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Trading Symbol : KDDL

Scrip Code : 532054

Subject: Q2 FY2022 Earnings Conference Call Transcript

Dear Sir / Madam,

Please find enclosed herewith a copy of transcript of Q2 FY2022 Earnings Conference Call.

Kindly take the same on record.

For KDDL Limited

KDDL LIMITED

Brahm Prakash Kumar
Company Secretary

"KDDL Limited
Q2 FY2022 Earnings Conference Call"

November 17, 2021

Disclaimer: This document is subject to errors and may or may not contain words which have been included / omitted due to human error while transcribing the conference call. Any and all information should be verified with the company by the reader.

MANAGEMENT: **MR. YASHOVARDHAN SABOO - CHAIRMAN AND MANAGING DIRECTOR - KDDL LIMITED**

MR. SANJEEV MASOWN – EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER - KDDL LIMITED

MR. RITESH AGARWAL - CHIEF FINANCIAL OFFICER - ETHOS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the KDDL Limited Q2 FY2022 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 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, Chairman and Managing Director, KDDL for his opening remarks. Thank you and over to you Sir!

Yashovardhan Saboo: Thank you and good afternoon and welcome to everyone for our Q2 FY2022 earnings conference call. I am joined by my colleague Mr. Sanjeev Masown, Executive Director and CFO of KDDL and Mr. Ritesh Agarwal, CFO of Ethos and we also have SGA our investor relations advisors on the call, I hope everyone has had the chance to go through our updated investor presentation already uploaded on the exchanges.

Let us start with a quick overview on the overall business. We witnessed a strong recovery in the business during the Q2 FY2022 in both our manufacturing and retail businesses as the economy recovered back strongly after the second wave of COVID-19. There was encouraging demand in the manufacturing business as watch manufacturers increased their business operations leading to better order inflows and our retail business Ethos also posted a strong recovery in sales led by reopening of malls and complemented by strong online led sales.

A brief on the financial performance on a consolidated basis for the quarter, the consolidated revenue for Q2 FY2022 increased by 39% Y-o-Y to Rs.193 Crores consolidated EBITDA for Q2 increased by 33% Y-o-Y to Rs.23.2 Crores and consolidated PAT for the quarter increase by 76% Y-o-Y to Rs.6.6 Crores.

And now come to the manufacturing business which consists of watch components precision engineering and the packaging business. In Q2 FY2022 the manufacturing business revenue increased by 53% Y-o-Y and 15% quarter-on-quarter to Rs.53 Crores. The revenue share of watch components and precision engineering business for the quarter stood at 72% and 24% respectively. Revenue from watch component business increased by 53% Y-o-Y to 38.4 Crores and from precision engineering business by 33% Y-o-Y to 12.5 Crores. EBITDA for Q2 FY2022 increased by 84% Y-o-Y Rs.9.7 Crores and the profit after tax increased almost seven times y-o-y in Q2 FY2022 to Rs.4 Crores. During this quarter the demand both from domestic and export markets improved as most customers ramped up their operations as market conditions were reaching near normal levels. The major growth of the demand was witnessed from the exports market. We expect the positive demand to continue going ahead as the economy continues to unlock and manufacturers ramp up their capacity to cater to the additional demand. The demand from the Swiss market particularly remained healthy. The trend of declining volumes in the low price point continues while the higher price segments are growing strongly. We continue to move up the value chain on the back of an excellent product portfolio and service, catering more to the higher price segments. With this our product portfolio is aligned with the market demand and it leads to a higher overall profitability for the company. In our precision engineering business EIGEN, the demand was better compared to the last quarter majorly due to the robust demand from the exports market (excluding the aerospace industry), domestic demand continues to show a gradual recovery but with cyclical variations in different segments. We are witnessing a healthy flow of inquiries and RFQs from many large accounts and customers mainly in the export market and expect this trend to continue. These market developments give a positive outlook on the growth of our precision engineering business. At Estima our Swiss Hands manufacturing company the demand has been stable with a good recovery. We remain confident that in the coming quarters with normalization and improvement of market conditions we will see healthy growth of revenue and turn around to profitability in this business. We expect all our manufacturing businesses to continue the growth momentum and post healthy growth across the major markets and economies. During the current year KDDL has raised Rs.25 Crores through a rights issue and the proceeds of the rights issue was planned to be invested in the material subsidiary Ethos to the tune of 18.75 Crores and the balance was for general corporate purposes. The company has already utilized the amount allocated for general corporate purposes and the investment in Ethos will be done by participating in the rights issue of Ethos limited. The board of directors of Ethos has already approved the rights issue of the amount not exceeding Rs.25.5 Crores by issue of up to 4.58 lakh equity shares of Rs.10 each at a premium of Rs.540 per share. KDDL holds about 77% in Ethos both directly and indirectly and it will participate in the rights issue.

Now I come to discussion on our watch retail business Ethos as I mentioned in my introductory speech the recovery in the ethos business was led by reopening of the stores and a strong online led sales across the country in Maharashtra the malls were allowed to be opened only months later and even then on the fully vaccinated staff and customers were allowed to enter despite these challenges ethos posted a strong revenue growth during Q2 on Y-o-Y and quarter-on-quarter basis even if you compare pre-COVID quarters our Q2 FY2022 revenue is up by 28% as compared to Q2 of FY2020 that is the year 2019-2020 that is the pre-COVID here and our H1 revenue compared to the pre-COVID is up by 8% this as I mentioned despite the fact that the first quarter of the current year was witnessed a complete shutdown in the country and up to the middle of the second quarter Maharashtra remained under lockdown. Our profitability was impacted if you compare with last year on account of normalization of operating expenses. In H1 of the current year the rental waiver has been much lower at about Rs ~.2.6 Crores as compared to over Rs.~5 Crores in H1 of FY2021. We continue to see an even stronger performance in Q3 on the back of a good festive season the upcoming wedding season is further expected to boost the demand from luxury watches and luxury watches continues to be one of the best gifting options during this wedding season.

One of the key highlights which I would like to mention as it is already mentioned on our website is that we have signed an agreement with some new luxury watch brands this includes Bovet a very well-known brand with several prestigious international awards and I may mention that one of the award is the most prestigious “Aiguille d'Or” which is the best watch of the year awarded by GPHG that is the world's most prestigious awards so Bovet won this award for the best overall watch in 2018 and of course they have several other awards as well. We have also signed agreements with other high-end luxury brands such as Czapek and Armin strong both being in the ultra high-end luxury space this is in line with our strategy to build our exclusive brand portfolio which will need to improve profitability and also to shift our weight into the ultra high end segment which is moving strongly globally. One of the most awaited flagship store of ours at the JIO world drive mall in Mumbai at the Bandra Kurla complex area was inaugurated during the month of October. This was ready in the month of March of this year but due to the extended lockdown we could not open it, it is now open and has received excellent response. We will continue to follow the strategy of opening large flagship stores which will offer a great experience to customers it will attract higher footfalls and generate much higher revenue profitability and year-on-year growth as compared to smaller stores. One of the most important factors with strong recovery is also on account of our efforts to keep building on our digital capabilities having a well-established digital presence has strongly yielded up results giving these times of COVID when we were suffering from lockdown and other disturbances we recorded a robust quarterly online billing at Rs.52.9 Crores in Q2 FY2022 online billings contributed about 34% of the total billings in this quarter. Although the sales will grow strongly from our retail channels as well however we expect a digital presence to continue to be an important focused area for us an omni channel strategy which ethos led over the last five years will continue to cater customers offline as well as online as per their preference in a seamlessly continuous way. We have been able to improve our stock carrying months from 7.9 months in September 2020 to 7.3 months in September 21 on the back of careful planning of inventory and purchase decisions. As mentioned earlier the board has approved the rights issue of up to Rs.25.5 Crores in ethos which will strengthen our balance sheet we plan to utilize these funds for inventory in the newer stores build digital capabilities and on various business development initiatives.

Before coming to the financial highlights another new initiative that we have taken recently is signing up with Rimowa a luxury luggage brand of the LVMH group, ethos has signed a franchisee contract with Rimowa for the opening of the first Rimowa store in JIO world plaza in Mumbai. Founded in 1898 in Germany Rimowa is part of the LVMH brands portfolio since 2017, it is a global leader in premium luggage and essential tools for a lifetime of travel and it is a brand with a huge heritage since 1898. This is a very significant step for us because it represents our first foray into luxury goods other than watches.

Let me now give you the financial highlights of Ethos, consolidated total income for Q2 FY2022 increased by 27% Y-o-Y to about 137 Crores. Consolidated reported EBITDA for Q2 FY2022 was down 9% Y-o-Y to Rs.15.3 Crores consolidated PAT for Q2 was down by 20% Y-o-Y to 2.6 Crores primarily due to the impact of Ind-AS 116 stock at the end of September 2021 quarter was at Rs.212 Crores as compared to Rs.182.5 Crores in September 2020. As our financials are impacted by Ind-AS 116 our adjusted financials are published in the presentation which you can look at both for KDDL and Ethos. Our pre-owned watches business is which is being run through our website secondtimezone.com has also witnessed a huge increase in visitors in recent times it is the largest platform largest by far for pre-owned watches in India. We believe the pre-owned watch business in the medium and long-term has a great potential to scale up with a robust profitability. Our second time zone lounge in Delhi has also witnessed good interest we aim to become the most trusted and transparent omni-channel platform in India for trading of pre-owned watches and other luxury products.

With that I come to an end of my speech and I now welcome your questions and participation.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: I had questions on the new brand tie-up congratulations for that just wanted to know on the luggage side, will the unit economics be very largely different versus watches in terms of inventory terms asset terms or margins. Secondly if you could give some color in terms of what is really happening on the premium luggage side in India as in how big is the market for the leading players and what is the ethos plan over the next two years and what Rimowa can actually add over next to three years and how is that a franchise contract I thought that is a franchise agreement to sign with how is that different versus any other type of so that is the first basically large question?

Yashovardhan Saboo: Okay if there are other questions Rahul why do not you go ahead and ask all of them so we can answer them together?

Rahul Agarwal: Sure secondly on Bovet tie-up so as I understand it is exclusive to across so does that mean nobody else sells it in India that is one and secondly the idea for the company essentially was to get into higher price range and as you said it is for entry into larger share of exclusive brands ultra high-end watches so what is the price range of these watches that was my second question that is all really from my side.

Yashovardhan Saboo: Thank you so Rahul on luggage obviously so first thing about the brand Rimowa is of course as I mentioned an extremely well-known brand it is part of LVMH group which is the number one group globally and LVMH group acquired this brand a couple of years back I think about three or four years ago. It is starts at the very top end of business luggage and business-led high-end luxury luggage and travel accessories, you can see that their boutiques pretty much worldwide in the leading malls. I believe that when we open the boutique in Mumbai it would be the best offering for professional business and high-end leisure travel with I think the price point would be about 20% or 30% or a little bit more above their nearest competitor. The business I am not really going to be able to give you forward-looking figures on projection of sales but you asked whether the basic economics are very different from the watch business no they are not. They are not except one significant point is that the amount of inventory in terms of months of stock that we have to hold is probably going to be lesser because the range of stock is also lesser than so in a typical watch store we would hold at least 300 to 400 SKU that might not be the case in that case of luggage but otherwise the economics are not very different, whether when you talk in terms of margins or whatever I believe this has a very strong potential given the fact that in India we are just at the cusp of international business, business travel and so on I know that there has been a lot of interest in this brand we were not the only ones chasing this brand and trying to do this franchise with them. We are going to start with one boutique in Mumbai and hopefully this will be followed soon with another boutique in Delhi and then we have to then it is really we are in discussions on evolving the complete strategy for India. So again luggage was one, luggage like travel was one of the most severely hit businesses over the last two years due to COVID but as now travel is going to come back with the bang it is already back with the bang and we can expect a very strong takeoff when we start with this project. As far as Bovet is concerned yes it is a high price point watch is very exclusive, they make everything in-house and I will encourage you to check out their website and all the fabulous distinction that this brand has got their price point essentially start from around Rs.15 lakh and go all the way up to a Crore and often even higher they are specialized on these four they make a range of watches but if one wants an ultrahigh net individual wants then customized or wants a specific watch customized with special painting or special features, they are very well positioned to do that and yes it is exclusive in the sense that there is going to be no other party in India which will carry these watches. The first boutique with Bovet will hopefully open in the first quarter of next calendar year.

Rahul Agarwal: Got that Thanks for answering this Yasho just a follow-up on the Rimowa thing, could you help me understand any sense of the luxury premium luggage market in India I mean what is the size like?

Yashovardhan Saboo: Can I get back to you on this.

Rahul Agarwal: Yes sure alright I will come back in the queue.

Moderator: Thank you. The next question is from the line of Deepan Sankara Narayanan from Trustline PMS. Please go ahead.

Deepan S Narayanan: Thanks a lot for the opportunity and congrats for a good set of numbers. Firstly on Ethos side so we are quite happy to see the sales number increasing at a very good run rate but we are little more concerned on the fixed expenses which has gone up by 55% to 23 Crores so now as the stores are fully opened now our total expenses have been fully recognized so therefore we can assume that incremental revenue audition will contribute maximum to the profitability? Our total fixed expenses like employee cost and other expenses put together has increased by 55%, this quarter for year-on-year so now as the stores are fully open so we can assume that costs have been recognized fully so incremental revenue addition will be mostly coming down to profitability is the right assumption?

Yashovardhan Saboo: Partially yes because you are comparing with last year right so last year there was a huge rental waiver that was given by all malls which has not happened in this half year especially not in Q2 because last year practically all malls gave 70%-80% some more even gave 100% waiver for several months that is not the case this year because the malls also have suffered so that is one big reason so to that extent yes the costs are now what you are seeing is normalized despite the fact that the sales was impacted this year the sales was impacted by the closed down but the costs were not that much lower, on manpower cost last year we had reduced manpower and also enforced some salary cuts during the first half of the year like most other companies in the retail business this year we took a very conscious decision not to do that and whether a store was closed or not closed there were no cuts in salary and of course so that the costs were very normal so in a sense what you are saying is correct the cost base is the normalized cost base and of course as a percentage of revenue these costs will come down when sales go up in the coming quarters.

Deepan S Narayanan: Okay that is great and also this exclusive brand contribution what is that contribution for the current quarter and also what is the plants of capex for full year so we are adding few more stores in this luggage and also go with Bovet exclusive stores so what will be the capex amount for this year and next year?

Yashovardhan Saboo: The contribution of exclusive brands in H1 is about 26%. I have to mention that we took a strategic call to withdraw some exclusive brands from some third-party websites and platforms and that is a strategic move because we want to control the pricing of these brands more and want to offer much more through our own website so that has led to a little temporary depression in the sale of exclusive brands but this is temporary and we expect it to bounce back strongly and in a more healthy fashion within the next two quarters as far as the capex is concerned on the exclusive brands though the percentage has come down in absolute terms the value has remained the same and we expect a very strong bounce back in this quarter as far as your question on capex is concerned let me see if we have the figures of the balance capex but if were do so I know that store will not will not be figured out in this financial year it will probably start Q1 of the next financial year. The Bovet Boutique is already under fit out I expect the capex is not going to be very high in this financial year in the remaining part of this financial year probably of the order of about three to four Crores maybe a little bit more big max Rs.5 Crores.

Deepan S Narayanan: Okay Sir lastly from my side like so can you update us in terms of process for demerger or IPO which was planning for Ethos so when this process is expected to get completed?

Yashovardhan Saboo: This is under active discussion. we have been in touch with some advisors and we have been advised that we should be cognizant of the current healthy situation in the capital markets so this is under discussion and as soon as we have a final decision on this of course we are going to come back to you pretty soon.

Deepan S Narayanan: Okay thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Vikram Vilas Suryavanshi from PhillipCapital India Pvt Ltd.

Vikram Suryavanshi: Congratulation for a strong recovery and I think pretty strong in the manufacturing also . I think I have got answers for some of the questions but on taking further to the kind of recording we are seeing manufacturing how is it outlook for growth for decision as well as the watch or if you can hide it that was the one question and second you normally share the numbers towards also so for however the numbers for this quarter in terms of revenue and PAT?

Yashovardhan Saboo: Right for the Estima numbers I am going to reach out to Sanjeev He is on the call unfortunately we are not in the same place he is actually visiting Bangalore, the precision engineering company so he is going to answer that but your first question was on manufacturing and the outlook there. We are very positive outlook on manufacturing on watch components as I mentioned in my initial speech I think we are seeing a strong demand coming from the high-end segments in export and this is more profitable than the other segments so while the quantity is not growing the value is growing and the value addition is growing and that is good for us. On the precision engineering side again we are conscious of the fact that the growth in this business has not been as what we had projected earlier these things happen when you set up a new business sometimes your initial projections and thoughts have to be calibrated and re-thought. In the precision engineering business we are changing to stress more on the higher value and higher profitability segments like aerospace defense, electric vehicles and in similar segments and away from some other segments. We believe that there is a strong growth potential in this though what we realized is that in especially in the aerospace and defense there has been a slowdown going due to COVID but it is going to pick up rapidly, the gestation is not going to be very quick but I think you will start to see a great momentum after two to three quarters in the precision engineering. On Estima, I will ask Sanjeev Masown to update you.

Sanjeev Masown: Just wanted to know the revenue and the profitability of Estima for the quarter or H1?

Vikram Suryavanshi: Yes for the quarter as such?

Sanjeev Masown: This year H1 revenue is around 1.2 million revenue Swiss Franc. I do not have readily the quarter numbers but I can just give you an indication that in Q2 the revenue was almost double compared to the previous year same quarter. Decent growth in revenue is happening as witnessed in Q2, which was more or less normal quarter and with the normalization of the operations all the expenditure and the overheads is also back to the normal level. During the last year there was some reduction in overheads and some support from the government now we have a normal overheads and the revenue is also on the growth and normal levels.

Sanjeev Masown : Any more questions Vikram?

Vikram Suryavanshi: One typically also broadly how was the repeat sales in Ethos just for purpose?

Yashovardhan Saboo: In Ethos?

Vikram Suryavanshi: Yes in Ethos?

Yashovardhan Saboo: I think the repeat sales is I am going to get the exact figure for you but from what I understand it is pretty much in the normal region of about 33%-34% when I last saw it but I will get back to you with the exact figures, Vikram.

Vikram Suryavanshi: Yes thank you very much and all the best Sir.

Moderator: Thank you. The next question is from the line of Ronak Vora from Aum Fund Advisors Llp. Please go ahead.

Ronak Vora: One question on Ethos side, basically just wanted to understand our three to five year vision so do you want to create a luxury focused distribution channel for all the luxury brands out there like the way we are entering a baggage segment, are we planning to enter any other segments like eye glasses or something like that?

Yashovardhan Saboo: Okay so in three to five year vision yes we do have the vision too to expand to luxury segments outside watches. We believe that the experience we have in the luxury business, the experience to understand and manage luxury brands, our understanding and insight of the luxury customer in India, the creation of our omni-channel and digital platforms especially suited for the luxury business. It is not a FMCG or a fashion business luxury business has its own specialty and I think we have got great insights unique insights on that so we believe we can leverage this to outside the watch business, luxury luggage and travel of course is one segment as we assume as I mentioned we made an entry into this with the franchise of Rimowa but of course there are a lot of other closely related luxury segments as well and we are discussing and looking at various segments including branded jewelry, which is very closely linked to watches branded and internationally jewelry is very close and many retailers internationally retail watches also retail brands and jewelry so an extension into branded jewelry is pretty logical and we are looking at that and there are other segments also that we are looking at in the luxury segment and a three to five year region certainly captured that.

Ronak Vora: Okay so in terms of growth or offline focus for ethos so where do we want to see in the next three to five years is it like 3x or 4x going ahead or just to give a whole picture or what your internal targets are?

Yashovardhan Saboo: Well we would love to, we are ambitious and we continue to discuss how we can make our targets more ambitious and more aggressive I am not really sure whether we can share exactly what targets but I can assure you that there is going to be very strong growth going forward about two or three years, three years ago we have said that in four years we will four to five years we will hit our target is 1000 Crores turnover and 10% EBITDA, this was something that we spoke of about I think it/ was three-and-a-half years ago if you take away the two years gap years of COVID I think we are on that track and two years from now we should be close to those kind of targets but that is not the goal that is only a stepping stone. I believe there is a lot of growth left after that what I would like to say is also this India is just at the threshold of a consumption boom especially in the premium and luxury segments we are approaching the threshold level of a per capita income of $2500. It is around this threshold where disposable income and non-essential spending starts to takeoff, luxury spending starts a little bit higher I believe Indian GDP growth will meet with high targets of 8% or around that over the next few years. There will be a rapid growth in wealth especially in the higher segments and therefore there is reason to believe that in the luxury segment there will be strong growth definitely double digit growth probably more than just simple double digit growth it could be a healthy double digit so we have a very positive outlook on a few to five years timeframe.

Ronak Vora: And Sir lastly on reselling model so can you just give me a brief overview and what was the company so I am not sure when you are talking about this if you can just trash upon that?

Yashovardhan Saboo: So we have spoken about this several times and I would encourage you also to visit the website secondtimezone.com if you happen to visit Delhi do visit the second timezone lounge that we have that gets your sense it is not only the numbers that matter I think the finest and what we are trying to do which is very important in the luxury business. I would encourage you to sort of feel that as far as the business is concerned buying for pre-owned watches we buy pre-owned watches we refurbish them we check if they are authentic. We refurbish them we offer them for sale with a two-year warranty everything is done officially these are officially imported watches everything is sold officially and it is a business that is growing very rapidly not only in India but globally if you Google pre-owned watches you will see several global websites that have grown rapidly over the last three to four years and we are experiencing the same trend in India.

Ronak Vora: Okay Sir thank you.

Moderator: Thank you. The next question is from the line of Ronak Jain from Jain Capital. Please go ahead.

Ronak Jain: Couple of questions from my end, firstly what value addition you will be using the money to right issue in Ethos also secondly what can be the sustainable margins for the Ethos business once business normalizes? What is the sustainable margins for Ethos business once business normalizes post pandemic?

Yashovardhan Saboo: So the right issue of Ethos is at Rs.540 premium at Rs.550 total and that translates to a valuation of about Rs.1000 Crores and sustainable margins in ethos as I mentioned. Our goal is to get to an EBITDA of about 10% we believe in EBITDA of 10% to 11% is the sustainable margin in the ethos it will take some time to reach 10% about two years or so because we are still the operating leverages are now starting to kick in and the gross margin growth which comes from a greater share of exclusive high margin brands that is still playing out and over the next two years then we will reach this table.

Ronak Jain: All right.

Moderator: Thank you. The next question is from the line of Pratik Poddar, Individual Investor. Please go ahead.

Pratik Poddar: Hi Sir I hope you are doing well and keep repeating, just two questions Sir in your journey towards 10% EBITDA margin, what is the gross margin you are targeting that is question number one and second across your format in Ethos if you can just help me with the net working cycle and the inventory which is required to be carry just two questions?

Yashovardhan Saboo: So in EBITDA calculation I do not think the gross marks from where we are, the EBITDA is emerging as I mentioned largely due to operating leverage kicking in, yes gross margin changes a bit but again not very substantially from where we are due to the fact that a higher share of the business is going to come from exclusive brand which typically have a higher cost margin so that is probably going to be something like I do not know something I estimate about a half a percent increase in gross margins but a larger part is going to come from the operating leverage side of things.

Pratik Poddar: Got it.

Yashovardhan Saboo: And working capital so currently we have about four or five years ago we were at about nine months of working capital at cost currently we are about seven months I believe this is the level that we would stay at, paid inventory is less because we do enjoy credit period from brands which varies from 15 days to 180 days depending on the brand so paid inventory would probably be about four to five months. I believe this is the level where it would stay broadly I do want to add that this compares actually pretty favorably with global benchmarks on inventory levels in the luxury watch business globally they tend to be in the region of 10 to 12 months but of course globally since the interest rates are the cost of money is lower we need to be more circumspect, we need to be more careful about what we order what we stopped and I believe we can operate at a level 25% or 30% below or even more 30%-35% below what our global benchmarks.

Pratik Poddar: Sir if I may ask a follow-up this is the difference between paid inventory and inventory at cost of part of the inventory on return basis where it has been funded by brand owner?

Yashovardhan Saboo: No what is my inventory is let us say seven months but on an average if I enjoy two months of credit then my paid inventory is only five months so it is essentially the average credit period from my vendors.

Pratik Poddar: Understood Sir and the last question Sir watches is a very long tail business for that omni channel is critical with us not having an ad how much of a big business opportunity are you missing over there because it would be very critical for you?

Yashovardhan Saboo: Watches is a very long tail business.

Pratik Poddar: In the sense you need a lot of SKU's right it is not a standard so it is like books to be honest if I were to draw comparable it is like books and hence omni channel is something which is required right everything cannot be stored so from that perspective just trying to think about not having an app of our own and the opportunity which we are losing because of that?

Yashovardhan Saboo: Excellent question Pratik first of all an app is under development and that is one of the big moves that we are doing in fact last year an app a version was ready we were not satisfied our CEO Pranav was not satisfied, his aim is to create an app which is at global levels so we are back to that and I think next year you should see the app that is one point so that is a very, very valid point. Second mostly all watches are displayed in stores whatever we do not have too much stock that we keep in the warehouse and that is globally the scenario. In the luxury field it is not a very long tail business in the fashion watch business watches in Rs.20000, Rs.30000-Rs.100000 price point it is right but in the luxury business the reality is that most of the successful luxury brands that cutting back on their range they are not offering a very wide range. They are offering specialized products and I do not know if you know but in some of the top brands their top selling models are actually difficult to find so you cannot really go into a Rolex store and ask for every model, there are waiting lists and it is not only for this brand for several brands, they are waiting lists on their most popular models so the long tail is less valid now than it was let us say five years ago.

Pratik Poddar: So in that case going forward do you expect with seven months of working capital of inventory to go down further maybe to…

Yashovardhan Saboo: Ideally we would love to do that but you know it as much as I do that Indian customer today wants the same experience in a store in India as he would want in Dubai or Singapore or London right, they do not want a different experience now if they go into a boutique let us say an omega boutique in London and they see a range of 250 watches over there and if they come into an omega boutique in India and they see only 100 watches over there a selection even though I may be price it very competitively and even though I make it because do not worry I am going to get it for you in three weeks, the general reaction is India don't have that much range so if we have to benchmark ourselves with global standards. We have got to keep that range to make the Indian customer believe and truly believe that shopping in India is better than shopping of aboard. This is something which we have succeeded to do and that is why a lot of our customers are people who used to buy abroad but now they are buying in India because the price is competitive and the range is excellent so we would love to be more to cut down stock further but I believe it is more important to make sure that the experience we offer to our customers is the same it is better than what they get in a London or Singapore and I know a lot of our customers today actually believe it so I think it is a matter of balancing these two objectives.

Pratik Poddar: And for this luggage brand or will it be a part of standard or you will have a separate subsidiary like?

Yashovardhan Saboo: So again I mean how big it goes and what happens we cannot really predict at the moment but at the moment it is not planned as a separate subsidiary.

Pratik Poddar: Do you have all India rights for this it is a master franchise agreement for all India pan India or it is regional?

Yashovardhan Saboo: I am not in a position to divulge too much of that detail yet but as of now this will be the only boutique of Rimowa in India.

Pratik Poddar: Okay all the best thanks a lot.

Moderator: Thank you. The next question is from the line of Avadhoot Joshi from Newberry Capitals. Please go ahead.

Avadhoot Joshi: Thanks for the opportunity. One comment was of the withdrawn of exclusive branded watches from third party website in line to that I have also heard that there is shortage of exclusive brands in the market and I think this strategy of management is in line with same, I would like to know because going further this will add to the profitability I would like to have a view from management.

Yashovardhan Saboo: I think our strategy on exclusive brands is evolving and it is based on the success we are seeing, communication on digital platform we are successfully establishing the presence of exclusive brands in among the Indian customers and it is important that the credibility of the exclusive brands is not impacted adversely so and one of the aspects is to be able to control the pricing so as on third party website sometimes that is not very easy if a stock is held for a longer period of time more and so on and that sometimes leads to a problem because we do not want our brand's exclusive brand portfolios to be selling at huge discounts. We do not see the need for doing that because they are established and customers are picking up these watches that is also a feedback that we have from our brand partners in Switzerland or elsewhere who say look you are doing well why please do not discount the brand because it is somehow beyond the point it impacts the credibility so we want to control the discount we want to have a greater sale in how the brands are presented with what environment even on the online space and yes it is part of the evolving strengthening and evolving strategy of exclusive brands.

Avadhoot Joshi: Understood.

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

Lalaram Singh: Good evening team and very happy to see the recovery. I have lot of questions should I just ask them together. My first question is on the Ethos side the third party website I believe you are referring to the likes of Tata Cliq, Nykaa and even Myntra where we see a lot of your exclusive brand so firstly do we only put the exclusive brands list then on these websites number one can you confirm that and number two is what percentage of sales can we derive from these websites as of today of our whole pie then I want to know that ethos valuation after the right issue it means that it will be almost doubling compared to our last fundraise which was happening like around Rs.250 so actually it is more than doubling and even if I take book before that I think in 2018 when I believe Alchemy and other had invested it was 292 per share so even if I take that as the base it is almost 88% higher so I would like to know why we believe that the business valuation has doubled and that would be helpful then my question is on value unlocking in ethos is Saif partners holding the only deterrent for demerger which means that if they exit the KDDL completely will there be no further hurdle in demerging and listing, can you please confirm that my next question is on boarding Patrick Hoffman on the board, he is an esteemed individual and used to head JLC and also I think right now he is involved with a very big pre-owned global watch platform so I want to understand what is the kind of value, which we are expecting to derive from such personality and how that can help for us given that we are still largely an India based company more than pre-owned so are we looking to further go beyond India that would be helpful so a lot of questions are there but maybe if you can answer these then I have three to four more questions sorry for this long questions?

Yashovardhan Saboo: No problem so you are right about the third party. These are platforms like Tata Cliq and largely we are doing our exclusive brands on this, essentially because we do not really want to compete with other retailers who want to put on other watches. We want to have our own portfolio there but as I mentioned we want to control the thing better so we are being more discerning about which kind of platform we are going to feature our watches for the percentage of sales relevantly we will come back to you we need to get this figure I do not have it readily we will get back to you on this. On the question of ethos valuation as to why we believe the value as double frankly it is not only new believes, it is shareholders of ethos and I am a very small shareholder of ethos but the shareholders of ethos who believe that because we are expecting quite a great response on this rights issue so the reasons for the jump in valuation are actually pretty clear right, the previous valuations were all done at either a time when we were impacted by COVID. We could not see the future very clearly or it was on the back of one or two difficult years when we were still looking at all the regulatory headwinds and so on I think we are through with that we are looking at blue sky we are looking at all the leading indicators they are looking positive and I think there is every indication that you see macroeconomic if you see valuation of KDDL if you see the response to the right issue so as you know valuation is not an exact sign. It is based on assumptions but I believe we are not off the mark on this valuation because the reason for the increase in valuations are pretty clear. I think the proof of the pudding is in the eating and if the right tissue is successful and obviously this was discussed with the major shareholders of Ethos and their views were sort of taken before the Board of Ethos decided on a value. I believe the proof of the pudding will be in the eating and we will see that pretty soon. As far as SAIF is concerned I think the shareholding of SAIF is obviously the most important hurdle and frankly I have come to a point where I am saying here unless that is resolved there is no point in discussing all the various scenarios. There are various scenarios are possible but until the SAIF divests completely that from KDDL or there is a change of law, there is nothing to be done so let us come we will cross that bridge when we come to the point. We have discussed with SAIF on a number of occasions if they have any intentions of divesting right now it does not seem to be so but when they do then of course we will tackle this issue very proactively. Your last question was on Patrick Hoffman indeed a very valuable addition to the board, it is not only that we will get a international expert only because if we want to expand internationally our business is international, our business depends on relationships with global brands it depends on how Ethos is viewed globally today if you go and see globally top watch retailers you will see names like watches of Switzerland and I encouraged you to go and check out watches of Switzerland, it is a UK company, it is a listed company they did an IPO three years ago have a look at that it is comparable in its business strategy to what we are doing right similarly if you see Hourglass these are the leading retailers you see in Switzerland. These are the leading retailers and they are globally recognized we need Ethos if you want to grow and become the most powerful and the most respected watch retail luxury retail brand in India. We need to have that international outlook and for that we need to have these international associations for which just sitting in India is not enough so I think Patrick brings a lot of that international perspective and while there are no immediate plans to go outside India who knows I think this the coming generation of Indians, no longer recognizes the geographical boundaries of India. This is the great thing about the younger generation that okay India is we have to somehow grow within India I think the younger generation says wherever there is an opportunity we will go so I do not think we will have need pre-defined boundaries we have it is still early days I like to say that ethos is like a startup people say normally Ethos is 12 years old as a separate company yes but we are in a startup field, there is luxury watch business is there a startup in India so we are a startup right, the sky is the limit as far as I think so Patrick Hoffman is a tradition keeping the future in mind.

Lalaram Singh: Understood. Sir just if I can ask a couple of more questions. Firstly really love the way we explained the value addition of Patrick Hoffman in the sense that we thought needs to be valued by the brands and we need to be accepted well although we are present in India but I think that was something which so thank you so much and having been a shareholder for the past four years I have been a huge admirer of what we have been doing in luxury retail and the reason why I could sort of stick and shareholder even during the lockdown since there is nothing right was the fact that we have built such great capabilities of basically servicing the customers.

Yashovardhan Saboo: I got your message also thank you very much you have been a constant force you have encouraged us and you have also questioned us very much appreciated. Thank you very much please can you check on your questions because I think there might be some others who maybe wanting to ask as well so…

Lalaram Singh: Okay Sir I will keep it short. My question next would be I think only two, one is Rimowa so just want to understand that at what level have we thought in this, is this more like I mean the discussions with the brand and how has been around how many stores we need to open over the next 12 months or is it stay that we will open the one store and see how it goes, is that what the level of discussion is and number two is what are the gross margin?

Yashovardhan Saboo: So Rimowa for them India they are stepping here for the first time, for us the luggage business is a new field so in a sense you can say 15 years ago when we entered into the watch retail business we said this looks like a great field let us enter in and we started with one store today we are at 50. There are several brands who entered India with ethos when India opened. Carl F Bucherer was one of them, today it is at 14 or 15 of our stores we have remained the exclusive partner for the brand for the last 16 years so typically in a situation like this where the brand is entering India we are entering in a new segment, there are two of course the brand does not want to enter India to open only one boutique and we want to start a business to do only one boutique however it must start with one boutique there will be learning from this and we will go forward and hopefully we will expand steadily as we have done in the watch retail business so it may be in other segments as well. What we are clear is this going forward in segments like luggage jewelry other luxury products it will mostly be a very active combination of online and physical in fact the online platform will be a very important part if not the predominant part so and that is a sentiment that is shared mostly by all the brands which they are saying that we understand that while we may need a certain number of boutiques in the country for a physical presence for the luxury experience. The digital presence being able to serve the entire country through digital means is extremely important and that will be a central theme in our strategy going forward. It is difficult to place exact numbers but of course we have a lot of optimistic outlook on the luxury luggage segment as well as other segments that we arrived.

Lalaram Singh : Great thank you so much and as always best wishes.

Moderator: Thank you. Ladies and gentlemen due to time constraint we will take that as a last question I now have the conference over to Mr. Yashovardhan Saboo for closing comments. Thank you and over to you Sir.

Yashovardhan Saboo: Thank you very much. I thank everybody for joining the call and I hope I have been able to answer most of the queries in case that query is still remaining please contact SGA our investment relations partners we will get the queries and we will do our best to answer them very promptly. Thank you very much and have a nice day.

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