"KDDL Limited Q2 and H1FY 2018 Earnings Conference Call"

December 12, 2017

MANAGEMENT: **MR. YASHOVARDHAN SABOO -- CHIEF EXECUTIVE OFFICER, KDDL LIMITED AND ETHOS LIMITED**
MR. SANJEEV MASOWN -- CHIEF FINANCIAL OFFICER, KDDL LIMITED
MR. C. RAJA SEKHAR -- CHIEF FINANCIAL OFFICER, ETHOS LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to KDDL Limited Q2 and H1 FY 2018 Earnings Conference Call. This Conference Call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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

Yashovardhan Saboo: Good Afternoon, Everybody. I am very pleased to welcome you all for our Q2 and H1 Earnings Conference Call for FY 2018. As always, I am joined by with Mr. Sanjeev Masown -- CFO of KDDL Limited; and Mr. Raja Sekhar -- CFO of Ethos Limited our retail arm and also our Investor Relations Partners, Strategic Growth Advisors.

Earnings Presentation is uploaded on the Exchanges and on the Company's website and I hope, you have had a chance to go through it.

Let us start the discussion with the key consolidated financial highlights for the quarter and the half year.

Net revenue saw a dip of 1% from Rs. 224 crores for H1 FY 2017 to Rs. 222 crores for H1 of the current year. The flat revenue is actually a result of the GST implementation which we will discuss in a little more detail in the later part of the discussion.

The gross profit grew by 3% to Rs. 90 crores for H1 of the current year from Rs. 87 crores for the corresponding period in prior year.

The gross margin improved by 160 basis points to 40.3% for this period.

EBITDA grew to Rs. 12.2 crores and stood at 5.5% for H1 FY 2018 from Rs. 12 crores and 5.4% for the same period last year.

Consolidated EBITDA margin for the quarter was 7% compared to 2% during the corresponding quarter of last year.

PAT after minority interest saw a significant jump of 405% to Rs. 1.9 crores from Rs. 40 lakhs in H1 of previous year. PAT improved significantly on account of operational efficiency of the company.

The cash profit also saw a growth of 26% to Rs. 7.8 crores vis-à-vis Rs. 6.1 crores for H1 FY 2017.

I will share and discuss the performance of our manufacturing business during the quarter and H1 of the current year now.

As I had mentioned in our last earnings call, the global downturn in the watch industry has started to recede and sales in international markets are showing signs of recovery. Sales in India are also growing steadily.

Our standalone revenue grew by 10% to Rs. 72 crores in H1 of the current year from Rs. 66 crores for the corresponding period last year.

Revenue for Q2 was Rs. 39.6 crores, a growth of more than 25% compared to the corresponding quarter of last year signifying a very robust recovery.

The implementation of GST effective 1st July 2017 also contributed to healthy growth in the quarterly revenue as some of the domestic customers have deferred their off take in the last quarter that is quarter one to the current quarter.

Gross margin for H1 stood at Rs. 55 crores which is a growth of 9% Y-o-Y. EBITDA grew by 18% to Rs. 13.9 crores Y-o-Y with margin improvement of 130 basis points, 19.3% for H1 of the current year.

Profit after tax after minority interest increased to Rs. 6 crores from Rs. 4 crores Y-o-Y witnessing a growth of 42%. Consequently, cash PAT increased to Rs. 10 crores from Rs. 8 crores, a growth of 26% Y-o-Y.

Our watch component business saw a growth of 5.3% to Rs. 54.4 crores for H1 compared to previous year. If we consider the Y-o-Y performance on quarterly basis then we witnessed a growth of 15% from the corresponding quarter last year.

Our revenue from the precision engineering business grew by 45% Y-o-Y on half year basis and 71% Y-o-Y based on quarterly performance.

This very encouraging growth in revenue was witnessed in both domestic and export market. Our concentrated marketing efforts are now giving encouraging results and the flow of RFQ and leads both from physical and our digital marketing platform are improving steadily.

Regular showcasing of our capabilities at international exhibitions, focused digital marketing outreach and the enhancement of our technical capabilities is leading to being classified as a preferred supplier among many of our top customers.

We remain confident that this business segment will continue to witness a very healthy growth in revenue which will result in better profitability in the quarters to come.

The first phase of our expansion facility at KIADB Aerospace Park near Bengaluru (Bangalore) was delayed due to heavy rains in Bengaluru. In fact, due to unexpectedly, heavy rains combined with the work that stared for the runway 2 at the Bengaluru Airport which abuts this Aerospace Park. We actually experienced a very severe flooding of the entire area which set us back and stopped finishing of our facility there for almost 10 weeks.

As of now, we have shifted significant parts of our existing manufacturing facility to the new location and completed trials of the new electro plating set up. Complete relocation of the existing facility will be completed by the end of this financial year.

Now let us shift our focus to the performance of Ethos Limited, our retail subsidiary. Last quarter that is Q1 of FY 2018 saw a jump of 39% Y-o-Y on account of pre-GST clearance sales. The consequence of which was a subdued growth for the Q2 of the current year.

Therefore, a better comparison for this segment would be if we take H1 of FY 2018 as a whole versus H1 of the previous year.

The net revenue for H1 of FY 2018 stood at Rs. 153 crores vis-à-vis Rs. 157 crores for the same period last year. While this shows a de-growth of 2%, this is at least partly due to the change of the tax regime.

During Q2 FY 2018, GST tax on watches rose to 28% which was significantly higher than the VAT rates ranging from 12.5% to around 14.5% in the earlier tax regime.

However, since there were no changes to the MRP, a more comparable number would be on the basis of billing where we saw a growth of 2% to Rs. 179 crores from Rs. 176 crores in the corresponding period in the previous year.

The reported EBITDA stood at a loss of Rs. 1.4 crores versus a profit of Rs. 5 lakhs Y-o-Y. The de-growth in EBITDA was on account of one write-off of tax credits also as a result of the GST implementation.

We also had to book a loss on exchange rate of Rs. 1.37 crores compared to a gain of Rs. 0.26 crores in H1 of the previous year. If we exclude these expenses incurred during the period, we see a significant turnaround and a normalized EBITDA that stood at Rs. 55 lakhs compared to loss of Rs. 21 lakhs for H1 of the previous year.

As on date, our retail chain of Premium and Luxury watches now stands at 40 stores. We have opened new stores in Lucknow at One Awadh Center; two new stores at Pune at Pavillion Mall;

and one more additional store at Chandigarh at the Elante Mall. More openings are scheduled in the weeks and months to come.

Our exclusive tie-ups with brands is performing very well. As of now we have 14 exclusive brands with us contributing 13% of net revenue, a figure that is expected to go up steadily. Our online billing has increased to Rs. 57 crores in H1 FY 2018 from Rs. 55 crores in H1 FY 2017 a growth of 4%. And our repeat billing has increased to Rs. 52.3 crores for H1 this year from Rs. 32.5 crores for the same period previous year. This is mainly because of our omnichannel presence strategy and competitive pricing across our stores.

You will be aware that GST rate on watches was reduced to 18% from 28% since 15th November of this year. This revision was something that the watch industry has long sought, and it is expected to create a significant positive momentum in our overall business. We are already witnessing the first sign of demand pick-up in the watch segment benefitting the retail arm of our company.

With the revision, our watch prices are now extremely competitive with every other country in the world and in the case of many brands clearly among the best anywhere including Switzerland the country of origin.

These low prices plus the increase in advertising and publicity by the brands are expected to lead to higher sales improving our operational efficiency also leading to a faster churn in inventory and overall sales.

With all of this, we expect the Ethos profitability to return from Q3 FY 2018 and to end the year with strong numbers.

I now open the floor for questions and thank you once again for your participation.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We take the first question from the line of Jeetu Punjabi from EM Capital Advisors. Please go ahead.

Jeetu Punjabi: So few questions. One, can you give us a full product mix rationalization where you were moving away from the very high-end watches to more the mid segment watches. Is that process completed or is that still underway right now?

Yashovardhan Saboo: Okay. Jeetu, would you like to ask all the questions?

Jeetu Punjabi: Okay. The second question was, can you give us some color on what do you think the Diwali season has looked like and are you seeing an uptick in demand broadly? And the third question was, what is your expectation once the write downs are completed and out of the way because of whatever because of inventory stuff. The point you made that from 3Q we expect things to normalize. So what kind of margin do you see post that normalization?

Yashovardhan Saboo: So, Jeetu, let me answer the first question. Largely yes, in terms of rationalization of brand mix, I think that has happened for watches in the very high end. But as you know we have exited from brands like Breguet, Blancpain etc so these are all brands which essentially work in the price points above Rs. 20 lakhs - Rs. 25 lakhs and moving more towards the brands in the Rs. 2 lakhs to Rs. 5 lakhs segment. So I think, our purchases are definitely reflecting that. However, the fact that we still have had a stock of some of these high value watches means that in the selling process I can say that the process is on the way and it is more than 50% done but we will see the sales of these high-end watches to clear out the inventory for at least another couple of quarters albeit it will be clearly on a declining trend. As far as the Diwali season is concerned, what we are seeing is a flattening of the so-called Diwali buying. So Diwali is not really now an occasion for people to buy. But it is still true that quarter three is by far the most robust quarter. We believe this is happening not because of Diwali but general festivities and a lot of it due to weddings. Now, obviously, like every year the quarter three as been robust and I can already tell you that the impact of the GST coming down from 28% to 18%, the first sign of this are very positive. So we are looking at a very interest upturn in sales. We have experience this in November and we hope the same will continue in December and in quarter four which of course, is always a little bit lower than quarter three. You know it is a little difficult to sort of predict exactly what will happen because there is a wedding season and watch buying anyway picks-up. But I am very sure, the fact that today watches in India are cheaper than most other countries in the world and this is a across price point from Rs. 10,000 all the way up to Rs. 7 lakhs and more is making India a more attractive place to buy and a lot of might have been buying abroad are now considering India and we can see that shift happening. In terms of real figures, what would it mean? Well, let me put it like this that three years ago we were on an EBITDA of close to 5% and our first goal was to recover back to that level from the setbacks of the last 18 months. I believe we are well on our way to that and I hope to be able to share with you the good news of that over the next two quarters.

Jeetu Punjabi: Okay, excellent. Can I ask one more question? what is the story on inventories? I know they were heading down the last two three quarters, where are we on that? And what is your sense on that?

Yashovardhan Saboo: So inventory, that is one of the nicer story. Inventories you would see are in control, in terms of month of sale as well. Of course, for what we reported on at the end of June, you have to understand that there was a lot of pre-GST liquidation, so that was sort of artificially low. But overall, we are back on the trend to get down from 8 months to our ideal level of below six months over the next two years or so.

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

Lalaram Singh: Just have couple of questions. The first one is at margins. So you said that Ethos making around 5% margins in I think couple of years back. By the same time, you know at that our gross margin in Ethos were around 26% - 27%. So even they have come down significantly to 22% odd levels now if I exclude the GST quarter. So just want to know your thoughts on what has happened which has caused such a significant compression even at gross margin level.

Yashovardhan Saboo: Okay. Is that only question? Would you like to ask all your questions, or do you want me to answer this one?

Lalaram Singh: You can answer this one, I will get the second question.

Yashovardhan Saboo: Okay. I think, in previous calls also we have explained what really led to the margin contraction, there were a couple of reasons and addressing all of them, I think we came with a cocktail of strategies to counter them and we see all of them now falling into place. Let me enumerate the main part, (a) we wanted to do a margin recovery or to enhance margins by increasing the share of our so called exclusive brands where the margins are significantly higher than the other brands. Now the share of these so called exclusive brands which was about two years ago, it was below 4% this year it is already at 13% and our goal is to exceed 25% over the next 2.5 years. So this is weighted average basket of all brands. This is causing a significant movement and we can see that happening already. The second part was that margins were extremely low on the very high-value brands because discounting was very high over there. And once again, by excluding or removing some of these brands from our portfolio and concentrating more on relatively higher margin price segments in our portfolio that is also causing the margin to improve. Very significantly the creeping taxes at all levels, so there was Service Tax was increasing, set-offs were denied, so that caused a contraction in margin as well which frankly now the GST the new regime has taken care of that. So as a consequence of all of this and of course, better marketing from our side so much more focused marketing, marketing focused on brands and products will be of higher margins. All of this is leading to a point that we are starting to see the recovery in the margins. When you look at the overall weighted average some granularity gets hidden. But when you go into more detail, you can see over which brands, which product the margin is showing recovery and as those parts of the business take over, we will see the margin recovering. We are already seeing that happening in this quarter and at the end of this quarter when we report the result, you will be glad to see that the margins will show this recovery that I am talking about.

Lalaram Singh: Okay. So, the fear which we have is that is there a case some sort of decrease in bargaining power of Ethos over the Swiss brands or is it not linked with that? Is it more there to the environment in the country, so that is the main concern which we have, so does that fall?

Yashovardhan Saboo: I can tell you that on the contrary, I think our bargaining power with all brands has actually increased.

Lalaram Singh: Yes, that should ideally because on a scale but since the numbers are not reflecting that. So over the last three years we have increased our share of exclusive brands, all that has happened but still overall the margins have been trending down. So that just makes us wonder whether there is more competition…

Yashovardhan Saboo: Let me put some thoughts into you. Over the last two years the export of Swiss watches into India has declined and this is figures which are available from the Swiss watch industry and the decline has not been 0.5% or 1%, it has been a good high single-digit figure. Whereas, we have retained our sales and in fact we will show growth. So this is one clear indication that we are increasing market share. And this also means that we are increasing our bargaining power. Please accept also that the sales that we are doing is now concentrated on fewer brands doesn't include some of the very high value brand. So for these brands, we now constitute a larger part of their business in India. So overall, we can say pretty safely that our bargaining power has not declined. The fact that India is still a very small part of the world market share, in that for a brand as a whole if India is only 1% of its market and let us say we are 30% of that, it is still not very large for the brand. But for their Indian operation, we definitely have the most power. We expect the share of India to also grow very robustly over the next 10 years and as that happens and our share in India increases our bargaining power with the brand is likely to go up steadily.

Lalaram Singh: Okay. So, if I may ask, what was the gross margin in this quarter if you can comparable basis?

Yashovardhan Saboo: You mean previous year in this quarter?

Lalaram Singh: Yes. So, in this quarter what was the gross margin at Ethos level because I think, quarter one was really bad because of de-stocking, so that is a one-off. So, in this quarter what would be the gross margin at Ethos?

Yashovardhan Saboo: So the gross margin in Q2 was 28%.

Lalaram Singh: So this looks very high, is it I mean…

Yashovardhan Saboo: So, you figure it out, right when the gross margin is calculated on net sales, so what happen when the GST went up from the VAT of 12.5% or 14% to 28% and the MRP did not change, the net sales value comes down.

Lalaram Singh: Correct.

Yashovardhan Saboo: Right? So the margin shows a kick-up. True.

Lalaram Singh: Therefore I was trying to look for the comparable margins, right? I mean, this is not comparable with our Y-o-Y numbers, is it correct?

Yashovardhan Saboo: Comparable is also not easy because if you start the compare then you are looking again at weighted averages of transaction stock and stuff like that. But Sekhar, would you like to answer this? I have asked Sekhar to try to answer that question.

C. Raja Sekhar: Maybe a more comparable gross margin would be to compare is with billings rather than with net sales because the net sales showed an impact on account of the tax rates.

Lalaram Singh: Correct.

C. Raja Sekhar: If we were to do that then the margin in the current quarter would be so about 21.4% on billings**.**

Lalaram Singh: 21.4%?

C. Raja Sekhar: 21.4% on the billing figure, which last quarter was about 17%.

Lalaram Singh: Okay. So we have seen the normalization of margins in this quarter?

C. Raja Sekhar: Yes.

Lalaram Singh: Okay, understood. Secondly, at the EBITDA margin level, I just had one accounting question. so if I look at Ethos financial statements, I notice that we show bank charges apart of operational expense instead of financial expenses, is it correct?

C. Raja Sekhar: The bank charges?

Lalaram Singh: Yes, the bank is of around Rs. 3 crores, we have bank charges. So I think that we show as a part of operational expense, instead of financial expense, is it correct?

C. Raja Sekhar: Yes. So are you referring to the credit card machine charges?

Lalaram Singh: I do not know bank charges, is it link to I am not sure what is that link to so…

C. Raja Sekhar: There are two cost involved, one is the interest that we pay and the other is the bank charges we pay on account of usage of the credit card machines.

Lalaram Singh: That is true. So the interest expense pure is around Rs. 8 crores correct, at Ethos?

C. Raja Sekhar: Right, roughly yes.

Lalaram Singh: And this Rs. 3 crores entirely is because of the online transaction when the customer pays online. Sorry for card?

C. Raja Sekhar: **O**nline**,** EDC machines and other sundry bank charges. So this will not include the interest cost, but this will include expenses such as credit card making charges, payment gateway charges, and other bank related charges.

Lalaram Singh: Okay. So this is not linked to any sort of bank charges which are related to may be bank guarantee or inventory or some sort of that where we take guarantee no, right?

C. Raja Sekhar: It will. So other than the interest cost when we refer to the bank charges they will include charges for credit card machine, payment gateway charges and other charges such as bank guarantee, processing fees for credit facilities etc.

Lalaram Singh: Can we have a split of this 3 into say charges which are linked to more like payments through credit card and all and other link to say bank facilities or bank guarantees, is there a split available?

C. Raja Sekhar: Not right now but I can get back to you on that.

Lalaram Singh: Okay, fine. One minor question on Ethos expansion. What is the kind of expansion we are looking for in the next two years - three years in terms of number of stores and also the amount of CAPEX?

Yashovardhan Saboo: So to be fair we are now in the process actually of revising our goals very significantly as a result of this reduction in GST rate. I cannot over emphasis the significance of this change because at 28% we were in a situation where not only were we getting to the outrights from international markets but we were actually starting to see people going abroad and shopping and a decline in sales. By this coming to 18% we are now comparable to most places in the world and we believe this is the foundation of an extremely strong growth going forward. We are actually revising our growth plans and we are now preparing the blue print of a plan to grow much more robustly. Again, it is not really in place but pretty significant expansion over the next three years. Focusing on Tier-II and Tier-III cities where we see a lot of demand coming on our online marketing and the website.

Lalaram Singh: Okay. And how do we plan to fund this expansion?

Yashovardhan Saboo: It will require a CAPEX and we are sort of only at the first estimate levels, but this is very recent sort of development this 18% change. But we are in the process of creating completely new business plan for that.

Lalaram Singh: Okay. So can we expect any fund raising at either Ethos or at KDDL level for that CAPEX?

Yashovardhan Saboo: We will need CAPEX. I do not think it is something that is going to happening very-very soon. But once we have developed the plan, we will be able to estimate how much CAPEX we will need and how exactly it will be raised.

Lalaram Singh: Okay. I think they approved Rs. 20 crores of infusement from KDDL, right? Approve that, okay.

Yashovardhan Saboo: That is right.

Lalaram Singh: So that has linked to that expansion only.

Moderator: Thank you. We take the next question from the line of Ajay Vora from Reliance Industries. Please go ahead.

Ajay Vora: Just continuing from the earlier question. So most of the luxury brands which we will be housing right now, broadly our pricing would be more or less similar with the international prices or there would be difference in some of the brands?

Yashovardhan Saboo: Largely, we would be the most competitive in international prices.

Ajay Vora: Meaning we would be at similar levels or at 5% 7% premium also.

Yashovardhan Saboo: No, we will be cheaper.

Ajay Vora: You will be cheaper.

Yashovardhan Saboo: You know currently all the brands have dropped their prices by 7.8% approximately to pass on the entire benefit of the GST tax change. So with that price reduction with most brands currently, we are the most competitive in the world.

Ajay Vora: No. I am saying that say for example if we pick any luxury brand at the top end level the price which I would get in say Dubai or in Singapore, the price would be more or less similar in India as well at Ethos?

Yashovardhan Saboo: Yes, it will be cheaper in India.

Ajay Vora: So it will be cheaper?

Yashovardhan Saboo: Yes.

Ajay Vora: Okay. And suppose pre-GST where we shifted to 28% that was the recent times, but I am saying 6 months to 9 months back how was the pricing scenario versus the international prices for all your luxury plans?

Yashovardhan Saboo: See, the prices what they were at that time, they are now lower by about 8%. If they were 100 then they are about 92 now. So your question is however 92 is definitely below international you know…

Ajay Vora: No, sir that is below. But I am when it was 100.

Yashovardhan Saboo: Purchase level 100. So 100 was different for different brands and international prices do differ across geographies. But here again even at 100 I can tell you that post the negotiated discounts India was amongst the cheapest places in the world to buy luxury watches.

Ajay Vora: And it got cheaper after this recent price reduction.

Yashovardhan Saboo: We have become even more cheaper after this reduction. Before that also we were cheaper because the hit what we have been taking in the retail margin. In many-many brands you are able to get discounts of 15% - 20% - 25% nowhere else in the world you get that. I mean you were mentioning Dubai, if you go for a well-known brand in Dubai, you will not get a discount of more than 5% or 10%. Whereas in India people negotiate and are able to get discounts of 10% - 15% sometimes even higher. So post that prices were anywhere more competitive which means retail margins were squeezed and now the price is going down, they are actually very-very competitive. But you know it does not impact the retail margin.

Ajay Vora: Right. So broadly sir, from I understand you said that you will be working on a complete new growth plan over next two years to three years. On a ballpark-ballpark basis, what is the overall thought process for Ethos? Where do you see it post three years in terms of size, scale profitability? Because now if you are seeing significant traction post this GST development, generally what is the vision for this piece?

Yashovardhan Saboo: So what I like to think is we are back on the track that we have set out two years to three years ago. We got sort of way laid for 18 months - 24 months because of various things. But we are back on track. So what was that track, we were at that time growing approximately at 18% to 20% year-on-year and 10% to 12% same store growth that we are confident that we can try to get back to that kind of growth. We certainly believe the market will allow that going forward. I already answered about the margins, I think we were already at an EBITDA level of 5%. Our first goal is to try to hit that level. From there on, I see margin expansion continuing on a couple of reasons (a) operation leverage. If our sales grow at 18% to 20% and our cost will not grow that much, cost are under control, inventory is under control, operating leverage starts to kick-in and that adds to our EBITDA margin year-on-year. The second is a whole product mix change with greater part of the business coming from higher margin brands and a greater leverage that we get on our existing brands non-exclusive brands as well. We expect that to change into higher margins as well. So from a 5% EBITDA, enhancement of margin and we have set our goal at 9% or 10% EBITDA going forward, it is not going to happen in one year but over a three year - four year period that is definitely a goal.

Ajay Vora: Okay. And just lastly, similar to on funding the expansion plan. To what extent would you be comfortable on diluting the overall ownership?

Yashovardhan Saboo: That is a very important and that is a question that have been taken up from time to time and that is one of the question that will be on our mind as we decide on the next round of fund raise, we have to be very conscious of the dilution. We have to make sure that whatever we raised is used very-very efficiently. And we have to find a way to keep growing with as little capital infusion as possible. I think the question that you have raised, the issue that you raised is an important question and it is something which we as management have to respect which is of all the shareholders including the promoters.

Ajay Vora: Because my only thing is if we go by what you are saying in terms of now the opportunity over the next three years then diluting the overall ownership at current levels where we are and what we can achieve over next three years one has to be really mindful of that whole thing.

Yashovardhan Saboo: Absolutely. So we need to balance with the shareholders with the growth opportunity and it is actually very-very exciting.

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

Vikram Suryavanshi: Sir, basically, congrats for good numbers in standalone and strong recovery coming back in Ethos business. Most of my questions were answered. Just what are your views or what are the target gross margin post this revised tax rate for us?

Yashovardhan Saboo: So Vikram, it is still a little early because you know tax rate for revised from 15th November brands have taken some time to revise their MRP's it is starting to kick-in now. But as I mentioned that our first goal is to hit our EBITDA margin that we were hitting before this the setback came which is about 5% that would be the first goal and obviously that would be one of the gross margin also to climb back to the levels of 26% - 27% that we were achieving then. We see that as possible. It is a little premature to say exactly when that would happen. But going by current trends if they continue and as I said, I think we will have good news to share by the end of this financial year.

Vikram Suryavanshi: You said that we are shifting our manufacturing capability from existing location to the new location close to Airport. So will there be any some impact on revenue during this transition phase?

Yashovardhan Saboo: No, just to make it clear, first of all this shift relates only to our precision engineering business not to the watch component business. So there is no change in location for any of the watch component business. The Eigen Engineering which is the precision components business that is what is being shifted and that shift is happening in phases. Currently the Eigen business was spread over three location and that is all going to be consolidated into this one new location. So one of the units has already shifted and the second and the third unit are due for shifting during the next two months to three months. We do not expect any significant negative impact on revenues due to this transition.

Moderator: Thank you. We take the next question from the line of Rohit Balakrishnan, an Individual Investor. Please go ahead.

Rohit Balakrishnan: Sir, most of my questions have been answered. I just have two questions. So first of all the outlook on Ethos looks very positive after a very long time so congrats on that. Sir, on Ethos what can perhaps upset the apple cart from here in your view? That is question number one. And question number two, if you can probably help us understand the manufacturing piece also I mean the margins have been steady in that business for a very long time, we are seeing some in Eigen as well. So if you can like to provide outlook for Ethos for the next three - four years, if you can also provide that business. Because I feel that business is also under appreciated by everybody at this point of time. So if you can just spend some time explaining what that business can also be in the next three years - four years.

Yashovardhan Saboo: Sure. So I will share a bit about Ethos side and for Eigen I am going to ask Sanjeev who is more intimately involved with the growth of the precision engineering business to share his views on where that a very exciting business can go. So your first question was that what can trip Ethos?

Rohit Balakrishnan: Right.

Yashovardhan Saboo: Frankly, I think we encountered every road block possible over the last 18 months. I think, we hit every pitfall that comes. So I am hard-pressed to think of what can still go wrong. I am sure theoretically we can think of many things but right now there seems to be a good confluence of the start. Macroeconomic consumer sentiment is improving. The tax rate and prices these are now well aligned. Our internal strategies are sort of falling in place. I do not want to make too many sort of comments about the competition. But I do believe that we are in a better position than any competition to benefit and move faster with all these changes happening. We are still maintaining probably increasing the gap between us and competition when it comes to understanding and utilizing digital strategies. I do not know if you visited our website. The app is now under development but for example, we clock more than 1 million visitors to our website in a month, which is streak side of anybody else and so all the leading indicators are actually looking pretty positive. What could wrong? I really do not know. I think it is only a question the speed of recovery and the speed of growth. It could be slower than what we are thinking, or it could be a little faster than what we are thinking. I think the way up is now pretty well-determined. So that is one. Coming to the manufacturing, the manufacturing has been a steady business. We have seen the impact of the slowdown in India and international market in the watch component side and also on the engineering side, but I think, that is fading away, we can see a robust growth coming back in India which by the way is reflected in figures of our largest Indian client Titan as well in the watch business. So you can see there is a macroeconomic sort of market level growth recovery as well. Globally too I think there is a recovery and we are in the process of taking several initiatives to move to the next level of this B2B business that we are in whether it is in terms of innovation with new product, whether it is in terms of flexible manufacturing or greatly reducing turnaround time, these are all initiatives that are now falling in place and we are pretty confident that not only will growth remain steady, but margins will remain steady as well. This I am talking mainly with respect to the watch component business. The Eigen Precision engineering business is another ball game because there the opportunity is far vaster than the watch component and therefore the growth is faster. As I mentioned in quarter two, we have grown 71% compared to same quarter of last year. So that points to the kind of potential for growth that exists over there, and I am going to just ask Sanjeev to share his thoughts because he has been participating in the international exhibition where we have exhibited, and we are gaining a lot of customers.

Sanjeev Masown: Rohit, I will share my views regarding the Eigen. I think, if you would have seen our past Presentation and the interactions which we had, the last two years we have been strategically focusing on increasing our marketing revenue from this business by enhancing our capabilities, showcasing our capabilities to the relevant forums and the customer. So last year, with those efforts, we had already grown by 28% and this year the H1 the growth is more than 45% whereas in the quarter it is (+70%). Now the way we see now the RFQs are there and the leads are coming both from the domestic as well as the international customers, we are becoming more like a preferred supplier for most of our customers. Reason being, that we have become a single solution provider for most of their requirements whether it is from the tooling to the stamping of the part, injection molding, over molding and in some cases even the partial CNC machining and now we have done electroplating and all. So in a way we are adding additional capabilities as well as doing the backward integration and doing some of the processes which we earlier used to outsource. So in the engineering segment the customer gets almost all the solutions from us. So with those things are in place and the good customer base and our strategic focus and marketing effort. We are confident that this growth which we have seen in the last couple of quarters, it is possible to maintain that, and it may be possible to even grow further.

Rohit Balakrishnan: Right. So sir, right now Eigen is how much percent of our overall manufacturing revenue to our Rs. 125 crores?

Sanjeev Masown: So it is around 20%.

Rohit Balakrishnan: About 20% and let us say in next three years, can it be more than 50%.

Sanjeev Masown: So in a way, in this business it is possible to grow more than 35% - 40% whereas the watch component safe figure is to take 8% - 10% growth. So now you can compute it.

Rohit Balakrishnan: Sure, right. Sir, just one last question. So on Ethos, so as you were saying now with the GST rates coming down, are you hearing anything from your partners in terms of brands? Are they also sort of looking at India now the next sort of area of growth which has not sort of lived up to its expectation in the last few years but have they also now firmed up their plans to expand and grow here?

Yashovardhan Saboo: Certainly. You know on a lighter note, I think they are still in a state of shell shock because for the last five years the international brands have been saying that taxation is very complicated. The several level of cascading taxes, nobody really understood, I mean half of us did not understand for a foreigner it was practically impossible to understand. And we kept telling that no-no we are representing with the Government, we are representing for taxes to come down and become simpler and every time there was tax change it actually became more complicated. I think we had given all hopes and then suddenly one GST then said shit, this is even more complicated and then suddenly the tax was down from 28% to 18%. So actually they do not know what will hit them but they are sort of still checking it is true. But it is sort of lighter note. I definitely believe that the brands will look at India as much more exciting markets and with very good reason. I personally believe that is going to be proven and true.

Moderator: Thank you. We take the next question from the line of Mukund Khetan from Sabre Capital. Please go ahead.

Mukund Khetan: So I understand that there was one CCPS that was converted into equity at Mahen. There is one more tranche which is a 12% CCPS completely held by KDDL and that is up for conversion by 22nd March, 2018. I wanted to understand the effective shareholding of KDDL in Ethos post this conversion.

Sanjeev Masown: So as far as the first conversion has to happen that has already happened which was of the non-promoter group which has happened I think one month back. Whereas this 22nd March conversion which will happen for the KDDL when we report the figures these are the complete considering the conversion of this holding.

Mukund Khetan: So the 74.25% holding of KDDL is on fully diluted basis.

Sanjeev Masown: It is already considered.

Mukund Khetan: Right. My question is if we were looking at OCPS as well on a fully-diluted basis, our shareholding should not have changed, right?

Sanjeev Masown: No. Because earlier this was of the non-promoter group through the Mahen which was happening that has earlier completely equity was with the KDDL.

Mukund Khetan: No, I understand that, if you are saying that the numbers we report, the effective shareholding of KDDL into Ethos is on a fully diluted basis, how does any conversion of any of these tranches change the effective shareholding of KDDL into Ethos?

Yashovardhan Saboo: The effective shareholding of KDDL into Ethos is reported based on fully diluted basis at Ethos entity level. But in case of MDL, it is considered on actual equity basis and not considering full dilution basis.

Mukund Khetan: Okay. Also I wanted to understand what kind of revenues do we book into Mahen?

Yashovardhan Saboo: Mahen is basically a distribution company, it was started off for having arrangements with various brands for the distribution of watches, it is relatively minor in terms of revenue as of now. Since the number of transaction that have happened with Mahen have been few. But primarily into the business of distribution.

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

Lalaram Singh: One question on the B2B manufacturing business, I can see a capital work in progress for around 13 odd crores, I think that is linked to the aerospace whatever that manufacturing facility which is into manufacturing or which is in work in progress?

Yashovardhan Saboo: Yes, it is.

Lalaram Singh: Okay. So overall the new CAPEX which we have done in precision engineering so what is the kind of revenue potential that has?

Yashovardhan Saboo: Let me understand your question, the new CAPEX that we are doing in the precision engineering business what is the revenue potential from that CAPEX?

Lalaram Singh: Yes.

Yashovardhan Saboo: Okay. Sanjeev, would you like to answer that please?

Sanjeev Masown: Lalaram, basically the CAPEX which we are doing will be helping us in the two ways, one is we are upgrading our tooling and the stamping capacity which enhance the revenue of existing capabilities. The revenue targets and the potential which is there, I have already shared with you. Number two, it will be helping us in reducing our cost of production especially related to electroplating which we were earlier also doing this electro plating process but earlier we were dependent upon the outside vendor which capability is now being done in-house. So it is helping us in both ways increasing the revenue as well as reducing our cost of production.

Lalaram Singh: Okay. So, effectively this is a mix of backward integration and also capacity expansion or new lines or new services, okay?

Sanjeev Masown: Yes.

Lalaram Singh: And the entire total amount which has been put is around Rs. 30 crores, am I correct, into all this?

Sanjeev Masown: Basically in the phases we are investing and when the project will be completed and whatever is planned it will be around Rs. 30 crores.

Lalaram Singh: So till now how much we have put?

Sanjeev Masown: Presently it is around Rs. 20 crores.

Lalaram Singh: Rs. 20 crores?

Sanjeev Masown: Yes.

Lalaram Singh: Okay.

Moderator: Thank you. We take the next question from the line of Deepan Shankar from Trustline PMS. Please go ahead.

Deepan Shankar: Sir in the manufacturing segment, presumably we were talking about a lot of markets have been under pressure, so particularly Hong Kong market was struggling with huge inventory. So just want to understand what is the current status, so structurally are we seeing improvement in standalone manufacturing business over second-half as well as over next two years in the watch component segment?

Yashovardhan Saboo: As you see as I had shared with you, the manufacturing standalone figures for quarter two are significantly better than the standalone figures for the previous year same quarter and also compared to quarter one. So there is a significant improvement there. And we expect the next two years to be pretty strong as well. We are starting to see a shift in tendency of international buyers to look at India as a competitive source to China. Something that we have been speaking about for some time. It has gradually the idea is being taking hold and over the next three years we will see gaining a lot of momentum.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants I would now like to hand the conference over to Mr. Yashovardhan Saboo for closing comments.

Yashovardhan Saboo: So, with this, I would like to thank everybody for participating in the earnings conference call today and I also thank our investor relations partner Strategic Growth Advisors for their guidance in this process. Thank you all everybody.

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