KDDL Limited

Kamla Centre, SCO 88-89, Sector 8-C, Chandigarh - 160 009, INDIA. Tel: +91 172 2548223/24, 2544378/79
Fax: +91 172 2548302; Website:www.kddl.com ; CIN-L33302HP1981PLC008123

Ref : KDDL/CS/2019-20/71

Date : 6th December, 2019

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex, Bandra,
Mumbai - 400 051

BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai - 400001

Trading Symbol : KDDL

Scrip Code : 532054

<u>Subject: Earnings Call Transcript</u>

Dear Sir / Madam,

Please find enclosed herewith a copy of transcript of Earnings Conference Call held on 11th November, 2019.

Kindly take the same on record.

For KDDL Limited

KDDL LIMITED

Brahm Prakash Kumar
Company Secretary

"KDDL & Ethos Limited
Q2 FY2020 Earnings Conference Call"

November 11, 2019

MANAGEMENT: **MR. YASHOVARDHAN SABOO – CHIEF EXECUTIVE OFFICER – KDDL & ETHOS LIMITED**
MR. RAJA SEKHAR – CHIEF FINANCIAL OFFICER – KDDL & ETHOS LIMITED

Moderator: Ladies and gentlemen, welcome to the KDDL & Ethos Limited Q2 FY2020 Earnings Conference Call. This conference call may contain forward looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not 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!

Yashovardhan Saboo: Thank you. Good afternoon and welcome to everyone for our Q2 and H1 of FY2020 earnings conference call. I am joined by Mr. Raja Sekhar, CFO of ETHOS Limited, unfortunately, Mr. Sanjeev Masown, CFO of KDDL is not here today as he is traveling on business and we are also joined by SGA, our investor relations advisors. I hope everyone has had a chance to go through our updated investor presentation uploaded on the exchanges and the company's website. I will start with the financial performance on a consolidated basis.

Consolidated revenue rose by 1.1% year-on-year to Rs. 158 Crores in Q2 FY2020 from Rs. 156 Crores in Q2 in Q2 FY2019. While the H1 growth was 2.7% higher to Rs. 311 Crores from Rs. 303 Crores in H1 of last year.

Standalone manufacturing business during the quarter witnessed a growth of 11.4% year-on-year and revenue increased from Rs. 44 Crores to about Rs. 49 Crores. Similarly, the growth during H1 FY2020 was about 10% recording a revenue of Rs. 98 Crores from about Rs. 89 Crores in H1 FY2019.

Ethos, our watch retailing and allied business witnessed a de-growth of about 3.8% on year-on-year basis in the quarter and recorded revenues of Rs. 107 Crores. On H1 basis, the revenue was at about Rs. 209 Crores versus Rs. 212 Crores in the previous year.

Consolidated gross profit in Q2 of this year grew by 9.1% year-on-year from Rs. 63 Crores to Rs. 68.5 Crores and the gross margins improved by 317 basis points from 40.1% to 43.2% in Q2. For H1, the gross profit increased 9.9% year-on-year from Rs.124 Crores to about Rs. 137 Crores. Gross margin grew by 285 basis points and improved to 43.8%. We continue to witness a gross margin expansion in Ethos of 238 basis points year-on-year in H1 and 214 basis points year-on-year on a quarter basis.

Quarterly consolidated EBITDA grew from Rs. 13.3 Crores in Q2 to Rs. 18.1 Crores in Q2 of the current year, a growth of 36.5% on year-on-year basis. The H1 consolidated EBITDA grew 35.8% year-on-year from Rs. 26.5 Crores to Rs. 36 Crores. The growth in EBITDA has been largely on an account of changes in accounting standards with applicability of Ind-AS 116 standards.

The new Ind-AS 116 norms have resulted in recognizing a right of use asset of Rs.124.7 Crores and corresponding increase of lease liability of Rs.118 Crores in the balance sheet. The impact of this on the profitability statement has resulted in the decrease in rent expenses to the tune of Rs.16 Crores, an increase in finance cost by Rs.5.3 Crores and an increase in deprecation by 14.8 Crores. The net impact is a decrease of PBT by 4.1 Crores. Post adjustment of Ind-AS 116, the like-to-like EBITDA growth stood at Rs.20 Crores in H1 FY2020 versus Rs. 26.5 Crores in H1 FY2019. The margin stood at 6.4% versus 8.8% during the previous year. PBT for Q2 FY2020 and H1 FY2020 stood at Rs. 0.9 Crores and Rs. 2.4 Crores respectively. Our consolidated performance includes the performance of Estima AG our newly acquired hands manufacturing company in Switzerland, which incurred a loss of Rs.5.6 Crores in H1 FY2020.

I will now discuss the manufacturing business performance for the quarter and the full year. Our manufacturing business comprising of watch components, precision engineering and ornamental packaging continues to grow as per expected plan. Our manufacturing revenue for the quarter grew by 11.4% year-on-year from Rs. 44 Crores in Q2 of last year to Rs. 49 Crores this year. The revenue share of watch components and precision engineering based business was 71% and 25% respectively.

For H1 FY2020, manufacturing revenue grew 10% from Rs. 88.7 Crores to Rs. 97.6 Crores The share of watch component was at 72% and precision engineering at 23.3%. The gross profit expanded by 10.1% year-on-year in Q2 this year to Rs. 36.9 Crores from Rs. 33.5 Crores in the previous year. The gross margins stood at a healthy 74.7%. For H1 this year, the gross profit expanded 8.2% year-on-year to Rs. 72.6 Crores with a margin of 74.4%.

The EBITDA grew 10.1% year-on-year from Rs. 8.3 Crores in Q2 of last year to Rs. 9.2 Crores in Q2 of this year. The margin stood at 18.6% versus 18.9% in Q2 of last year. In H1, the EBITDA grew by 5.7% year-on-year from Rs.16.4 Crores to Rs.17.4 Crores in the current year.

Swiss watch exports has slowed down during the period January to September of the current year to 2.8% compared to the same period of last year where in the growth was 7.9%. Primarily, the higher end of the market has been stronger and the lower price point is on the decline. However, we expect the gradual improvement in Swiss watch business in the months to come. On the other hand, Indian watch market continues its upward trajectory. The leader in the domestic watch business continues to grow and we benefit from this growth on an account of our dominant position in the supplier watch components to the domestic industry.

Watch component business witnessed a growth of 11% in Q2 and H1 of the current year, the segment registered a revenue of Rs. 35.2 Crores in Q2 and Rs. 70.4 Crores in H1. We remain on course to delivering an annual growth of 8% to 10% in this segment.. At Estima AG our acquisition in Switzerland, we continue to focus on increasing utilization levels and expect a turnaround over the next two quarters. Our strategy with Estima is to build a strong pipeline of customers in the mid price segment in the European watch market. The precision engineering business witnessed a revenue growth of 15% over the previous quarter from Rs. 10.6 Crores to Rs. 12.2 Crores in Q2 of this year. We continue to focus on improving internal efficiencies and streamlining the product mix in this business to achieve profitability as per target. The market position and outlook in this segment remains healthy though there is a short-term slow down in the domestic segments.

I will now discuss the watch retailing business that is Ethos. The current sentiments have been weak and this has undoubtedly affected the momentum. However, we remain optimistic on the long-term growth prospects of this business. The current festive season and the latest reports of the Deepavali month have actually reinforced this view with a smart recovery being seen. Our strategy at Ethos has been to focus on providing the best shopping experiencing to customers. Accordingly, we have realigned our store strategy over the last 12 months to, number one, open larger stores; number two, select some new geographies like Kolkata and Guwahati; number three, we have roped in marquee brands on exclusive basis and number four, we have started a very strong after sales service network.

I am happy to report that September saw the beginning of the exclusive Hublot store in the Palladium Mall in Mumbai on a joint venture basis. This store is the first boutique for Hublot in the country and it is a testimony to the trust in business economic of these brands and the value that they see in the partnership with Ethos. Despite two challenging quarters, we continue to build on a store rollout strategy. We have opened seven stores in H1 and especially in Q2 we have opened six stores alone. Many of these are large format stores offering unparallel choice in terms of price range and brand availability. We strongly believe that as the macroeconomic environment in our country improves, these stores will add significant growth to our revenue and profitability.

I will give you the financial highlights for Ethos now. Our billings for Q2 de-grew, they reduced by 5% year-on-year to Rs. 123 Crores while for H1 the de-growth was about 2% year-on-year Rs. 241 Crores; however, billings of exclusive brands grew faster at 49% year-on-year to Rs. 26.6 Crores in the last quarter. For H1, the growth was even faster at 53% year-on-year to Rs. 55.1 Crores. The exclusive brands contribute 21.9% to the Q2 FY2020 topline and 23% to the H1 FY2020 topline. Our gross profit continues to show improvement on an absolute basis. There was a growth of 4.3% on year-on-year basis for Q2 FY2020 and 7.5% for H1 FY2020. The gross margin stood at 27.3% in Q2 of this year versus 25.1% of the same part of last year, an improvement of 214 basis points. For H1, the gross profit margin was 28.5% versus 26.2%, an improvement of 237 basis points.

Ind-AS 116 impacted profitability as I have already mentioned, the like-to-like EBITDA came in at 3.9% for H1 of this year versus 5% of the previous year. PBT was impacted by Rs. 3.6 Crores on an account of Ind-AS 116 and therefore we de-grew on a year-on-year basis. Stock carrying month at the end of September 30, 2019 was 9.4 months. This is explained mainly due to the fact that a lot of the new stores, which opened at the end of Q2 of the current year include the stocks but the turnover and the sales still has to come in. Our gross debt in Ethos stands at Rs.85 Crores at the end of September 30, 2019. We continue to believe that the growth opportunity is immense in watch retailing in India and our strategy of strong brand relationship, a strong network across India, and a very strong digital marketing will enable us to maintain our leadership in this segment of luxury watch markets in India. The support from a dedicated after sales service center that we have opened in Delhi along with the business of preowned watches will take Ethos further in being the torch bearer of the luxury watch market in India. I now welcome your questions and participation.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Saurabh Ginodia from Stewart & Mackertich. Please go ahead.

Saurabh Ginodia: Very good morning, Sir and thank you for the opportunity. I had three questions, the question will be respect to the SSG growth rate in Ethos in Q2 and how were the festive sales like-to-like year-on-year basis and third would be, you have indicated in the last conference call that you have appointment KPMG to advise on the deal structure for Ethos listing, so where are we there?

Yashovardhan Saboo: Can you just go with these questions again, I missed the second one, first one was Q2?

Saurabh Ginodia: Yes. Second one was wanted to get some colour on the light-to-light festive season sales and third was with respect to progress for the Ethos?

Yashovardhan Saboo: Same store growth in Q2 was negative 9%. This is mainly due to several factors. I guess this will be an important question for many analyst or many listeners so let me take the opportunity to explain this a little bit in detail. There are couples of reasons why we have seen this de-growth. First and foremost, obviously macroeconomic sentiment has been weak during the last quarter. This is across segments and particularly in discretionary spends this is even more evident. Second is that during this quarter, we had low supply of some key brand products due to global supply shortages for this brands and this was the second important reason, which contributed to the decline. We believe that with the improvement in the macroeconomic environment, growth should come back and I am also happy to report that the supply position of the key brand that we spoke about is improving, so we expect the growth to be back from the current quarter onwards. I will go the second question, which was SSG on the festive season. So, if you were to take October, which is your key Deepavali month and Dusshera month and festive month, SSG was plus 6% and the overall growth in revenue versus same period last year was about 20%, so this is a pretty strong indication that the growth is back and we hope very much that it will continue to be like this. Your last question was regarding KPMG and as I has explained in the last earnings call as well, KPMG was appointed to give us a structure as to how Ethos could list and they did come up with several options. The limitation has been that as KDDL has SAIF partners as a shareholder, which is considered to be FPI and FII,a direct listing of Ethos is not possible because SAIF partner, which is an important investor in KDDL will not be able to hold shares of Ethos, which is a multi-brand retail company. KPMG has suggested one or two options in which Ethos will have to again be held through a holding company, which is be an operations company, so this is a matter, which is under consideration, there is a divided opinion whether Ethos being held once again as the holding company, which get listed whether that has the same benefits of the direct Ethos listing and also whether legally the holding company can hold Ethos shares, so these are the legal issues and we are still waiting for KPMG to take legal opinion, the opinion of our board has been that we should ask for a government approval, pre-approval if necessary to ensure that there is no violation of any legal standards especially as there is ambiguity as to whether a holding company can hold Ethos shares or not. These are matters, which our ambiguous and the general view is that we should not be taking any chances with the structure that is not completely approved and legal, so we are still awaiting for a final recommendation from KPMG and after that our board will consider other matters.

Saurabh Ginodia: I have further questions, I will get back in the queue. Thank you.

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

Shalini Gupta: Good morning, Sir. I had a few questions one was the exclusive brands are now about 21.9% of sales and in the first quarter it was 24% of sales, my question is have we discontinued our relationship with some exclusive brands or they are generally growing lesser, if you could just throw some light on this?

Yashovardhan Saboo: Shalini, we have not discontinued, in fact we are increasing our efforts with the exclusive brands. There might be some deviations quarter-on-quarter, but just to tell you every year we have been gaining and the same for this year as well. Last year, the share of exclusive brand was about 14.6%, so we are already at 23% this year, so I think there is rapid growth happening. I think the share of house brand or exclusive brand in Q1 was a bit higher because in June, we had run a very special sale, which was focused on exclusive brand, it was a very special promotion focused on exclusive brand, so it saw a spike in the sales of exclusive brand; however, we are not only within target for the growth expected in this year compared to last year, but we are actually above the target even at the end of Q2 and we are pretty confident to continue that.

Shalini Gupta: Sir, if you could just say what is the average total area that is under the various Ethos stores?

Yashovardhan Saboo: So, the total square foot area in the Ethos store is now about 71000 square feet, this is on super built basis, on carpet area basis it is about 47000 square feet.

Shalini Gupta: Lastly, you gave that number in the conference call, if you could just repeat the number, EBITDA for Ethos and PAT for Ethos?

Yashovardhan Saboo:

Raja Sekhar: EBITDA has declined as a percentage of sales from 5% same period last year to 3.9% in the current year and this is on a comparable basis, if you really want to take the impact of the new accounting standards, the EBITDA is actually much higher, but then it will not be comparable with the last year, so the figure that I am giving you is a comparable number from the 5% that we had in the previous year. That answers your question?

Shalini Gupta: Yes Sir. Thank you.

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

Arshad Mukadam: Good morning. So, just a couple of questions from the manufacturing side first, can you give the client concentration on the domestic watch components business, your were mentioning that our top customers have been doing well, so how much is concentration from them?

Yashovardhan Saboo: Can you say that again, when you say concentration it means what? Business comes from the domestic and what part comes from out side, is that what you say?

Arshad Mukadam: From the domestic, how much is our top contributor, could you give some?

Yashovardhan Saboo: Our top contributor within India is Titan and Titan accounts for more than, I do not want to give the exact figure, but it comes to more than 60%.

Arshad Mukadam: Of the domestic business?

Yashovardhan Saboo: Correct.

Arshad Mukadam: Then the second things is, can I just get the revenue figure for Estima for the quarter?

Yashovardhan Saboo: The revenue for the Estima, I will have to check this and get back to you.

Arshad Mukadam: No worry, then on the Ethos side, you mentioning that one of our top brand has been tightening its supply to us, so if you just remove this top brand, could you give us the non-exclusive brand growth without including this top brand, is that possible?

Yashovardhan Saboo: No, for the exclusive brand would not include that the brand where the supplies were lower, if you want the total growth excluding the brand, the total growth I can give you that figure?

Arshad Mukadam: Yes, that figure would do?

Yashovardhan Saboo: So, the same store growth if I do not include the brand where the supply was restricted, the same store growth for H1 turns to be positive 2% instead of negative 9%.

Arshad Mukadam: Thank you. Then, if I could just also understand, I think last quarter you had told us that there is a difference between the above 5 lakhs watch market and the below 5 lakhs watch market one was performing and one was not performing, so could you give us that figure also right now?

Yashovardhan Saboo: Sorry, you have to say that again, the voice is not very clear. Exactly, what you want to know?

Arshad Mukadam: So, last quarter you had given the growth figure of the above 5 lakhs watch category and the below 5 lakhs watch category and that has helped us in our numbers, so could you give us that figure now?

Yashovardhan Saboo: Sure.

Raja Sekhar: You wanted for the H1?

Arshad Mukadam: For the quarter would do?

Yashovardhan Saboo: Sales growth for watches below Rs. 5 lakh is 10% and sales were down 21% for watches above Rs. 5 lakhs.**Arshad Mukadam**: The second thing is that I am looking at the gross margin, I think over the last four quarters, this quarter it has been the weakest, so I just wanted to understand the source of this, could you give me the gross profit of the exclusive brands and the non-exclusive brands?

Yashovardhan Saboo: Yes, the gross profit we just calculating that, but I do know where you concluded that the gross profit, I guess you are speaking only about Ethos or you are talking everything?

Arshad Mukadam: Ethos specifically.

Yashovardhan Saboo: So, Ethos, I do not know where you got this figure from because actually gross margin gross profit has been improving.

Arshad Mukadam: Actually, the gross margin on the billings, not on the revenues.

Yashovardhan Saboo: Sorry.

Arshad Mukadam: So, I actually want the calculated the gross margin on the billings, not on the revenues.

Raja Sekhar: For the first half, the gross margin is about 27.8% whereas in the same period previous year it was 27% and if you compare it with Q1 figure, it was 29.2%, for here there is a slight decline that has happened in the current period that is primarily on account of the discounts that have been slightly higher compared to what we were in the previous quarter and the quarter prior to that, but in terms of the margin that we are able to extract from brand, we are probably the highest today, but given the fact that overall discount was slightly higher in the current quarter, there is a slight decline from the previous quarter; however, compared with the last year same period there have been improvement from 27% to 27.8%

Arshad Mukadam: Yes, I was actually comparing it to the last two, three quarters, not beyond, so can I get this gross profit figure for the exclusive brands and non-exclusive brand, is that available?

Yashovardhan Saboo: We have to get back to you on that.

Raja Sekhar: You need the gross profit percentage for house brands?

Arshad Mukadam: Yes, absolute figure also would do, yes.

Raja Sekhar: So, We will get back you on that.

Arshad Mukadam: Sure, a couple of other.

Yashovardhan Saboo: Arshad, you asked for Estima figures?

Arshad Mukadam: Estima revenue, yes.

Yashovardhan Saboo: So, Estima revenue in H1 was about 4.73 Crores, obviously there are in Swiss Frank, we are converting it at Rs.72, which is the current exchange rate.

Arshad Mukadam: But, I think when we took over this company, I think we were doing approximately $2 million of revenue, which would to a run rate of I think over 3 Crores a quarter, so any reason for this low growth there?

Yashovardhan Saboo: No, it was not 2 million, it was declining when we took it over, it was close to about 1.2 or 1.3 million for the year, so when we took over, the run rate was actually about $100,000 per month when we took it over. Currently, we are now at about $200,000 per month, on Estima I have to explain also that during the period May to July or May to August, let us say we went in for a major renovation and shifting of the factory, so just to mention that Estima, the reason why Estima from being a very well known name let us say 7 or 8 years ago had declined because there were not investing in the technology, they has invested in the wrong stuff and they had lost market share to all the competitors including to us in KDDL, so one of the things, which we realized after we took over was that we swiftly had to do a renovation including refurbishment of machines, adding some equipment and most importantly shifting to a smaller location within the same factory, the factory has two building, it was operating on a very large space, which was inefficient and contributing to the losses, so we took the smaller building, which already existed in the factory, which was essentially used like a laboratory and a storage area. We re-did that whole complete place and shifted all the manufacturing, that shifting was completed in August and after that we are inviting all the customers to come back and the response has been very positive. We expect the current quarter to be very positive in the sense that of a turnaround and to be able to hit breakeven in the first quarter of next year.

Arshad Mukadam: That sounds really good then, if I just get back to in house question, I just wanted to know the average realization figure for the quarter?

Yashovardhan Saboo: Average realization means per unit realization?

Arshad Mukadam: Yes, like I think it was 90000 for last quarter?

Yashovardhan Saboo: For the first half it is 99000.

Arshad Mukadam: And for the quarter if possible?

Yashovardhan Saboo: And Q2 is 104000, that is the average MRP.

Arshad Mukadam: So, good increase, I think you have opened lot of stores in this quarter and H1 also, could you give us a sense of how many more are we going to open in terms of number of thousand square feet by probably the end of the FY?

Yashovardhan Saboo: The end of the FY, we are actually taking over two stores, there will be an addition of two stores in Jaipur, an Omega boutique and a Rado boutique, these have been vacated by our competitors who has basically left the city, the competitor called Prime, who has basically left the business, so we are taking over those two stores in Jaipur that is about 1000 square feet and the only other addition that we see in this FY is likely to be in March or could slip into next year depending on the timing, which is a store very close to you at the new Mega Max Mall coming up in BKC, our plan is to start in December if they start in December and the mall starts in March, we would be ready, but it could be touch and go although, like that does not happen in the March then the only two additions that we have planned are the ones which I told you, otherwise the Mega Max, which is about 2000 square feet store.

Arshad Mukadam: 2000 square feet, okay I am looking forward to that. Thank you so much. That is from my end.

Moderator: Thank you. The next question is from the line of Saurabh Ginodia from Stewart & Mackertich. Please go ahead.

Saurabh Ginodia: Thank you for the opportunity. On slide #25 of your presentation, you have highlighted that financial consultancy from Keppler estimates the pre-owned watch market upward of USD 50 billion, so which are the key geographies where this model is successful and how are we in terms of progress on that business?

Yashovardhan Saboo: So, the pre-owned business worldwide, Saurabh, has been very, very dynamic and booming and if you punch in on Google, pre-owned watches you will see that it is active every where, it started first in USA, it is actually in China and Asia and now it is getting active also in Europe. The key large retailers of watches luxury brands are getting into this or have got into this, I will give a few names, so Tourneau and Bucherer, it is now one group, GDM retailers in USA and Europe, in fact Tourneau and Bucherer together are today world's largest watch retailer of luxury brands. They are big into it, big retailers in Switzerland have got into it, in Europe have got into it and the same can be said for Asia, China and Hong Kong as well. Large retailer are embracing the segment, moreover luxury brands are also embracing the segment and the reason is the following. You know the business of pre-owned watches, the sale and purchase of pre-owned always existed much like sale and purchase of per-owned cars. When people buy expensive watches and they want to exchange them or they want to change them for anything there has been a market for this, but until recently that market was not an organized market, this was going through grey channels, this was going under the table, there was middle man, and people were not clear and I think brands and organized retail both realized correctly that actually it is in the interest of the brands and consumers on the market to actually bring out this from under the table to above the table to legitimize it, to ensure their proper legitimate checks quality control and information available to customers and that is what has led to this boom. You can also check out what is happening on auction sites world wise and we are talking about very well known auction sides like Sotheby's, Antiquorum, Philips who do auctions of antiques and arts, craft products and including now specialized for watches, so business of pre-owned watch is actually very dynamic. In India, we are the first to take it up, it features on our website, we are in discussion with brands, we do not want to do anything that is not approved by brand, so we are in discussion with brands and wherever brands are allowing it, we are doing this business. There are also some legal issues, which needs to be taken up, which we are taking up to the government to ensure that the law is friendly for this kind of business. At the moment, there are few impediments, which we would like to see removed and once that is done, we can really go forward full speed on the pre-owned business. We believe this is a very, very important area for us in the future.

Saurabh Ginodia: That was very helpful, Sir and Sir, post the end of Q2, how has been the general footfall in the stores in the last month and the first of this month and are we running any discounting or promotional scheme in this quarter?

Yashovardhan Saboo: Saurabh, as I mentioned already, in the month of October, there has been a revival in our sales figures, in the footfalls, footfalls of course matter, but it is not only footfalls because as you know our digital back bone and digital marketing is equally important generator of interest in the business of customers to come in, but overall sales is up by 20%, same store growth is back. In the first 10 days of this month, it is always difficult to say because there is a shadow immediately after Deepavali. Deepavali was at the end of October and typically after the Deepavali for about a week or so, there is a shadow. We should know a little bit more but there are indication that probably the worst is over and the sentiment will come back from here on. However, I would also like to mention that from whatever I have heard from other retail, from walk-ins in the stores and from other segments, there is a recovery, but we are not sort of counting on a very strong bounce back. The recovery will be slow and steady over the next two quarters and we are geared up for that.

Moderator: The line of the current participant has dropped off, we will move on to the next that is from the line of Shalini Gupta from Quantum Securities. Please go ahead.

Shalini Gupta: Sir, I just wanted to ask you, in the Q2 we have a situation of 4% topline decline year-on-year and we have a situation where the exclusive brands are far higher than they were a year ago, so if this a fair assumption that basically the decline has come from the lower price brands or if you could just talk about this, that is one and the second thing, last time I had met you, which would be roughly about six months back, you were talking about very fast growth in brands priced above 30 lakhs, Sir if you could just talk about how is the growth in that segment and which is the segment in the overall watch market that is the fastest growing now?

Yashovardhan Saboo: Let me answer the first question, Shalini. It is true that there has been a decline in the lower price segments, so your conclusion is correct in Q2 and H1. partly, it is on an account of general decline in the lower price segments, you know the lower price segments are the ones which are facing the maximum competition from the smart watch or the connected watch segment, we are talking about price point below 50000, whereas indeed there is a decline over there and in fact as a strategy we are reducing our dependence on this price segment, so your conclusion over there is right, we are seeing a climb back again from the current quarter, we believe this is going to go up a little bit again, but overall long-term we believe the price segment under 50000 will remain stretched even when the macroeconomic segment revives because of the competition from the smart watch, whereas price segments about 1 lakh, 2 lakhs, and above 5 lakhs, these will bounce back more strongly. On the price segment above 20 lakhs or 30 lakhs, yes, this is a fast growing segment; however, what you have to also know is that the story was slightly different six months ago when the overall sentiment was not as badly impacted as it has been in the last few months. Nonetheless, this is a segment that we believe will bounce back strongly and will continue to grow. Of course in this Q2 and H1, there has been a severe impact on this segment. Let me just tell you the biggest increase is actually in the price segment between 50000 to 2 lakhs and 2 to 5 lakhs, above 5 lakhs, there has been a decline.

Shalini Gupta: Sir, I just had one more question, I am sorry to repeat myself, I could not really hear you clearly at that time, so to just get my figure correct, you were saying EBITDA for the first half is 3.9% of sales, is it or I have got my figures wrong, if you could please just correct me?

Yashovardhan Saboo: It is 3.9% for H1 of this year and it was 5% for H1 of previous year, this is on a comparable basis. If you actually look at the published figure, you will find that to be much higher, but that is because of Ind-AS 116, these are figures on a comparable basis.

Shalini Gupta: Yes, and what are the loans outstanding for Ethos?

Yashovardhan Saboo: It is 85 Crores.

Shalini Gupta: I mean it has gone up by almost I think 20 Crores over the previous quarter, so this is because of new store openings or?

Raja Sekhar: No, last year we ended the year with a loan of about 77 Crores and it has gone up by about 8 Crores in the current year.

Shalini Gupta: Thank you.

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

Lalaram Singh: Good morning, Mr. Yasho and Mr. Raja Sekhar.

Yashovardhan Saboo: Good morning, how are you.

Lalaram Singh: I am very good. My first question is on the prime watches two of the stores, which you said you will be acquiring, so how does it work, I mean we will be doing all the Capex there or how does it work exactly?

Yashovardhan Saboo: Now, there is no Capex because these stores already existed, so there is no Capex. We are buying the stocks because the stock was too old, so we get the store without any Capex and the other fit, there is no Capex.

Lalaram Singh: Because it is the mono boutique so the look and feel will all be there?

Yashovardhan Saboo: Yes, this is a brand boutique store Omega and Rado in Jaipur, these are the only boutiques for Omega and Rado in Jaipur and this is going to be the useful addition, we did not have these brands in Jaipur because competitor had the band, so now we are having that brand.

Lalaram Singh: How did this work in sense that whether Ethos would take over this or someone else, can you throw some light there?

Yashovardhan Saboo: We have our multi brand store in that mall already and so very strong connect with the Swatch group, given the fact that we have already in the multi brand store in the same mall and we are largest partner for Omega and Rado, so obviously we would have the first choice.

Lalaram Singh: Second question is on the Hublot store, which is in the form of a JV with Pasadena Retail, so in this model is the Capex for this store as well as inventory, is it shared between the partners right, how does it work?

Yashovardhan Saboo: This Capex is done by the joint venture company, Ethos contributes 50% of the equity, the JV partner contributes 50% of the equity and that effect is done by the company and in this case, I can tell you a lot of the Capex were actually done by the brand, so the furniture were all supplied by Hublot the brand free of charge, free of charge to Pasadena.

Lalaram Singh: So, we only had to stock the inventory?

Yashovardhan Saboo: You know typically what happens is that the Capex to the extent of the civil work in the store and the duty on the imported furniture paid by us, for the furniture itself, which is the largest part of Capex that was borne by the brand in this case and the duty and the civil work I mean preparing the store including outside sign, and inside the flooring and all of that, that was done by Pasadena.

Lalaram Singh: This is I think one of the first stores, which is under the JV model for us?

Yashovardhan Saboo: Yes.

Lalaram Singh: Got it, so was this because the partner had the rights for the brand or that was the reason?

Yashovardhan Saboo: Correct, the partner had the rights and that was one of the condition from the brand that if you do a book it, it would have to be with our authorized representative or agent, we would be 50%.

Lalaram Singh: Do you foresee this model extending for other brands also?

Yashovardhan Saboo: No, other brands currently have this model, so I would not expect that really to happen.

Lalaram Singh: You know we have opened two, three really big stores in the last 4 to 5 months Kolkata, Hyderabad, also Chennai, so how has been the experience because there is a set of assumptions, which you have made with the strategy, so how is the footfalls, how is the feedback, can you throw some light on the experience and do you have the confidence on that the model or do you think we might relook at this?

Yashovardhan Saboo: I will gladly share our experience, actually the experience with the large flagship stores has been exactly as we had anticipated or hoped for, for example, in Kolkata, already just in the third month of operation, we have sort of achieving breakeven, which for a large store it is absolutely fabulous, even in Hyderabad we are achieving very good numbers, Chennai is a bit of challenge because some of the brands that are expected, the brand furniture was delayed. But, overall the model has been extremely successful, not only that I will give you another example, which is about shifting a store at in NCR, we shifted from 800 square feet store to a 1600 square store in the same mall, going to a larger store which is like a flagship store has changed economics very dramatically and enabled us to give much more better customer experience, so I believe the model of larger stores, flagship store with much brand mix and a customer experience, this is proving itself, it has been only three to four months, cannot come to absolute conclusion but all the initial indicators are very positive on this, so we believe that going through the season and by the end of the season we will know much better, but I believe that we will actually strengthen this model, we would actually go in for larger store and closed down smaller stores. What we are anticipating is that we may actually go for closure of some smaller stores and consolidating them into larger store in cities because not only the economic is better, the customer experience is better too.

Moderator: Thank you. The next question is from the line of Rohit Balakrishnan from Vriddhi Capital. Please go ahead.

Rohit Balakrishnan: Sir, thank you for the opportunity. Just wanted to understand, a couple years back you were trying to reduce, because at that point of time, the situation was different there were demonetization and there were other issues related to pan card and now we are trying to increase overall ASP as well, I just want to understand from that point of view, do we think that what we were doing two years back, there has been significant change in the environment is that what is prompting us, if could just comment with that?

Yashovardhan Saboo: Rohit, if you have other question, why do not you finish all of them and so we can answer all of them together?

Rohit Balakrishnan: The second question was, I think two years back or year and a half back, situation globally India was very competitive in terms of luxury watches, so what is the current situation in terms of pricing differential especially with the higher price watches if you can specify that and thirdly just wanted to get an update on the proposed de-merger or separation of Ethos, if you could just update on that?

Yashovardhan Saboo: On the first point, after demonetization and pan card requirement, of course there was as expected a decline in the very high price segments above 2 lakhs, people are getting used to it, but even at that time, we had said very clearly that we expect this to be a temporary phenomenon. The overall growth in India of the aspiration class and of the high price watches, will continue and quite frankly two years after demonetization and pan card requirement, the people are getting used to it, so we are seeing this growth in the last year, this year has been a subdued sentiment, but we are stating here again we believe this is a temporary phenomenon, we are seeing a revival and we believe we will have a very different situation on the next fiscal that we will see a strong growth and the strongest growth will come in the higher price segments, as I mentioned in response to an earlier question, the segment below Rs.50000 is continuing to be challenging because of the competition from smart watches, Apple and various others, which are growing significantly whereas price segment about 50000, 1 lakh, 2 lakhs these will still remain the domain of luxury watches is Swiss watches and the segment, which we were in. I would also say that the e-commerce segment is going to mostly impact the segment below Rs.50000, so I hope that answers your question. It not that our strategy has changed, we expected that post demonetization to be temporary that was proven in the last year that there is revival and the current let us say sentiment, which is slightly negative is also temporary phenomenon and this will also you will see a strong growth next year. Your second question was about price competitiveness for India, yes, India still remains the most competitive market for 90% of the brands in the higher price segment especially after you consider the discounts that you can get from most India retailers. On the de-merger I has answered this point in detail in response to an earlier question from Saurabh, but I will just mention it again. I think we are awaiting for a response from KPMG, the legal constraints that come in the way because SAIF partners, which is an investor in KDDL will not be able to hold shares in a listed Ethos, which is a multi brand retail, so KPMG is working on various options and if any of them require a prior approval from the government, any structure, we would need to go in for that.

Rohit Balakrishnan: And just one question last for a follow-up, online sales have seen 30% for the last three, four years, so do you think that there is a scope of that increasing in the context of us going for a higher ASP, so does that change?

Yashovardhan Saboo: Rohit, I do not think, we have seen this level at about 30% remaining stable, I do not think this will increase because our platform is only channel. Our leads bring in walk-ins and generate sales and walk-in the stores connect to the website, so I do not expect this to be changing too much.

Rohit Balakrishnan: That is from my side. Thank you, all the best.

Moderator: Thank you. The next question is from the line of Saumya Mehta from Ardeko. Please go ahead.

Saumya Mehta: Sir, thank you for the opportunity. Just wanted to understand the current supply situation in terms of especially in Rolex?

Yashovardhan Saboo: The situations or supply from Rolex has improved. Saumya, this is again I like to emphasize that is not an India phenomena, it is not an Ethos phenomena, it is a global phenomena. The supplies of Rolex watches across the world, I would not say supply, but there was excessive demand and therefore the allocation to many countries was bit lower, but this has improved and we believe that from here on it will improve and our total sales in this year should definitely not be lower than the previous year for this brand, there would be some growth.

Saumya Mehta: What about supply restriction from other brands for the last quarter?

Yashovardhan Saboo: I do not think there is a supply restrictions for most of the other brands, again, you know in particularly for some models there is always that issue because the new releases, sometimes get delayed or if there is an excessive demand for some new releases, India is not a high priority market, so there may be some delays, but in general there are no issues in supplies of any other brands.

Saumya Mehta: Thank you so much. That is it from my side.

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

Vishal Gupta: Sir, just wanted to understand from you that, the exclusive brand sales have been going up and your margins are being going up, it is reflected in gross margin, but EBITDA has come down, is it primarily because of new store openings, I see there is employee strengths have increased almost 3 Crores in the first half of the year and other expenses by 3.5 Crores?

Yashovardhan Saboo: You have any other questions, Vishal, may be you can ask?

Vishal Gupta: This is the only question.

Yashovardhan Saboo: Yes, that is significantly true, a lot of expenses have come in, which are associated with the new stores and remember these are the large flagship stores, while their sales are still to kick in, most of them as you saw six of the stores were started in Q2 in fact lot of them towards the end of Q2, so all the expenses are already in, but the momentum is still to build up, which is now starting to build up.

Vishal Gupta: Would the gross profit of the same stores though the sales are down 9%, but the gross profit on absolute basis would have gone up for each of these stores?

Yashovardhan Saboo: The new store, so I not sure for the new store how would you, what is the reference point of the profit going up.

Vishal Gupta: Because your gross margin has been going up because of exclusive brands, but your revenue has been coming down, is the same store gross profitability higher?

Yashovardhan Saboo: What is meaningful is to look at this figure without Rolex because Rolex obviously contributes to a large part of the shortfall in Q2, so we should really look at it without Rolex. Overall House Brands Gross margin has increased by 39% whereas there is a decline of 27% on Rolex Brands leading to an overall growth of 6% on Gross Margin.

Vishal Gupta: Thank you.

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

Arshad Mukadam: I wanted a figure of the contribution of cognition to the Ethos revenues and EBITDA?

Raja Sekhar: The entire sale of cognition in the current year was actually to Ethos only, so there is no contribution at a consolidated level.

Arshad Mukadam: So, there is nothing from cognition?

Raja Sekhar: From external customers there is no sale

Arshad Mukadam: Got it. The next question, if I look at the payables date if I compare from last year to this year, I think those were over 100 days in FY2018 and FY2019 is fallen to below 80 days, could you give the reason for this, there is some sort discount we are getting for paying early?

Yashovardhan Saboo: Yes, that is absolutely right. Many of the brands have in fact given some extra margin for early payment and wherever possible we will try to avail that partly there is also response for the increase in gross margin, so basically you are absolutely right.

Arshad Mukadam: The last question, if you can give the gross profit figure for the exclusive brand and non-exclusive brand steady?

Raja Sekhar: No, we will have to get back to you on that.

Arshad Mukadam: Thank you.

Moderator: Thank you. The next question is from the line of Swati Mehra from Sixteen Ventures. Please go ahead.

Swati Mehra: Yasho, I had two questions, one was on the online segment, you just mention for one of the previous question that we see the set hovering at about 30% of the overall billing, so I had two questions on this, one is that, what is the percentage of the transaction billing, which we were doing vis-à-vis the lead chain out of this 30% and follow on to that would be that given that the online pieces really giving us the leverage with respect to inventory, are we looking at migrating more higher price brands on a transaction platform or do you think that will continue to be on a lead gen model?

Yashovardhan Saboo: In order to explain your first question, not very clear Swati, sorry about that.

Swati Mehra: Yes, so when we say 30% of our overall billing is online, how much of that is actual transaction, so on the platform and how much is then you request an offer, do we track that separately?

Yashovardhan Saboo: So, just to tell you this 30% figure is actually sales that happen from leads, actually online transaction is a very small part of it because mainly this is restricted to price points below 20000 to 25000, the higher price points mostly the people would like to prefer to visit the store and look and feel the watch themselves before deciding to go ahead, so direct e-commerce as you say it is actually a very small part of this 30%, it is about 4% or 5% direct e-commerce, mostly this is lead generation sales.

Swati Mehra: So, what is your thought on that just on that 4% to 5% about 25% is lead gen, which is because of the fact we are opening because of the price points above 30000, is there an approach where we are actually going to open that up as we move forward?

Yashovardhan Saboo: It depends on a couple of things, first important thing is that the brands that we have been talking about should be comfortable with it, some brands are willing to open higher price point for e-commerce others are not that is one problem. The second issue is even where brands are willing to open it for e-commerce, they usually specify that the e-commerce you cannot give any discount because you cannot mention discounts online that is the problem worldwide, now obviously on brands where you know there is a discount of 5, 7, 8 10% sometimes even more if online you do not offer a discount, sale is not really going to happen that is the second point. Again, this is more relevant to higher price points than lower price point and third and most important, we ourselves see that even in brands, which are allowed and I have given the example of some, I think in the previous call, I do not want to name the brand, but the brand in the price point of about 25000, we switched it from lead gen model to direct e-commerce and we would not take calls of people who wanted to discuss that watch because you go onto the e-commerce model, you buy directly on e-commerce and we ship it out to you, so here we actually saw sales fall significantly and the reason is that above a certain price point, people like to discuss about the watch, they want to go and see the watch, they want to talk to the sales person and be able to assess the watch, actual look and feel against other watches before they go in for the purchase that is the reason. Again, this is not something new, this is worldwide, this is the phenomena and therefore, the omni channel platform is what we have chosen and we believe it is the right platform, so I do not believe that there will be an early move the people will go on to buy a lot of one lakh and Rs.2 lakhs watches directly on e-commerce, there may be exceptions very few, but I think the model will largely remain, you do your research on the net, you discuss on the net at the convenience of your home, but finally when you want to buy the watch you want to go to the store, talk to the people it is also the experience, you know when you are buying an expensive watch, it is a little bit you want to go, you want to learn about it, you want to experience the store, you want to feel like a VIP in the store, which is not easily possible if you are just getting by e-commerce.

Swati Mehra: Fair enough and just a follow up question, are we also apart from getting into pre-owned segment in a more deeper way, are we also looking at parallel segment, which will allow us to leverage the premium or audience, which is walking into our stores, so may be having segment actually?

Yashovardhan Saboo: Parallel segment you saying other products?

Swati Mehra: Yes, other products, other than watches?

Yashovardhan Saboo: So, it an another interesting question and you know, in the past we have pondered about it, we got in to in writing instrument, the fact of the matter is, there is no greater opportunity than watches. To be very honest, we have looked at writing instrument, we looked at eye wear, a lot of other products and while we are not saying no to it, the reality is that having looked at it, we do not see why we should spend time and resources on building that than consolidating and growing the watch business, which is really our strength and there is so much more to be done over there, increasing our market share, increasing the service that we can do, I will give you an example, a flagship store of ours in the very first year will do them 20 to 30 Crores of sales right, and an eyewear store or a writing instrument stone, even in the best mall, you put up a very good thing, it will give you a turnover of 1 or 2 Crores in the first year or 3 Crores, so you will have to open them 40 to 50 stores instead of three or four or five flagship stores in the watches to get the same turnover may be a little bit better profitability. The market for watches on the other hand in premium and luxury segment I think there is a huge opportunity also because there are no scalable competition, so time and again we examine this question and we come back, let us focus all our energy on this segment and you know, for example, preowned, there is nobody else who look at it, nobody else in all India presence and it will requires an all India presence for that credibility, so why not just focus all your energies into doing what we are doing, what we know very well, and guiding to something else only after we have exhausted most of the potential here, that is my current thinking, stick to thing and be the leaders on that, we believe that will give us the greatest sustainability and profitability.

Swati Mehra: Fair enough. Thank you so much. That is all from me.

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

Lalaram Singh: Again Sir, my question is to Mr. Raja Sekhar, in FY2019 if I look at numbers, there was a sharp increase in I think back in employee cost some around 11 Crores to 19 Crores, there was a jump in employee expense within that you just split a front and rent and employee, so we can figure out the backend employee cost, so there was a sharp increase and generally, we have seen historically this number remains stagnant for two to three years and goes up and I believe FY2019 was one such year, so can you just give us some colour on where this was basically invested and how do we see this number going forward?

Raja Sekhar: At backend right.

Lalaram Singh: Yes, within store employee, there is a store level employee and there is a backend employee cost?

Raja Sekhar: Backend cost are not just employee cost, there are other cost, manpower is just one of them, there are infrastructure cost, there are other costs that are included within the number. Having said that your analysis is right the fact that it is there about 7% of the entire sales of the company as of now.

Lalaram Singh: The 7% is?

Raja Sekhar: Of sales.

Lalaram Singh: So, this is the overall employee or backend employee?

Raja Sekhar: It is a overall backend cost including the employee cost, so these are costs that are primarily backend cost but they are also include infrastructure cost, we also include such as exchange rate fluctuation expenses all of these are included as a part of the backend cost, historically they were at the range of about 5% to 6%, this year it has gone up to about 7%, owing to the fact that there have been normal increases in the cost, but the sales have actually declined at an overall level. Going forward, hopefully in the current quarter and in the balance period of the year, we will start seeing an increase in the revenue, which will then bring down this cost as a percentage of the overall sales to the 5% to 6% we have been seeing previously.

Yashovardhan Saboo: Let me just intervene over here, your analysis is correct, now the infrastructure, we have built up whether it is, so for example, lot of the offices including the operations offices they shifted really, so added an infrastructure cost over there, they moved from Chandigarh right so, also to support the flagship stores, we invested in a lot more on the marketing because marketing in big cities for the flagship stores, the marketing infrastructure was built up including the structure for pre-owned watches, so lot of the infrastructures, which was built up to prepare for the growth in some of the new segments and new stores, unfortunately from an estimated growth of about 20% year-on-year, actually we were all most flat in fact there was a de-growth on an overall basis, so obviously the infrastructure felt heavy; however, as we get grow back get back to the 20% growth we will see this correcting itself, that said we are also looking at ways that we can cutback on this wherever necessary.

Lalaram Singh: Got it, so there is no material change in the number of people in the corporate office, is it like you have the watch experts or people who work in the call center something of that sort, has there been any significant change to talk about in the numbers?

Yashovardhan Saboo: There is a change, there is an increase I do not think it is significant, I think it is really to prepare for the growth. On the marketing side, yes, there has been in the service and pre-owned watches, so for example, in the pre-owned watches just to give you an idea, on the pre-owned watches we need to get people who are trained traders. If some one calls and says he has a pre-owned watch, people have to be trained quite a lot to be able to assess whether the watch is genuine, what would be the realistic value, what would be the resale value, you can imagine that it is like a training for a trader and this requires almost six months of training before the guy can actually start trading, so there are these infrastructure cost, which had been built up and again, on house brands because we are anticipating house brands, now eventually it will come 30% of our business currently it is about 22%, we had only two or three people in the merchandising section for house brand, we have now divided the 20 odd house brands into 5 segment and we have five merchandisers because each of them now has the responsibility to grow its brand to Rs. 15 to Rs. 20 Crores brand. Eventually by the time we hit Rs. 1000 Crores of business and 30% is coming from house brand, that Rs. 300 Crores business from house brands and when we are talking about 20 house brands, which is on the right size we are talking on an average house brand sales of Rs. 15 Crores that concentrates four brands with one person, so all of these are things, which you need to prepare in advance and we believe that these are very, very significant steps which will help us to continue this 20% growth. I think it is coming back, if we are looking at a quarter and H1, which has been unduly subdued, but I think growth is coming back and we are well prepared for that.

Lalaram Singh: Absolutely, fair enough. Second is in the preowned, I see some models in the website, so have we done any sales in this quarter in the preowned business?

Yashovardhan Saboo: Yes, sales is happening in the preowned business, we are currently restricted to buying watches that we have sold in the past because there are legal restrictions we do not want to buy any watch unless it comes with paper, so we have sold all watches with papers, we know that if this is the watch we have sold, we can buy it back that restricts us a bit, but once we are successful to get the amendment in the law on this particular point, I think this will certainly grow.

Lalaram Singh: So, we had made some transactions sales in preowned?

Yashovardhan Saboo: Yes, we have.

Lalaram Singh: Is it fair to say that, the gross profits, which we are earning there is higher than the blended gross profit of the business today?

Yashovardhan Saboo: Yes, it is.

Lalaram Singh: Got it. Few more questions actually, one is are we disallowed Swiss brands to sell Apple watches in your stores?

Yashovardhan Saboo: No, we are not disallowed, Apple at time had the thing of selling in a multi brand environment and I am not sure Apple is doing that anymore, they are not allowing sales of Apple watches in the multi brand segment that is one part, so we obviously we will examine this and so on, the other thing, an Apple goes on a margin of 7%.

Lalaram Singh: That is some bargaining power. Can I put in one more question?

Yashovardhan Saboo: Sure.

Lalaram Singh: This is with respect the core ROCE of the business and how we can attain that 20% mark, which is sort of holy grail, so within that one aspect is the inventory side, so as of today all our inventory is upfront or do we also have a SOR model?

Yashovardhan Saboo: The SOR model is extremely rare. I will say in the business most of the inventory is purchase.

Lalaram Singh: On the website, there are some models where you say in the sense that they would not be delivered upfront, so does it happen there is lead time where they could be a rare model, so our customer orders online and requests and then you actually purchase that brand, has that happened?

Yashovardhan Saboo: Of course, it happens. These are products that it does not make sense to stock then, we work with the brands to offer so when someone orders it, we order it from the brand and typically these are special in some way, collector watches and so on, but it happens all the time, the collectors who look for watches and we have ordered for them and usually takes between six to eight weeks to obtain the watch.

Lalaram Singh: Sir, to reach 1000 Crores revenues, what is the square feet, which you are looking to at what square feet level, today we are at 71000?

Yashovardhan Saboo: So, as I mentioned in an earlier question also I think square feet will go up or will not go up because we will close smaller stores and go for larger stores. We have not really figured out exactly how much would be needed, but our goal is in terms of number of stores you know earlier we were talking about 70 stores or 75 stores by the time to get a 1000 Crores, currently the thinking is we need not go to that much, we may actually restricted to less than 60 stores, but more of the 60 stores will be larger stores, flagship stores of the size of 2500, 3000 square feet like the Kolkata and Hyderabad stores, so large stores so that they become destinations. The store in Hyderabad, the store in Kolkata they are so larger everybody knows about them and you can give a better brand performance, you can give a better brand experience to customers, you can hold events there, so it become destination and basically a 3000 square feet store performs better than 400 to 700 square feet stores.

Lalaram Singh: Understood. Sir, so we need to raise money for this expansion or are we well funded now?

Yashovardhan Saboo: No, we do not need to raise money. Most of our stores generate cash and we believe can fund our growth completely from internal generation.

Lalaram Singh: Great. Thanks a lot and all the best, Sir.

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: Thanks very much for everybody for listening in and until next time, I wish you all the best. Thank you very much. Goodbye.

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