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KDDL Q4FY21 Result Update:

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DESCRIPTION	**Mar-21**	**Mar-20**	**YoY%**	**Dec-20**	**QoQ%**	**FY21**	**FY20**	**YoY%**
Net Sales	**178.2**	**137.3**	**29.8%**	**178.2**	**0.0%**	**548.8**	**652.3**	**-15.9%**
Total Expenditure	**150.9**	**125.1**	**20.6%**	**151.6**	**-0.5%**	**483.9**	**576.9**	**-16.1%**
Raw Materials	101.3	78.0	29.8%	108.6	-6.8%	323.5	377.6	-14.3%
% of revenue	56.8%	56.9%		60.9%		58.9%	57.9%	
Op. & Mfg Exp	23.7	22.3	6.1%	20.9	13.2%	74.0	97.0	-23.7%
% of revenue	13.3%	16.2%		11.7%		13.5%	14.9%	
Employee Cost	26.0	24.8	4.7%	22.1	17.4%	86.3	102.3	-15.6%
EBITDA (Ex OI)	**27.3**	**12.1**	**125.0%**	**26.6**	**2.6%**	**65.0**	**75.4**	**-13.8%**
% of revenue	15.3%	8.8%		14.9%		11.8%	11.6%	
Depreciation	10.9	12.2		11.0		46.0	48.1	
EBIT	16.4	-0.1		15.6		18.9	27.3	
Other Income	2.7	2.3		4.0		18.4	6.7	
Interest	6.4	7.0		6.6		26.8	28.5	
PBT	**12.7**	**-4.7**	**-366.9%**	**13.0**	**-2.7%**	**10.5**	**5.4**	**92.8%**
Tax	3.8	0.1		3.4		3.7	7.1	
Tax Rate	29.7%	-2.5%		26.3%		34.7%	129.7%	
Profit After Tax	**8.9**	**-4.9**	**-283.0%**	**9.6**	**-7.2%**	**6.9**	**-1.6**	**-523.5%**
Minority Interest	-1.1	1.5		-1.8		-1.2	1.0	
Consolidated PAT	**7.8**	**-3.3**	**-332.8%**	**7.8**	**0.4%**	**5.7**	**-0.6**	**-1077.6%**
EPS	**6.7**	**-2.9**	**-332.6%**	**6.7**	**0.4%**	**4.9**	**-0.5**	**-1052.9%**

Balance Sheet extracts	**FY21**	**FY20**
Net Worth	186.6	185.8
Total Debt	147.4	183.4
D/E	0.7X	1X
Debtor	40.8	28.5
Inventory	225.5	252.7
Creditors	87.1	87.3
Net W/C	179.2	193.9
Cash	36.2	28.5
Cash flow		
Cash flow from operations	90.2	64.1
Less: Interest	13.5	15.7
Operating Cashflow	76.7	48.4
Less: Capex	-17.8	-33.9
FCFF	58.9	14.5

Concall highlights:

- The momentum was increasing MoM till the second wave hit.
- But we believe that the recovery and bounce back will be same as we saw last year.

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Segment wise performance:

- **Manufacturing business:**

Particulars	**Q4FY21**	**Q4FY20**	**YoY%**	**Q3FY21**	**QoQ**	**FY21**	**FY20**	**YoY**
Revenue	50.5	40.7	23.8%	40.8	23.8%	146.8	180.6	-18.7%
Gross Profit	38.4	30.4	26.3%	30.4	26.3%	109.2	135.5	-19.4%
Gross Margin	76.1%	74.7%		74.5%		74.3%	75.0%	
EBITDA	12.2	5.7	114.0%	7.7	58.4%	23.9	29.4	-18.9%
EBITTDA Margin %	24.2%	5.7%		18.9%		16.3%	16.3%	

  - Revenue break up:

Period	Q4FY21	Q4FY20		FY21	FY20
Total Revenue	50.5	40.8		146.8	180.6
Watch components	36.8	30.8		104.2	129.3
Precision Engg	13.5	10.0		42.6	51.3

  - Seeing strong recovery on export side (60% of business) in components manufacturing led by growth in Swiss watches.
  - We are among the first watch components companies to get into digital marketing and social media that helped us gain visibility in large OEMs, and we are increasing our market share with them.
  - On domestic side, confident of demand recovering after a weak Q1. There will also be more opportunities from shift of domestic manufacturers from China to India. We are seeing that playing out now.
  - We are seeing a clear trend of increase in demand for high pricing point Swiss watches compared to lower priced ones, and we are accordingly structuring our product portfolio.
  - The precision engineering business is back to pre-covid levels and company is getting RFQ and enquiries from Auto and electrical segment while Aerospace and heavy engg is yet to recover to pre covid. Te second wave has led to loss of some business.

  - Estima AG (Manufactures watch hands for premium watches)
    - Reported revenue of 750,000 CHF (Rs. 6.0 cr) and EBITDA 215,000 CHF (Rs. 1.7 Cr) and PAT of 166,000 CHF (Rs. 1.3 cr) .
    - For full year FY21, Estima did revenue of CHF 2 mn (Rs. 16 cr) vs Rs. 1.8 mn CHF in FY20 (Rs. 14.5 cr). Did EBITDA of 134,000 CHF (Rs. 1.1 cr) versus EBITDA loss of 116,000 CHF (Rs. -0.9 cr)
    - Confident that in coming period the company will see healthy growth and will see healthy profits.

- **Ethos business:**

Particulars	Q4FY21	Q4FY20	YoY%	Q3FY21	QoQ	FY21	FY20	YoY%
Billings	142.8	104.5	34%	179.2	-20.8%	448.8	524.5	15.6%
Online of above						171.7	158.9	8.1%
Online as %						38.3%	30.3%	
Revenue	123.5	92.3	19.8%	134.5	-17.7%	388.5	460.2	15.5%
EBITDA	13.6	6.5	110.0%	17.5		26.1	23.0	13.4%
EBITTDA Margin %	9.5%	6.2%		9.8%		6.7%	5.0%	

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- Billings grew by 37% YoY with SSSG of 34% on LTL basis.
- Revenue from exclusive brands was Rs. 48 cr for Q4 (34% of revenue), and Rs. 130 cr (29% of revenue) for full year. These are high margin, and focus will be to maintain this level of revenue mix.
- Closed underperforming stores, rent negotiated, manpower costs rationalized and inventory management was done better leading to better margins and liquidity.
- Most of the stores were shut down for most of April and full month of May. Currently, 27 stores are operational (out of 53) and expect all of them to open by mid of July. However, recovery expected from end of July only.
- Stock of inventory was Rs. 225 c, lower by 27 cr from Mar'20 end.
- Digital business:
  - Increased by 8% YoY to Rs. 172 cr
  - 38% of total billings in FY21 (vs 30% in FY20). Optically high due to lower offline sales.
  - Online has been a stable business generator.
  - Continue to innovate and spend on digital intiatives- seeing increasing visitors.
- Opening 2 boutiques of Omega which is exclusive boutiques of the brand in the country.
- Can do 10-11% EBITDA Margin on consistent business and focus is alo on improving the RoCEs which is low.

- Pre-owned watches:
  - We have the best centre to repair or vet the pre-owned watches in India.
  - Seeing increasing visitors and engagements.
  - Has a great potential to scale up.
  - We will be opening India's first pre-watch lounge.

- How is obsolescence managed?
  - You need to have large range of watches for customer to buy from. So, inventory holding period of 8-12 months is the norm in this industry even globally, and we are at 6 months end. So, we are managing that well.
  - In luxurious watches, the risk of obsolescence is not high as such. In some cases, older watches fetch higher value. This is not a fashion or technology product which
  - Company's carries the inventory from catalogue to catalogue, and doesn't drop it as such.

- Rights issue of Rs. 25.8 cr:
  - Rights proceeds will be used for Ethos w/c requirement and future growth.

- Valuation & View:
  - KDDL is a good discretionary play which will benefit from the unlocking theme. The pent-up demand will be huge from wedding demand.

- KDDL's watch components manufacturing and the precision engineering division are a good and stable business with business visibility and long term growth opportunities.
- The retail business also has opportunity to scale. Given the small size of Indian market form an individual brand's perspective, this model of brand licensing will continue to be of importance. It is financially not feasible for a brand to operate by itself with revenue base of Rs. 50-100 cr.
- But a concern could be if a brand like Rolex or Omega decides to leave the agreement after achieving a size of Rs. 400-500 cr. After all, it's them who own the customers and not Ethos.
- After the recent rally in the stock, at CMP of Rs. 343, the stock is trading at 14X normalized P/E which can re0-rate to 16-18 if there is a sharp earnings and RoCE recovery.

Regards
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