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BSE Limited
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Dalal Street, Mumbai - 400001

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

Scrip Code: 543532

Trading symbol: ETHOSLTD

Subject: Regulation 30 of the SEBI (LODR) Regulations, 2015 – Transcript of conference call

Dear Sir/Ma'am

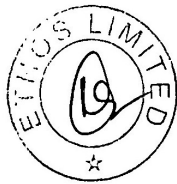
This is in furtherance to our letter dated July 25, 2022 intimating the schedule of the conference call for Friday, the 29th day of July, 2022 at 3.00 p.m.

In this regard, we are enclosing herewith the transcript of the aforesaid conference call, held inter alia to discuss un-audited financial results for the quarter ended June 30, 2022, pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015. The same is also available on the website of the Company www.ethoswatches.com.

We would request you to please take the same in your records and oblige.

Thanking you

Yours truly
For **Ethos Limited**



Anil Kumar
Company Secretary and Compliance Officer
Membership no. F8023

Encl.: as above

Registered Office:

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“Ethos Limited
Q1 FY 23 Earnings Conference Call”

July 29, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 29th July 2022 will prevail.

MANAGEMENT: **MR. YASHOVARDHAN SABOO - CHAIRMAN AND
MANAGING DIRECTOR, ETHOS LIMITED
MR. PRANAV SABOO - CEO, ETHOS LIMITED
MR. RITESH AGRAWAL - CFO, ETHOS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Ethos Limited Q1FY23 Earnings Conference Call.

This conference call may contain forward-looking statements about the company, which are based on the belief, opinions, and expectations of the company as on date of this call. These statements and not the guarantees of future performance and involve risk 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 pressing “*” then “0” on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Yashovardhan Saboo, Chairman and Managing Director, Ethos, for his opening remark. Thank you, and over to you, sir.

Yashovardhan Saboo: Thank you very much, and good afternoon everyone. Thank you for joining us on the Ethos quarter one FY '23 earnings call.

I am joined by Mr. Pranav Saboo, the CEO; and Mr. Ritesh Agrawal, the CFO. And we also have SGA our investor relations advisors on this call.

The presentation has been issued to the stock exchanges and also uploaded on our company's website. So I hope everyone has had the opportunity to review it.

First and foremost, I am pleased to share that we have reported one of our best quarters for the company recording its highest ever quarterly EBITDA and PAT. I am sure you will also note that it is the result of Q1, which in our industry is considered one of the two leanest quarters without any major festive period and also not the wedding season. Q1FY23 results have fared slightly better even than our best ever festive quarter Q3 in FY22 on profitability metrics. Therefore I am sure you will share my optimism that the remainder of FY23 will be very good too given the very good start that we have had to the year.

I am glad to share that after more than two years, the company has witnessed a normal working quarter, free of lockdowns and COVID wave spikes. If things continue to be the way they are, we are testing to touch great heights in the times to come.

Let me give you some highlights of the quarter one performance. You may know that the base quarter, quarter one of the previous year, that is FY22 was impacted by the second wave of Delta lockdowns. Hence, Q1FY23 growth rates may look amplified. Nevertheless, Q1FY23 results by themselves are an outstanding performance.

As Ind AS 116 has a significant impact on our EBITDA and PBT, I am sharing the highlights of the financials without Ind AS 116 impact to give a simpler view of the accounts. I am giving the figures of, Q1FY23 over Q1FY22.

Billings increased by 94% year-on-year to INR 201 crore. 26% of the billings in this quarter were contributed from exclusive brand watches. Consolidated revenue from operations increased by 95% y-o-y to INR 174 crore. Consolidated gross profit, more than doubled to INR 54.7 crore and the gross profit margin extended by 300 basis points to 31.5%.

Consolidated EBITDA increased by more than 7 times to INR 21.5 crore and consolidated EBITDA margins expanded by 890 basis points to 12.2%. Consolidated PBT increased multifold to INR 19.5 crore. Stock carrying months on sales stood at 5.2 months in Q1FY23, similar levels of quarter Q4FY22.

Consolidated debt has been reduced from INR 60 crore in March 22 to INR 29 crore in June 22. Cash and cash equivalence, including fixed deposits stood at INR 307 crore as of June '22. And these will be utilized for the growth of the company as envisaged in the IPO in these stages.

Pleasing as these record numbers are, we are even more excited about the core aspects for the current year and the years ahead. As is known, quarter 2 and quarter 4 are generally stronger than quarter one and quarter 3 is significantly the strongest of all quarters. Therefore, we continue to maintain our view and estimate given earlier in the year that the revenue growth in FY23, over FY22 will be as much as 30% to 35%.

Our company's longstanding relationships with leading luxury watch brands will continue to underline and assist our company's ambitious growth plans and presence in India. We also believe these longstanding relationships with the luxury watch brands enhance our competitive positions. In addition, we will also leverage our in-depth knowledge of luxury watches to expand the market for watches and establish a leading presence even in the segment of Certified Pre-owned Watches.

Before concluding my part of the speech, I would like to say that our focus going ahead will continue to be building our business based on the omnichannel strategy, exclusive brand tie-up, a pan India network, watch servicing and after sales service an extremely high standard of service to customers, and above all the relationship of trust with our customers and with our brands.

Now, let me hand over the call to our CEO, Mr. Pranav Saboo to share his thoughts. Over to you, Pranav.

Pranav Saboo:

Good afternoon, everyone. I hope you and everyone around you is safe and healthy. As Mr. Saboo has already given the gist of our strong quarter one results, let me spend some time on the qualitative aspects of the business.

We have built Ethos step by step on the back of our omnichannel strategy. Our physical presence is leveraged by our strong digital platform with a frequently visited website, effective social media communication, a large database of HNI customers, and an active program of a home and office delivery of luxury products.

Our digital platform has created a niche in the online luxury watch market through various unique value added services, including a highly specialized team of luxury watch consultants, targeted content, watch insurance and dedicated after sales service to our customers.

Our strong performance in quarter one, FY23 is also a result of all of these various initiatives. We have taken over the years. Out of the total billings of INR 201 crore in quarter one, nearly one-third of our business is now coming through digital medium. This itself, speaks about the strength of our digital presence now.

Apart from that, we have also made progress in our focus area, which is expanding the list of exclusive brand portfolios. Post listing of Ethos, we have added two new Swiss brands to our exclusive brand portfolio, Jacob & Co. and NORQAIN. These partnerships will unlock access to the brand's unique collections for Ethos' customers pan India. With these additions, now 35 of the biggest watch brands are available exclusively at Ethos.

Relationships with luxury brands and their owners typically take many years to develop and are difficult to replicate. Our promoters and management team have worked hard to nurture these relationships and these two provide a wide mode for our business. Revenue from exclusive watch brands also enable us to earn higher margins, improving the overall profitability for the company.

Our new growth pillar Certified Pre-Owned Watch business also continues to do well. We hope to exceed INR 75 crore of business by the end of the year through one lounge in Delhi and our website, secondmovement.com. Over the next two years, we will expand the footprint along with the website to three to four major cities in India to continue driving strong growth.

Apart from watches, we had also recently signed up the partnership with Messika and Rimowa for retailing in jewelry and luggage segment, respectively. We hope these new verticals can act as a future growth driver of the company, along with widening of our product portfolio and experience in luxury retail.

Before concluding, let me summarize our strategy. Going forward, our focus will continue on adding larger flagship stores complemented by enhanced digital capabilities. Expand our exclusive watch brand portfolio, improve our market share and profitability with focused marketing and cost effective initiators.

We will continue to invest in our brand, scale up the Certified Pre-owned business, as well as set up a stage of growth for our new jewelry and luggage verticals.

With these words, I thank you again for confidence. We now leave the floor open for questions and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Shyam Garg from Niveshaay Investment Advisory. Please go ahead.

Shyam Garg: **Hello Sir, Thank you for opportunity,** Very good set of number. My question is with respect to the, what is our revenue mix or what is the revenue that we get from the exclusive brands that we have that only we can sell in our outlets.

And my second question is, do we have any inventory? Are there any probabilities of having any inventory currently or in future?

Thirdly, how does a big luxury brands like Rolex allocate their products, the number of units. Is it dealer-wise or country-wise? How do they do it? Because there's a shortage of Rolex watches all over the country.

Yashovardhan Saboo: Shyam, thank you very much. Your voice was not very clear. So I think, I understood your first and third questions. I am not sure if I understood the second one. So the first question was what share -- what is the revenue share that we get from exclusive brands? And the third one was how do the luxury brand allocate their products? If that is correct, and just let me repeat again. What was your second question?

Shyam Garg: Sir, my second question was with respect to inventory gains. So are there any probability that we'll have inventory gains for watches?

Yashovardhan Saboo: Inventory gains? You said Inventory gains?

Shyam Garg: Yes, sir.

Yashovardhan Saboo: Okay. Let me answer the question. So, in the last quarter, about 26% of our revenue came from the exclusive brands.

Your second question regarding inventory gains, this really depends on how the pricing moves. The pricing of the watches is determined by the brands and typically if prices are revised and the brands give the guidance at the MRP, the new MRP is valid for the new product. Then to that extent, it would be some inventory gain encapsulated in the inventory. It really depends on how the brands determine the policy for their particular brand, the pricing policy.

And sorry, your third question was about how luxury brands allocate the products. So I think different brands have different policies and you mentioned shortages of watches in certain brands all over India. This is true, but the shortage is not only all over India, the shortage almost globally, whether you visit some of these brands, boutiques, whether it's in a Dubai or Singapore or London or Paris, there are shortages of watches across many of the top brands.

There are several reasons for this, the most important being that there have been some supply side constraints. During the COVID period it was difficult to ramp up production. It was difficult to keep up production. And while on the other side, the demand for these iconic and luxury brands and watchmaker brands, they have been steadily going up as they have become collectibles and pieces that people want to collect. So the demand has been going up. The supply has not kept pace completely. So there is a shortage globally.

The allocation is really a policy that the brand follows. It's not something that we can comment on. However, I do want to say that for most brands, India is rapidly becoming a high priority market, and certainly we understand that and the brands understand that India will be one of the most important markets in the future, so, it certainly also stands pretty much high in the order of importance when it comes to allocation.

Shyam Garg:

Sir, can I ask a few more questions?

Yashovardhan Saboo:

Shyam, may I suggest, there are other questions, so maybe you can come back at the end.

Moderator:

The next question is from the line of Perna Choudhary from Ace Capital. Please go ahead.

Perna Choudhary:

Hello everyone, first of all, I would like to congratulate you for such an amazing quarter, and my first question being, can you give some insights on a new jewelry and luggage retailing business. How it has been doing and what is the scalability potential?

And the second one being, what is the total working capital cycle in our days for our company.

Yashovardhan Saboo:

Okay. Perna, thank you very much for you for your nice comments. The second question, I am going to transfer that to our CFO and CEO, to answer. The first question regarding the new jewelry and luggage business, let me answer it for you.

We have signed on Rimova for the luggage, and Rimova, as you know is LVMH Group company. It is the best known, the most famous luggage brand in the world today and jewelry we have signed on with Messika Paris. I will urge you to check out Messika Paris and how well known it has become, especially among the younger generations. It actually, was chosen by many many stars at the Cannes Film Festival in 2022.

Now both these brands we have signed on, but we are still waiting for stores to become available. Rimova, we're going to start at the Jio World Plaza mall in Mumbai, which is expected to become operational in February 2023. And Messika, we will start in the third quarter of this year.

So the businesses, we are in the planning phase, we are, but they have not yet started, so the upside and all the numbers from these two exciting businesses are still to come in. These are very exciting segments, jewelry especially. Branded jewelry is booming worldwide, including in India. We all know what Tanishq did, how it transformed the branded jewelry business in India over the last 20 years from unbranded jewelry, jewelry became branded and Tanishq was the one that led that transformation.

We believe that that same transformation is going to continue with branded jewelry, but this time around with international branded jewelry, the same thing as which has happened in so many other brands. So international branded jewelry like Messika is going to experience a huge growth, and we are extremely excited to have this possibility with an exclusive tie up with Messika.

Luggage business, luggage like Rimova. COVID is over, traveling is back, if you have seen how rapidly traveling is growing back again, international travel, business travel, holiday travel. I have really no doubt that Rimova itself will be a highly scalable business. We are starting with one boutique, but I am sure there will be others to follow because we have a large Indian market to cater to.

It's difficult to put numbers right now. Let us start, let us see the reactions, but I think in the years to come, it's going to be a very significant contributor to the company's revenues and profit.

I am going to pass the mic on to Ritesh and Pranav to answer the question regarding inventory, I think.

Ritesh Agrawal:

So our inventory days as of June is 154 days on sales and the working capital days is 110 days.

- Moderator:** The next question is from the line of Devanshu Bansal from Emkay Global Financial Services. Please go ahead.
- Devanshu Bansal:** Yes, Hi. Thanks for the opportunity sir and congratulations on a great set of numbers. Sir, most of the store openings that were part of our issue objects are expected to be in FY23. So can you throw some light on the timeline of these openings within FY23?
- Yashovardhan Saboo:** Devanshu, nice to hear you. If you have other questions, can you put them all in one so that we can answer them all?
- Devanshu Bansal:** Sure. And the second question is, you mentioned exclusive mix was 26% in base quarter. What was this mix in the base of Q1FY21? And if you can provide for Q1FY20, then it would be helpful, over the last three quarters. And...
- Yashovardhan Saboo:** Sorry, you'll have to repeat that question. It was not very clear.
- Devanshu Bansal:** I am saying you mentioned exclusive mix to be 26% for this quarter, Q1FY23. If you can mention the exclusive mix for the last two quarters in the base, Q1FY22 and Q1 FY21.
- Yashovardhan Saboo:** Right. Okay.
- Devanshu Bansal:** And third is, you indicated there has been a shortage of luxury brands. So are you seeing discounting sort of reducing, for the luxury watches?
- And last question is, only contribution of pre-owned watches, so what was the revenue contribution in this quarter, and how do you see the profitability trajectory as this business scales up? So, yes.
- Yashovardhan Saboo:** Okay. Let me answer about store openings and some of the data might, I'll transfer the mic to Ritesh and Pranav.
- On store openings, we are anticipating store openings starting from the next quarter. As I mentioned, a lot of/ not lot of, all the store openings / new store openings depend on the availability and when the malls become ready. So we are expecting Indore and we are expecting Ahemdabad, two malls that I mentioned already, Jio World Plaza in Mumbai in the fourth quarter. We are informed they are on track, or usually a month, or two delay. We are tracking it, and we are hopeful that the store opening that were planned for this year we will continue.
- As far as the discounting is concerned, yes, we do see a steady reduction in discounts. So that's a very positive development from the margin point of view and that's one of the reasons why you will see the margin improvement.
- Pre-owned watches, the sale in this quarter was almost was more than 3x of previously year same quarter and as I mentioned, the overall profitability and return on capital on this business, especially after it crosses a threshold is actually going to be higher than the return on capital on of the new watch business and the reason is that obviously it's a more efficient business in terms of costs. All the sales that we are doing is coming from one store and our website, all the sales that we are doing.
- Regarding the percentage of share of exclusive brands in the previous quarters, Ritesh, you will have the numbers readily with you, can you share them please?
- Ritesh Agrawal:** Sure, sir. Exclusive brand percentage, we need to see from period where, we were operating. So, last year and last to last year, both were impacted in COVID. Last year was a Delta wave and the FY20 was/ sorry, FY21 was basically into the first wave lockdown. So there our revenue from exclusive brand was bit higher, where the stores were shut and we were only operating through digital means.
- Pre-COVID level, if we talk about the FY20, our exclusive brand mixed was 24%. Apple to apple comparison that we do currently, our revenue mix from exclusive brand is 26%.

- Yashovardhan Saboo:** Ritesh, the question was what is the revenue on exclusive brand in the last two quarters. We understand it would be higher or can be higher or lower, but please give that number, if you can.
- Ritesh Agrawal:** Last quarter, Q4FY22 was 28%.
- Yashovardhan Saboo:** 28% Okay.
- Devanshu Bansal:** Sure, sir. And just a follow-up on this since you mentioned that this discounting has been reducing as well as we have been increasing our share of exclusive brands, can we expect this 30%, 31% and 12% sort of EBITDA margin to sustain going ahead, or there can be some growth investments from this?
- Yashovardhan Saboo:** So we are/ our efforts are always on to increase the margins. But margin is a result of many, many factors. It's already higher than what we had originally projected. You are aware about that.
- Devanshu Bansal:** Yes.
- Yashovardhan Saboo:** So, we'd like to believe it is sustainable. We are continuing efforts to continuously enhance margins and sometimes it's also impacted by the exchange rate, the volatility of exchange rates, pricing policies by brands, availability or watches and so on. But overall, I think we can consider that it is a sustainable, largely a sustainable margin structure that we have.
- Moderator:** The next question is from the line of Saurabh Grover from Posco Capital Partners. Please go ahead.
- Saurabh Grover:** Hi, team. Good evening. First of all, congratulations on the good results.
- A couple of questions have already been answered regarding jewelry and luggage. What I wanted to understand is you mentioned about flagship stores and going ahead with three to four stores by the end of this year, and you mentioned that on the digital front you have been doing really well. So is it that you see the flagship stores to be more profitable or is it more to create the brand awareness amongst the consumers?
- Yashovardhan Saboo:** Okay. Saurabh, do you have any other questions?
- Saurabh Grover:** No, that's it.
- Yashovardhan Saboo:** Okay. So happily, I can tell you that flagship store is both of the above. It not only creates a stronger impression, not only offers a much greater and a better experience for customers but the store economics are also better, and it is more profitable than the smaller stores. So, that's the reason why we are pushing for more flagship.
- Let me add one other reason why flagship stores make a lot of sense, and that is that the same store growth can be sustained for much longer in a flagship store. So, when you build up a flagship store, it becomes the center of customers' watch experience and then for years, and years and years, we can expect the same store growth to remain strong. This is the trend globally, and this is what we have seen in India as well.
- Moderator:** The next question is from the line of Rahul Agarwal: from Incred Capital. Please go ahead.
- Rahul Agarwal:** **Hi, good afternoon.** So good to see a very strong set of numbers. Sir, three questions, quickly. Firstly, on gross margins. I think we're tracking much higher than what we have done historically. What could be a reason? As in, obviously presentation mentions that our branch share is increasing, but my sense is quarter-on-quarter, it looks like we have gone from 28% to 26%, but we still expanded gross margin. So could you help me understand this, and bit of long term range, as in / as the previous participant was asking that obviously we're all trying to sustain this number, but is it really sustainable? That's first question.
- Second was on same store sales growth. We hardly had any new openings this quarter, but it looks like the same store sales growth are very strong, driving overall top line.

Could you elaborate a bit on, would give some color on whether it's driven by volumes, or sales mix or the watches you offer are better, the demand post-COVID continues on luxury items and any other reason you think like?

And so, third was on currency depreciation. We saw a very large depreciation of Indian rupee versus dollar. How does that impact the business? Those are my three questions. Thank you.

Yashovardhan Saboo:

Great questions, Rahul, as always. Gross margin, look, as I mentioned, gross margin is a result of various things among them, one of them is share of exclusive brands where the margin is larger. But here, you have seen an expansion of margin even though the share of exclusive brands has actually gone down a bit in this quarter. So clearly, there are other forces that always play. A reduction in discount related to the fact that some watches, generally in the market there has been a reduction in discount. The days when 20% and 30% and 40% discounts were been talked about, those are gone forever. And that is good.

A very, very important part is, the processes that the management team has put in, in the purchasing process, the selection of product, they use of data to check what is going to sell, what are the preferences? So over the last 18 to 24 months, a lot of work has been done in streamlining this process and obviously the quality of the inventory we have, the time when we have it, where we have it, that has played an important role also in enhancing the gross margin.

You mentioned currency depreciation. It is somehow related a little bit to the gross margin, as well. As long now, currency depreciation in dollar has been strong, but dollar has risen against other currencies like Swiss franc as well. So the currency depreciation in Swiss franc has been relatively, low prices have been stable, so this usually also helps in gross margin sort of stability. Sometimes gross margin is impacted because of these things. Since this impact less, it has remained stable.

And lastly, I would also like to say that our merchandising team, they have done very great job in negotiating terms with brands, whether it's for specific products, whether it is for specific markets or specific campaigns, combined with a very focused marketing program. So I think it's a multifarious kind of effort, which has led to gross margin, solidifying.

Your question as to whether it is sustainable, whether it's really sustainable or not, as I said already, our effort is not only to sustain it, but to improve it. We can / we will try to control and improve all the factors that are in our control. What is not in our control, we cannot. But in the past you have seen that when the environment remains stable, at that time, you see all the positives coming through as has happened this quarter and I am very confident that going forward this is going to continue and we should be able to sustain this margin. Same store sales growth, you are right, there has not been any new openings and same store sales growth has been high. Again, a lot of it due to some of the factors, which I already mentioned, a very great and focused effort of the management teams to / on same store sales growth, better merchandising, better products, availability and so on.

You mentioned whether demand has peaked after, and stayed high after COVID, so there has been this tendency to believe that during COVID, demand went up because people couldn't travel or people had extra money with them. They didn't know what to do. They were sitting bored in their homes. I am not sure if that is true. What I would like to believe is this, which I have said over the last 24 or 36 months. India is reaching to a tipping point where the income gross, the GDP, per capita income and the wealth of India is reaching a point where discretionary spending is taking off.

COVID intervenes, all kinds of trends got mixed up, but COVID has gone. Indians have traveled widely all across the world in the last six months and yet we see the demand continuing to remain strong. It shows that India is now ready to buy discretionary products in the luxury segment.

Two other things have happened. More and more, we find Indians preferring to buy watches in India. It was the time when everybody said we are traveling out, we buy watches. Today, I have, we have calls from friends and travelers almost every week,

either they have just come back from traveling abroad or they're already traveling abroad and they come back and say, look, always they used to buy outside? Don't you think we should buy in India?

Of course! Not only because the prices are competitive in India, but also because there's so many other advantages. Service is better, you get all the documentations, you have trust that everything that you're getting is genuine. The ability to sell a pre-owned watch with the right documents, there are at least four or five clear advantages to buying in India and customers are discovering it. That's another reason why demand has been strong and this is a structural change, Rahul, what I want to mention. This is not a flash in the pan. So this is going to stay.

And the third thing which I want to mention is clearly Ethos has emerged as the retailer of choice in India. We have the largest footprint, greatest digital presence, greatest digital and in-store experience. So while Indian demand is growing, it is shifting from outside to India, within that, Ethos is the retailer of choice. These are pretty structural changes. It's a sangam of three very positive influences, which will combine into a powerful engine for growth for Ethos in the years and quarters to come. I am convinced about that.

Currency depreciation, your last question, I think the writing is on the wall. There will be a currency depreciation in the months going forward, but this is no change. You look at the last 20 years that Ethos been in business or the last 40 years that I have seen in business. There is a depreciation of the Indian rupee on an average 4% to 5% every year. Our businesses in India have to factor that in, as we are factored in. It might have changes and consequences for one or two quarters, but we are not looking at one or two quarters. We are looking at the next 3, 5, 10 years, and we will establish a fabulous leadership and a fabulous business over this period, no matter what happens with the currency.

Rahul Agarwal:

Got it, got it. but just to be clear on the currency part, my understanding is short term, if it the currency depreciates suddenly, our import cost goes up and there is a time lag to pass through that increased cost in terms of higher pricing. Is that understanding correct?

Yashovardhan Saboo:

That is absolutely correct. That is absolutely correct. So this is the time lag that we suffer from in some quarters where suddenly there is a depreciation, the price correction takes time to kick in. So during that period, we suffer a bit

Rahul Agarwal:

And which is what happened this quarter, right? So should we expect that to happen in second quarter?

Yashovardhan Saboo:

It has not happened this quarter. So the currency loss has been relatively small.

Rahul Agarwal:

Got it, got it. Thank you so much for answering my questions. I'll get back in the queue.

Pranav Saboo:

I just want to mention what, this is Pranav Saboo, the CEO. I just want to mention one more thing regarding exclusive brands. In the last financial year, and last to last, there were crippling lockdowns that took place and in our exclusive brands, we were running high discounts and high sales with the permission of the brands, of course, and there was a sale in these quarters. This year, and traditionally we have always run a sale in the month of June and then December. This year, in fact, with good demand and a strong position, we decided not to do the sale anymore and to bring down discounts. So even though the exclusive brands sale fell down a little bit, it's because we have taken a conscious decision to bring down this discounts drastically, which is why you see a gross margin increase happening despite house brand sale decreasing a little bit. Just to explain the first question, just my view on it. Thank you.

Moderator:

Thank you. The next question is from the line of Mythili Balakrishnan from Alchemy. Please go ahead.

Mythili Balakrishnan

Hi. Couple of questions. One is, could you just help us understand how we can , I was curious about how the ASP has moved, how the average selling prices moved in line with our strategy of premiumization in watches?

- Yashovardhan Saboo:** Okay. Are there any other questions that you have?
- Mythili Balakrishnan** I also wanted to understand the top five brands contribution, and if you could share the Pre-Owned, how much of sales came from the Pre-Owned business? You mentioned it went up 3x, but I didn't cash the exact number.
- Yashovardhan Saboo:** Would you like to, about ASP, and the top brands and the Pre-Owned business, Pranav or Ritesh, would have the numbers more readily? Would you like to answer that, please?
- Ritesh Agrawal:** Our ASP is moving upward as, as we mentioned during our last call as well. So current, in this quarter, our ASP is INR 1,58,000.
- Mythili Balakrishnan** Got it. In terms of the top five brands?
- Ritesh Agrawal:** So we do not mention about/- we do not track by brand, but we work with all the brands, respective brands work with us. So the brands like, brands from Swatch group Rolex, all these brands are important as well as our house brands, which is exclusive brands, like Urwerk and many others Bovet All brands are very dear to us and we track all those as an important point for us.
- Mythili Balakrishnan** Got it. And in terms of the Pre-Owned, if you could share the exact percentage?
- Ritesh Agrawal:** Pre-Owned is about 6%.
- Mythili Balakrishnan** Got it. In terms of this store openings, just wanted to get a sense, right? Because we currently have 50, we plan to open 3 or 4. Will we be also looking to relocate or move some of the older, smaller stores into this new format?
- Yashovardhan Saboo:** We are constantly, this is Yasho Saboo here, again. We are constantly reviewing locations and yes, we, if leases come to an end, we obviously that's a time when we review. And if either we have got a better location or a store is not performing as per required standards, then we would close it and shift to another location. It also depends on how the market has evolved, whether/ how much of an overlap there is, another store. So I don't think there's one reason. There are plenty of reasons why a store maybe discontinued or continued. Overall, the direction is to move towards larger store, flagship stores and away from smaller stores.
- Mythili Balakrishnan** Got it. But then to that extent, our sales will be faster than these store addition per se, right? Significantly.
- Yashovardhan Saboo:** Yes. In a direct logic, yes. But don't forget that our stores also include mono brand stores and mono brand stores are typically of the size of 400 to 700 or 800 square feet, and mono brand stores obviously don't have the same kind of sales that a multi brand store has. However, there's another logic for mono brand stores, so if you really were to do a sort of arithmetical calculation, you'll have to separate mono branch stores and multi branch stores. And in multi branch stores, the sales will increase faster than the store count. That's right.
- Moderator:** Thank you. The next question is from the line of Vinayak Mohta from Stallion Asset. Please go ahead.
- Vinayak Mohta:** Yes. Hi, congratulations on a great set of numbers. I basically had two to three questions. So just to start with, wanted to broadly understand how does the ROICE for particular store work, and given that you'll eventually be moving into expansion mode even further, and given that you have a higher working capital requirement that you need, so how do you look at the return on capital going ahead into the future? I know / I understand that you're in a growth phase for now, but how do you see this requirement of capital and the ROCE evolving as we move forward?
- The second question was what stops the ultra rich people who come to buy a Rolex or a higher end watch, somewhere around Rs10 lakhs, Rs15 lakhs, Rs20 lakhs to not go and buy abroad, like, is this the pricing differential? Because a flight ticket is not a barrier to them, so what stops them from going to a Switzerland or anywhere else for that matter and buy or watch from there?

And the third question was, what goes into your understanding of while you're opening a particular store, what goes into your understanding? What do you look like is this a place good for exclusive brand outlet, or is this a place better for a multi-brand outlet? So, yes, broadly these three questions.

Yashovardhan Saboo:

Right. So return on capital obviously is the final arbiter, right? Everybody's working to get a high return on capital and as you very rightly said, in a growth phase, there's always a balance between growth and what are the ROCE that you get. However, going forward, as was explained in earlier conferences, conference calls, as well as our other discussions, as we go forward, there are several factors and impacts like we have to take into account.

First of all, the working capital will not grow proportionately. So from that sense, the return on capital, obviously, will increase. We are already seeing the impact of margin improvement on that. Going forward, as in the previous question/ previous exchange, I answered that the store count itself will not go up as fast as the sales is going to expand. So again, our expenses will not expand as fast as sales, operating leverage is starting to pick in very clearly and then again, we will need to increase the return on capital.

Finally, let's say a new business like the Pre-Owned watches, I am not sure if you heard the first part in the first question itself, where it was that the return on capital on pre-owned watches was estimated to be higher than other businesses, because it's much more efficient. We will the current sales is being generated from one sport. We for all the business projections that we have, we intend to open only about four stores across the country for pre-owned watches in the next two to three years. So again, these are impacts, which will have positive impact on the ROCE.

So2, I believe that the ROCE will show a steady improvement from here and our goal is to become one of the strongest growing and highest paying ROCE companies in the retail business in India. It's difficult really to make very exact projections, but largely I can also say that for our goals through the IPO, we have enough capital and we don't need more capital. We need to invest this capital wisely and to make sure that it leads to the desired growth, not only turnover, but also in profit.

Your second question was about ultra rich and what stops them from going to Switzerland and buying. Well, that's what they have been doing for the last 40 years and now they're coming back to India, Why? First of all, they're realizing that India is as good a place as anywhere abroad to buy watches. Prices are probably less in India. They are certainly not more than other markets. The selection of products and brands today, which is offered by Ethos is equal to anywhere else in the world. But they are discovering the other advantages.

They can buy a watch officially with all the papers, they can get the watch insured, they can show it on social media, the service that we offer today in India, I can proudly say, and you can talk to people who have shopped abroad, the service that they will get at Ethos, India, whether it's aftersales service, whether it's our white glove service, which will deliver the watch to their home, which will pick it up from their home or office if they want it serviced, name me one store in a Switzerland or a Singapore, if you go to the hotel and you ask, please deliver the watch to my hotel. They are not going to do that. So, the service, the respect, the relationship with the customer that Ethos offers and the trust and the paperwork and everything being legitimate, people and collectors are discovering this.

Does it mean that there is nobody buying watches abroad? Not at all. There are lots of people still buying watches abroad, but gradually these is all shifting, gradually to India. So that points to the great potential we have to grow. There're still large number of Indians who are buying watches abroad and we are very sure that more and more of them are going to buy in India because everything favors buying in India. So I am convinced that people will buy, and I am sure you will have friends and family who will know, who have traveled abroad, ask them, do they find a difference between buying abroad and buying in India? 8 out of 10 will tell you we prefer to buy in India. So that is not a worry at all.

And there was a third question which you had, I am sorry, I think I lost it.

Vinayak Mohta:

So broadly, instead of the third question, I broadly have this question, like, if I did do a back of the envelope calculation, we are selling around two watches per day per store. What initiative is the company or what are you doing differently that this moves to a three watches or a four watches per store, because now given that you'll be opening less number of stores, the same store sales is the major factor driver out here. So what do you think you would be doing differently?

And just, just to follow up on the ROCE question, how does the unit economics on a second hand watches work, and how do you think this will be a scalable market going forward? Thank you.

Yashovardhan Saboo:

Vinayak, that's a very detailed question. And perhaps our CFO will be glad to connect with you to discuss that. But overall, in terms of driving same store growth, it's not a question of doing things differently. We are already doing things differently, which is leading to this size. Our omnichannel platform is actually designed for that. It is really that. My store is not only catering to the 10 kilometers around that store. My store can be catering to 100, 200, 500 kilometers around that store. Not only that, my 20 stores, which carry a particular brand, connectively, they cover the whole of India.

So it's not that only the store in Chandigarh will supply to a customer who's sitting in Jammu. If that stock is held in a store in Bangalore or in a Kolkata or in Guwahati, he can very well supply the customer in Jammu sitting from there, or a customer in Kochi or in Bhubneshwar can be supplied from a store in Jaipur, depending on where the stock is.

So this is the kind of optimization that, the omnichannel platform ensures and our digital communication and storytelling about the brand, the selection, keeps up the interests. Younger people are getting more and more interested in mechanical watches, in Swiss watches. Ethos is the best platform to buy it. So I have really no doubt that what you mentioned, same store growth, we are already seeing the signs of that, and that is going to continue

Vinayak Mohta:

Understood. Just one last question, just trying to understand the competitive advantage. What stops a Titan to come into a high-end watches, or what stop any competitor to come in kind of, not disrupt, but take away a market of their own, because this is still a, not a very niche, but it's still a growing segment at a very fast stage. So what stops something like a Titan who has experience in the watches and to come in.

Yashovardhan Saboo:

Vinayak, Titan is one of the greatest companies that I know in India and I worked with. I don't know what stops them, but what I do know in the last 18 years that we have been in business, Titan has not been in the high-end business and we have been. So I don't know why they can't make it. There must be some reasons, they might have tried. I know that they have tried, they had a luxury brand Favre-Leuba, but Titan is a great company, but I don't think their focus is luxury watches. A lot of their focus is actually jewelry and it takes a different set of skills and attitude and focus to be in the luxury business. Titan has been extremely successful in all the businesses they have been in, but they're not really adopting the luxury business.

Vinayak Mohta:

Understood. And can you give some light on the luxury...

Yashovardhan Saboo:

Vinayak, there are other people waiting with questions, so if you have other questions, maybe you can come back later?

Moderator:

The next question is from the line of Ekta Sanghvi Vallum Capital. Please go ahead.

Ekta Sanghvi:

Good evening, thank you for the opportunity. So, I just had three questions. The first one being what can we expect our CPO contribution to the revenue to be in the next three years? And also is the margin profile of the CPO business, similar to the exclusive brands?

And second question is, so how do we decide about the store opening in the Tier 2 cities? Like, is it that like this the cities where the digital demand is high and then we

are going and opening stores in those cities, or is there, what is the whole methodology for deciding on which Tier 2 cities to approach?

And the third one is that also how many retailers of Rolex are there in India and what why would we be a preferred retailer of the brand? Because the brand itself has very high brand equity. So, what like why would a person not go to any other retailer and come to Ethos?

Yashovardhan Saboo:

Right. About the CPO business, we expect the, in the next couple of years, the CPO business to grow at close to triple figures, percentage growth. So again, it's difficult to put exact numbers over there, but we see an extremely strong growth and we believe we will be high double digit or possibly even triple digit growth over the next two to three years in the CPO business.

The margin in the CPO business is similar, overall, to the business of new watches, maybe slightly lower, but the return on capital is higher. The margin per, on the sales is a little bit lower than the overall average, but the return on capital is significantly better.

As far as store openings in third and Tier 2 and other cities, yes, you are absolutely right. We use data. We use a lot of data, not only from our own website, the traffic and the responses that we get, which is extremely valuable by the way, say which other cities that are exhibiting the highest interest in luxury watches. But we also go by other data of luxury detail, which are the presence of other luxury brands.

For example, if there is a high quality mall coming up, we rely on the research done by the mall. A mall is investing thousands of crore to build it and if they have got luxury brands, then they have done research and we rely on that research as well.

So pretty much our decision on where to open stores is very, very heavily data driven which increases the chances that it will be success and a quick success.

Your last question was why is it that any customer should come to Ethos, to buy a particular brand, which may also be available with other retailers there's not only true of Rolex. It's true for so many brands that some other retailers also carry. However, there must be a reason why for most of these brands, we are the largest partner for the brand and I would like to believe that at Ethos we have grown, well, let me put it like this, almost all the retailers who carry other brands of luxury watches, they have all been in business far, far, far longer than Ethos. They were in business even 10 years before Ethos started. There must be a reason that Ethos, starting from scratch, has actually far outpaced and grown and straddled the entire country very successfully and I would like to believe it is based on the promise of Ethos, which is to offer the best luxury watch products, premium watch products, brand and selections, at a competitive price with a 100% guarantee that what you get is genuine, what you get is new, what you get is of the highest quality equivalent to anywhere else in the world. That's, I believe, the reason that Ethos is a preferred retailer for many, many, many buyers.

Ekta Sanghvi:

Thank you so much. Just one clarification. So, is it that we have more collection than the other retailers on an average? The more selection of the...

Yashovardhan Saboo:

On an average, yes. On an average, yes. We carry more brands and more number of SKU than any other retailer. You can/ you don't have to take my word for it. You go on the internet and you check that out. Other retailers also have websites, so check it out. What are the number of brands we carry, what is it they carry, how many SKUs they carry, visit a store, you know? So yes, it's right. What you said is absolutely right.

Moderator:

The next question is from the line of Vinayak Mohta: from Stallion Assets. Please go ahead.

Vinayak Mohta:

Yes. Hi. Just wanted to understand what are you, how are you approaching the luxury car business, and what kind of scalability can you look at out here?

Yashovardhan Saboo:

Luxury car business, we are not in that business. So, we are not really approaching that business. It is something that we put in our articles as an enabling clause because in the luxury business, I think cars is an important part and luxury cars have a certain affinity

with luxury watches. People who buy luxury watches are similar to people who buy luxury cars. So there isn't really a clear thinking on this yet.

Moderator: The next question is from the line of Rahul Agrawal from Incred Capital. Please go ahead.

Rahul Agarwal: Yes, just one bookkeeping question. Thanks for the opportunity, again. Ritesh, if you could answer what is the absolute number of inventory as of June and what are the operating flow for the quarter?

Ritesh Agrawal: Rahul, our inventory as of June is Rs. 280 crore. And with respect to operating cash flow, I will come back to you.

Moderator: The next question is from the line of the Vinayak Mohta: from Stallion Assets. Please go ahead.

Vinayak Mohta: Sorry, sir. Just one clarification. The 30% to 35% growth number that you have mentioned, this includes the second hand or the pre-owned watches segment as well?

Yashovardhan Saboo: It's the overall number

Moderator: The next question is on the line of Shubham Agrawal from Incred Capital. Please go ahead.

Shubham Agrawal: Hi, Sir. Thank you for the opportunity. Just one small question. Most of the questions have been answered. With respect to the inventory for Pre-Owned, do you face any - you intend to grow three triple digits from here. So how is the supply? Do you see any constraints there, need to import pre-owned watches or would all be sourced from India? Just trying to get a sense of inventory available to sell? That's all.

Yashovardhan Saboo: Pre-owned watches, Shubham, pre-owned watches, they are sourced from individuals in India. We do not import used watches/ pre-owned watches, not one. So that is the first question. If there is, in the business of pre-owned watches, I can tell you the demand for pre-owned watches is significantly more buoyant than the supply. So, there's a huge demand for pre-owned watches and we are gearing up to be able to meet that.

But it's not only a question of supply, you see. It's important to understand that not only do we have to connect with the sellers of the watches, we have to reach an agreement with them on prices. Sometimes they have a very exaggerated notion that my watch, it is 50 years old and therefore it must catch a very, very important antique price. That is usually very often that is not the case.

But even more important. We, after we have sourced the watch, the important process then starts, which is of checking the watch, verifying that it is a genuine watch, repairing, or not repairing, but restoring the watch, which sometimes requires ordering spare parts, making sure and testing that it is up to the required standard and then certifying it from Ethos. And that is the most important thing because each watch has this certification from Ethos, that it is a genuine watch, it is restored, it is in good working condition.

And after we are done with that restoration, if I put a new watch and a restored watch in front of you, it will be very hard to tell which one is a restored watch. The quality of restoration is so high. Why I am emphasizing this point is that the process of restoration, that is not an automatic process. That has to be done by very skilled watchmakers and watchmakers who are experienced not only in one brand. We are buying many brands and selling many brands, so they have to have experience across brands. This is a highly skilled and technical thing. We have expanded, we have got today, one of the, not one of the, the best and the biggest watch service and restoration center in India. And we have trained 17 watchmakers for this job And we will need more.

So actually that is the bottleneck. And as we move on, this capacity will be expanded, we will be sourcing more and more using our network of buyers. And we will see this thing to grow.

- Shubham Agrawal:** Thank you. Thank you. So this, I don't know, if I can squeeze one question, it wasn't coming to me earlier, but what inventory you'd run at for CPO business in general?
- Yashovardhan Saboo:** For what? For pre-owned watch?
- Shubham Agrawal:** Yes, pre-owned, yes.
- Yashovardhan Saboo:** So, it usually takes about from the time a seller agrees to sell the watch and then we need to restore it. It can take on an average four to six weeks for the restoration, but after it has been restored and available for sale, typically there's less than one month of stock. Watches sell out very quickly after they have been restored.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to the Management for closing comments.
- Yashovardhan Saboo:** Thank you very much and thank you, everybody for joining the call. I hope we have been able to answer most of your queries. If there are any remaining, please contact SGA, our investor relations advisors, and they will surely direct them to us and I hope we will be able to satisfy all your questions.
- Thank you once again for your participation, and I wish you a nice afternoon and a nice evening. Thank you.
- Moderator:** Thank you. On behalf of the Ethos Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.