuous flow of visitors on our ETHOS website. Online led billings contributed nearly 46% of our H1 FY2021 business. Our preowned watch business which we have launched recently through the website SecondTimeZone.com has continued to pick up. We are in the learning phase for this business and with our excellent aftercare service infrastructure backed by strong technicians and watch expert team, we are confident to steadily build the business of preowned watches.

Coming back to the company matters, I would like to add that the Board of Directors has also approved a fund raising plan in KDDL by way of rights issue. The fund raise has been approved up to an amount of Rs.30 Crores by way of rights issue and this is intended to be utilized towards growth and developments of the company as we see several exciting new growth opportunities likely to come before the company in the quarters to come.

I now welcome your questions and participation.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Deepan Shankar from Trustline PMS. Please go ahead.

Deepan Shankar: Good evening Sir. Thank you for the opportunity. Congrats for the ETHOS best performance. Just wanted to understand the strong ETHOS performance is it reflected by strong demand for our products or we have seen increasing market share due to unorganized players going down or imports coming down? So, how are we expecting this demand to be sustained over the next few quarters? Also, just wanted to understand the contribution of exclusive brands during the current quarter as compared to the last year?

Yashovardhan Saboo: As far as sustenance, I think it is little bit all factors. What we see is there is a revival of demand. I think people have got a bit sick of just sitting at home. So, there is a revival of demand. It is a festival season and it is also the wedding season. People are travelling less,



so we assume that there may be spending less on travel but they would not be cutting down on purchases. I think we have seen a combination of this together with the fact that some of the weaker players may not have the kind of digital reach that we have so many customers who may not be willing to visit the stores they will purchase using our digital platform. It is partly that. Imports have no real bearing on this because most of the watches that we sell, all the watches are imported and why there are some supply disruptions but more or less it has now been normalized so I do not think there is any disruption of imports as such, but what I can say is that since the import has not revived as much as the sale has revived, it is a strong indication that we have gained market share as compared to our competitors. I believe that the demand will be sustained; both the festive and the wedding season will continue up to January and of course a lot depends always on this Q3 and so far the indications are that it should be as per our expectations or a little better.

Deepan Shankar: On the exclusive brands?

Yashovardhan Saboo: Exclusive brands in Q2 of this year 32% of the revenue was accounted by the house brands and in the previous year it was 22%.

Deepan Shankar: Sir, these led to gross profit expansion?

Yashovardhan Saboo: Yes it is.

Deepan Shankar: Thanks a lot. All the best.

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

Jeetu Panjabi: Wish you Happy New Year. One question is more on the manufacturing side, I heard you say that the orders got deferred a little bit and that it seems that the next few months or next quarter as well, can you give us some colour was there some customers who just stop there, or all customers getting similar feedback that they pushed out the orders because of the global watch market is soft and how are you and are there alternate products that are taking up the capacity there and do you kind of think by the March quarter you will come back to the production, the revenue numbers on the manufacturing side that we saw at a high level that you saw a year ago?

Yashovardhan Saboo: Let me just try to remember what you started with. See the deferment has not really been because of the demand issues. I think the deferment has been because of lockdowns that happened, so it has somehow changed in the supply chain. So, let us say March, April, May China lockdown. So many of the components come from China then April, May, June, July and August, Switzerland was semi-lockdown, two months were completely lockdown and it



started then they are on holidays. So, knowing all this, some of the orders were postponed. Now what was already sort of in the pipeline, we did not accept the deferment so they deferred the deliveries of July, August, September by a little bit. The other deferment which happened was typically August which should come in the month of August, September immediately after the holidays, the festive holidays, they got deferred to let us say October and November and now we start seeing them coming in. The same is happening with respect to the domestic demand as well. It got deferred and now we see it coming in. So, it is much more to do with the supply chain. I think the demand overall of course it is less, but I think China is picking up, most of the other markets are also picking up, so for example, in September the swiss watch exports, we were down only by 10% compared to last year and October I presume the decline will be even less. So, we can say that the demand is going to be back to normal and the deferments will iron out by December or so of this year. In the precision engineering, again there are deferments in the large companies like ABB and the auto components companies they defer similarly on the aero space sector we have very big customer and aero space you know what the situation was, everything got deferred, but now we see a revival of all of these companies. So, over the next three to four months we expect things to normalize.

Jeetu Panjabi:

The second question is your rights issue is that money more needed at the retail side as your contribution to the company equity or is it more needed at the manufacturing side?

Yashovardhan Saboo:

It is more needed in the retail business. We see some exciting opportunities coming up on the retail side. Some of them we would have over the next couple of weeks and months as we are in the process of finalizing some and others we are in the pipeline and we will turnout once the COVID situation normalizes. We had expected COVID to normalize by August or September and that is why we had earlier planned that the opportunities may start coming up already by September or October. Now as we know Europe has gone into a second wave and we believe things would normalize probably by February or March and we need to be ready for when the opportunities come up. But clearly to answer your question the opportunities are much more in retail than in the manufacturing side.

Jeetu Panjabi:

Sir, when you say opportunities, are we talking about acquisitions or we are talking about new alliances, can you just give us some colour?

Yashovardhan Saboo:

It is about new alliances with some new brand. It is about strategic alliances with existing brands. We are pursuing the acquisition of one or two existing distribution arrangements here. So unfortunately we are not able to travel, many of these require a face-to-face discussions that is why I am saying some of this may actually happen when travel gets okay, then the overseas international representatives are able to visit us and we are able to visit them a lot is therefore to happen in the month- February, March, April.



Jeetu Panjabi: Okay and then one last question on the retail side. Can you give us some color on how what percentage of business was re-sourced and are there some stores that are working, not working, are you planning to cut down some stores, add some stores to the normal rationalizations that happens can you give us some thought process of that as well?

Yashovardhan Saboo: So I think billing from internet leads was around 43% during the last quarter. Obviously, it was because in Q2 many stores are still closed I mean Mumbai was closed until August almost or middle of August, Chennai was closed even later. However, now all stores are open except of course, eight stores that we close down. Delhi duty free which is one of our best performing stores is still not active. We are still running it on a pure revenue share basis, but as you can imagine the flights are hardly any regular flights, so it is more for namesake it is continuing but otherwise all stores are operational. We will as I mentioned in the speech we have started two stores one in Delhi mall and one in the Lucknow and we will start a new store in Mumbai in the Maker Max the new mall coming up in BKC that is expected to start in January 2021 as of now there are no firm closures in my mind but we are considering a possible closure one or two more stores, which we will consider the performance during the season period and if it is not something extraordinary we may select them from closure.

Jeetu Panjabi: One actually final piece, where are we on our inventory, is that number contained or added?

Yashovardhan Saboo: September closure about 7.9 months of inventory. Again it is a little bit higher but that is also because the way we calculate it and if the sales is low, on the inventory in terms of number of months, it becomes higher but overall again, I say is all the time globally this is much lower than the global standard, global standard for luxury watch retail is 11 to 12 months of inventory. We are at 7.9 months with our long-term goal remains to bring this down to about six months.

Jeetu Panjabi: Thank you Sir. All the best.

Moderator: Thank you. The next question is from the line of Prateek Poddar from KBC and Associates. Please go ahead.

Prateek Poddar: Sir could you just talk a bit about September growth rate exits rate because I remember last quarter you talked about pent up demand so just talk a bit about how is September growth versus what is last year? Also if you can talk about how have the festive season sales gone and cost rationalizations efforts, is it permanent or is it temporary? Largely also there has been FD I mean you are asking for gone on for the circular whether you are asking for fixed deposit from shareholders why do we need that is my last question?



Yashovardhan Saboo: Let me answer the last question. We have FD from shareholders since many years. We have FDs from shareholder and think the regular announcement that happens after every AGM, so that is regular announcement that happens both in subsidiaries as well as in KDDL. As far as cost rationalization is concerned there are two aspects to it, one of them was what you could say temporary whether it was in terms of some salary cuts or deferment of some bonuses as of this month, all salary cuts have been restored. I think our team has worked extremely hard during this time to deliver the results under very trying conditions, sometimes half the store staff down with COVID infection, interruptions and so on so we felt that with the results and the performance getting back on track so we will re-store all the salary cuts so on the salary front whatever cost reduction was happening and is now back to normal except of course where there are foreclosures so where there are foreclosures there the cost reductions are permanent. On rent most of the rental relief came in the first two quarters, Q1 and Q2, of course because during this period most of the malls were closed especially in Q1, Q3 most malls are operating normally so hence are also back to normal. Nonetheless, I think there will be a cost rationalization which you will see but of course it cannot be at the same level as is reflected in H1 results. The billings in September were about 40 Crores.

Prateek Poddar: Last year was also the same Sir?

Yashovardhan Saboo: Last year was 47.

Prateek Poddar: Down by around 12%, 13%.

Yashovardhan Saboo: Correct.

Prateek Poddar: Sir how has the festive been for you ?

Yashovardhan Saboo: The festive season honestly we are hopeful that Quarter three will be significantly better than Quarter two, so far it seems to be festive season is a misnomer sometimes in our business because people say that Diwali the people will purchase, actually the people will buy during Diwali but a lot of purchase happens is relating to wedding, anniversaries and celebrations which also tends to bunch up during this quarter and wedding season as you know last year up to December and going into January as well, so really a lot depends on the next six weeks. We are seeing positive thing, we can say if it is confident better in Q2, how it will compare with the same quarter of last year that remains to be seen, last year we had a very strong Q3 after a weak Q2, if we can get anything close to that I would be very, very, very happy indeed.



Prateek Poddar: Sir just lastly double checking, FD is just an announcement it is not that you want to raise funds as of now via that route, I just wanted to double check?

Yashovardhan Saboo: It is just an announcement.

Prateek Poddar: Thank you Sir.

Moderator: Thank you. The next question is from the line of Aimee Truesdale from Jupiter Asset Management. Please go ahead.

Aimee Truesdale: Thanks for taking my question. Just a very quick one from we have heard in the press before discussing this zero GST for every overseas visitors, it just would be great if your thoughts on reducing that is a likely development and address any other tax due to related to development that you think which should be aware of?

Yashovardhan Saboo: Aimee, could you repeat the question please?

Aimee Truesdale: Zero GST for overseas visitors do you think that likely development and any other tax due to development which should be aware of?

Yashovardhan Saboo: It is true. There was some talk about creating a structure for allowing relief from GST for overseas visitors. We have not heard anything further and we do not believe there is anything in the pipeline that will show up early, there are no other new developments on GST for the moment. It remains stable.

Aimee Truesdale: Thank you.

Moderator: Thank you. The next question is from the line of Isha Chawla from Arya Securities. Please go ahead.

Isha Chawla: Thanks for the opportunity Sir. I wanted to know that what could be sustainable EBITDA margin in our manufacturing business going forward.

Yashovardhan Saboo: Do you have any other questions Isha?

Isha Chawla: Yes Sir. I have one more question that can you please give some idea about the current demand situation of Swiss market and also I wanted to know that what that what digital initiatives the company is taking on e-commerce side? That is it from my end.

Yashovardhan Saboo: Isha, in the first question about EBITDA margin, the current margins about 15%, we believe sustainable margins are 18% plus and we should recover to that in the next couple



of quarters. You were talking about current demand in the Swiss market. As I mentioned to you our demand really comes from how Swiss watch exports which are up to about 90% of the previous year level, so we believe that the demand will continue to recover as it has recovered over the last couple of months and we expect Q4 to pretty much be equal or better to last year's Q4 in terms of the demand from Switzerland and your last point was regarding the e-commerce initiatives. I would recommend you to please look at the investor presentation, briefly I can tell you, we work on a omnichannel platform through digital marketing, we create leads, the leads come through our call center, they are first tracked there, first level of interaction is done with customers there and finally customers are encouraged to visit the stores where they can physically see the watch and the sales are finalized at the store level, so it is an omni channel platform by the physical stores and the digital platform work hand-in-hand to give an optimal customer experience.

Isha Chawla: Thank Sir. That is helpful.

Moderator: Thank you. The next question is from the line of Lalaram Singh an Individual Investor. Please go ahead.

Lalaram Singh: Good evening Sir and all other gentlemen. My first question is that in the Precision Engineering around couple of years back, the momentum was good, targeting was Rs.100 Crores revenue run rate from that business; however, things have sort of becomes sluggish and we have got stuck that may be some Rs.40 Crores I think, can you comment on what exactly is happening there and what are the hurdles we are facing and any particular timeline, where do you think the growth momentum come back, so I want to know your comments on that, second question would be on the ETHOS, I suppose that we have bought around 6 Crores worth of shares from one of the investors, so any further buyback because of certain put options in the SHA that is my second question and the third question would be that ETHOS performance was at par with previous quarter last year while I think the square feet basis must be lower I believe with even the time were lower, so do you want to comment on what was like to like growth on a store basis considering assuming that....

Yashovardhan Saboo: Can you repeat the third question?

Lalaram Singh: Third question is that I believe that in this quarter compared to the previous quarter in the corresponding year, the number of stores which are opened would be less or in terms of square feet also, so do you want to share the numbers in terms of like to like growth or per square feet basis sales per square feet basis growth, could I get across my point?

Yashovardhan Saboo: Same store growth it has been about -6% in Q2, there is a certain complexity that comes about the way we calculate, because we consider same store growth only for stores which



are operated over 12 months whereas there are some stores which opened in September or October and we are seeing a very good growth over there but we are still not counting at a same store growth because a full fiscal year, they have not seen, so they will come only next year, but clearly we have seen despite fewer stores our billing has been nearly the same and our margin has actually been better, so I think what your hunch is probably correct over there. As far as the ETHOS put options are concerned, there were several shareholders which had put options, all but these which have now been exercised, which have been disclosed, which you know about these are the only put options and there are no other put options. For Eigen engineering performance I am going to pass mike to Sanjeev to explain the situation there. Lalaram, I request you can just repeat your question related to Eigen?

Lalaram Singh:

My question was that couple of years back, we were growing handsomely in EIGEN also we were expecting to hit Rs.100 Crores of revenues; however, it seems that we have got stuck at around, I am not sure about sub Rs.50 Crores revenue run rate there, so I just wanted to understand what exactly is happening there, is it that we are pivoting to a new customer segment which is taking more time in terms of approvals or is it something else, so I just wanted to get some colour on EIGEN and when can we expect that growth trajectory to again come back because I believe Eigen has a much bigger addressable market compared to our Swiss Watch component business, so can I just understand what is the development which are happening there, what has caused this growth momentum to sort of stagnant and when do we expected to again come back on the growth runway and hit our Rs.100 Crores target?

Sanjeev Masown:

I understood your question. What you have shared is right that when we started focusing on the EIGEN business, the revenue potential, the opportunities were much, much bigger compared to our watch component segment and our aggressive targets of the revenue numbers were substantially higher and during this process especially during the current year due to COVID many factories and many industries have been badly affected, but we still continue to believe that the growth in EIGEN will be significantly higher compared to watch component industry and those numbers of high growth are already seen in the first half of the year, we recovered almost 100% from the Q1 to Q2 in EIGEN and we continue to believe that in the coming quarters also this growth story will be there. May be this year's number will be broadly similar to the last year number, but in the coming years we see good opportunity from various segments and customers and all these are very promising. I will say that in the last few quarters, we have also been rationalizing the customers and some of the segments whether we want to be focusing into that or not, basically the segments like electronic segment where our margins were lower, we are consciously bringing down our market share or revenue and we are not focusing much into that. The high profitable or the high margin segment we gradually want to move into that, but it will not happen overnight, the original thinking and strategy behind EIGEN still remains there, I will say that many of



the developments in the last few quarters whether this Atmanirbhar Bharat which the government has initiated or the defence related sourcing where the government is spending a lot of money into that and even the promotion of the MSME sector for many other industries, we see good flow of enquiries from the overseas customers where earlier the customers were hesitant to respond and even the time to response is also much faster now, so we are confident of achieving the high growth, but more than the revenue growth we are targeting for the bottomline and correcting the margins and as a part of this , some course corrections will be happening, but overall strategy is still the same.

Lalaram Singh: Within the current setup which we have for EIGEN, what is the overall revenue potential or what is the capacity utilization which you were currently running at, so to understand the revenue potential of the current setup?

Sanjeev Masown: It is difficult to talk about the capacity utilization, but if we brought ballpark number if you want to see the revenue definitely it is possible to take Rs.60 Crores, Rs.70 Crores with the existing investment.

Lalaram Singh: Rs.60 Crores to Rs.70 Crores?

Sanjeev Masown: Yes. A lot depends upon the type of component which we customize and make for the specific segments for the customer, it is not readymade product where the pricing has been and as we are moving up the value chain for some of the complex parts and the components where the entry barriers are high that will help us in improving the margin, but the capacity utilization still is something difficult to arrive for this industry.

Lalaram Singh: Agreed, we had seen that galvanizing line was setup, so all that was supposed to help our margins also, so are we able to utilize all that or we are still filling that orders and capacities in the process of doing that?

Sanjeev Masown: Two-third of that capacity has been used and we are scouting for more business for that setup and that is one of the USP we have compared to the competition.

Lalaram Singh: We just want to see that the growth momentum which was there, because it seems to be a promising area, also this is the larger market so just waiting for the numbers to sort of fickle down. Sir, one last question if I can chip in, can you also help us understand which are the focus industries are right now for EIGEN, electrical is very competitive low margin, so I understand aerospace you are focusing on apart from that what is the top three sectors which we are trying to breakthrough or break into?

Sanjeev Masown: One definitely about aerospace and defence, another is the auto segment also the electrical vehicles which is another major move in the industry and shift which is happening and we



are fast moving in there for supplying component for the electrical vehicles and for the consumer durables, also the PLI schemes which the government has announced, lot of manufacturing will be coming here which will require the high precision components.

- Lalaram Singh:** We will wait for the coming quarters and thank you.
- Moderator:** Thank you. The next question is from the line of Amit Shah from Vision Capital. Please go ahead.
- Amit Shah:** I just had one question. What is the total debt separately in our manufacturing and retail business?
- Yashovardhan Saboo:** Current debt in the retail business is Rs.45 Crores and in the manufacturing business is Rs.76 Crores.
- Amit Shah:** Okay and cost of debt?
- Yashovardhan Saboo:** In the manufacturing, it is about between 10% and 10.5% and in retail it is about 11%.
- Amit Shah:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Saurabh Ginodia from SMIFS Limited. Please go ahead.
- Saurabh Ginodia:** Thank you for the opportunity. In the opening comments, you mentioned that we have taken certain cost reduction measures by help of which we have been able to reduce the breakeven sales, so just wanted to get an understanding at what level of monthly sales will be break even in ETHOS now?
- Yashovardhan Saboo:** This depends on whether you are looking at the cost structure now or steady state, because the cost structure in Q2 obviously was lower, because of the lower rentals, and other cost rationalization some of it is permanent, some of it will not be permanent, but if I were to understand the spirit of your question you are saying that in a steady state what is the kind of...
- Saurabh Ginodia:** Normal scenario.
- Yashovardhan Saboo:** That would be at about Rs.40 Crores per month.
- Saurabh Ginodia:** If one would have looked into this number before cost reduction how much was that?



Yashovardhan Saboo: This is at steady state once the cost reduction where the new stores have come up, which are now in the pipeline and so on, earlier also it was probably a little bit higher may be around Rs.45 Crores, but now it is down to Rs.40 Crores may be it is coming to a little less depending on which stores perform how but probably a little bit lower than Rs.40 Crores now and little higher than Rs.40 Crores 12 months ago.

Saurabh Ginodia: Thanks for that and second question was with respect to be contribution from preowned watches, you can help me with the number for Q2 in this financial year?

Yashovardhan Saboo: While we are bringing out the number, what I would like to appreciate is that the sale of preowned watches depend on the purchase of preowned watches and the purchase of preowned watch is done domestically from consumers and customers, so during the lockdown one of our great impediments was not being able to connect customers to buy watches, you cannot buy watches there is nothing to sell, so now with a lockdown opened of course it is becoming much more active. So the preowned watch sales for the first half of the year were Rs.3.7 Crores.

Saurabh Ginodia: All the best Sir.

Moderator: Thank you. The next question is from the line of Lalaram Singh an Individual Investor. Please go ahead.

Lalaram Singh: My question is on the preowned business, so you want to continue this as business where you will be buying the stock and then sell it, you do not want to convert this to a market place model?

Yashovardhan Saboo: It can be converted. Buying does not always mean that you have to buy if yourself, but you have to do a connect and contract with the customer, you have to be able to get hold of his watch even if you do not buy it, you have to see it that it is a genuine watch, you have to service it, so it cannot be a pure market play in the sense that I connect A to B and I am just taking a connection, margin for connection, vital value that ETHOS or secondtimezone.com is the ability to check the watch, service it, get it into working condition, be in a position to offer a warranty on that and of course above all to serve warranty or guarantee that it is a genuine watch, so whether or not I actually buy the watch I still have to get it and process it in my workshops before I can offer it.

Lalaram Singh: In the current setup, are you paying all the money upfront when you buy from the seller?

Yashovardhan Saboo: Right now mostly yes. Later on I think once the business become sizable and we are able to spread it, we have in mind to work on a combination of outright purchase and where you actually do not buy the watch, we have done it in the past also, but at the moment it is just



very important to be able to get hold of the watches. There are not enough watches, we are not able to buy enough watches, because of constraints of lockdown and customers are not coming and so on, we are able to sell very easily whatever we have.

Lalaram Singh: So saying selling is not a problem that is what you are saying.

Yashovardhan Saboo: No.

Lalaram Singh: To follow on question to this is that what I understand is typically the collectors are the ones who upgrade the existing watch collections wearing and they sell it to purchase a new watch, in this case that are always subgroups or WhatsApp groups people who are into this, they all have their own network, so do you think it is a challenge to parallelly compete with them, thoughts on that because I do not understand this market pretty comprehensively?

Yashovardhan Saboo: I do not think it is a challenge. In every business you will have groups and influencers and opinion groups and opinion makers and all of that, I dont think it is a competition, I think we have to complement it, because the opinion makers do not have the means of servicing the watch and bring it to an excellent condition.

Lalaram Singh: Got it and when you price these watches, how do you think about what is the favor which you use in terms of, is that x% gross margin you want to make on these watches, because assuming that if you sell very quickly then you can actually sort of price at a much lower gross margin that what you are currently doing on new watches and still make decent return on capital, is it correct?

Yashovardhan Saboo: I am almost sure that is something which is confidential, what is our pricing strategy on that and frankly I am not really very much into the pricing strategy of pre-owned watches even if it was another I would appreciate that something which would be confidential.

Lalaram Singh: Can I ask one question is that when you setup a listing price on secondtimezone.com, when the actual transaction happens, does it happen at a price or generally from typically negotiation happens actually tends to have lower price in that, can you comment on that or no?

Yashovardhan Saboo: It depends on watch to watch. If it is a watch that is on good demand, there is no negotiation possible. If there is a watch which is not in that much of a demand, but there is a customer watch sales somewhat discount we will give it. I think normal market condition prevail over there depends on demand and supply.



Lalaram Singh: Any plan on scaling it up by setting up a dedicated like preowned watch store or have you started to think about this business in more detail, how do you expand that, or it is still early?

Yashovardhan Saboo: We have thought enough detail and there are developments happening. I cannot really speak about it very openly right now, because there is something which we are finalizing, but there are very detailed and very ambitious plan for this business.

Lalaram Singh: Do we have new team which has been setup or internal people were allocated with his project?

Yashovardhan Saboo: There is a team for this, you cannot do it, you cannot build this business as...

Lalaram Singh: Thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Jagdishwar Toppo from Japa Investment Advisor. Please go ahead.

Jagdishwar Toppo: Thank you so much for the opportunity. I would just like to know how is your pricing power shaping up? Has it improve given the fact that the competition probably has become less intensive and also now you are in online platform, you are selling almost 50% online, so specifically earlier you were offering some kind of discounts on your watches, so is that discount still there, so how is the situation in last six months, if you can explain about this?

Yashovardhan Saboo: Do you have any other questions?

Jagdishwar Toppo: I have one more question relating to Rolex. We had heard you saying that there is shortage of Rolex and how is the situation as far as the Rolex is concerned and there is still shortage why cannot we tie up with Rolex exclusively in India using online platform or offline also? These are my two questions.

Sanjeev Masown: As far as discount is concerned, yes, we still have discounts. That is a characteristic in the market pretty much across the globe, so we do have discounts as far as the first part of your question is concerned. Regarding the shortage of Rolex, it is the most curtailed and the most demanded brand in the world, so there is a shortage of Rolex worldwide and Rolex does not do exclusive arrangements with anybody. Everybody who gets Rolex, is very happy that they can get Rolex whatever is allocated, so Rolex watches are in such a great demand and there is always a shortage of supply and you have to ask for allocations and so on, now typically earlier this year because of the lockdown in Switzerland, there were some disruption in the production schedule and that created some shortages that were more than the normal; however, it has eased out and now the sequence are coming regularly so there is



of course always a shortage of some specific models of Rolex which are very much in demand, but for normal models of Rolex now there is no direct shortage.

Jagdishwar Toppo: That is it from my side and all the best to you Sir.

Moderator: Thank you. As there are no further questions I now hand the conference over to Mr. Yashovardhan Saboo for closing comments.

Yashovardhan Saboo: Thank you everybody for joining the call and I hope we have been able to answer your queries. In case of any further queries, please contact SGA, our Investor Relation Partners. I thank you once again for joining this call and wish you safe and healthy period ahead. Thank you very much again.

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