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Dated: November 14, 2022

BSE Limited
Phiroze Jeejeebhoy Towers,
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 November 3, 2022 intimating the schedule of the conference call for Monday, the 7th day of November, 2022 at 10.00 a.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 and half year ended 30th September, 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

“Ethos Limited
Q2 & H1 FY2023 Earnings Conference Call”

November 07, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchanges — BSE Limited and National Stock Exchange of India Limited and the Company website on 7th November 2022 will prevail

MANAGEMENT: **MR. YASHOVARDHAN SABOO – CHAIRMAN &
MANAGING DIRECTOR – ETHOS LIMITED
MR. RITESH AGRAWAL – CHIEF FINANCIAL
OFFICER – ETHOS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 and H1 FY2023 earnings conference call of Ethos Limited. 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 date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Yashovardhan Saboo. Thank you and over to you Sir!

Yashovardhan Saboo: Thank you and a very good morning to all. I hope you had the opportunity to review our presentation and financial results, which are available on the stock exchange and our company’s website. I am accompanied by Mr. Ritesh Agrawal our CFO and SGA our investor relations advisors are also present on this call. I am very glad to share the news of yet another excellent quarter. The quarter that confirms again the growth potential of the premium watch segment in India and the dominance of Ethos in this segment. We report with pleasure that our Omni channel platform seamlessly combining offline and online has done very well. We also reported a higher share in the business which differentiates our offering. Furthermore, our EBITDA margins continue to expand on the back of cost optimization initiatives and operating leverage. Here are the financial highlights.

For Q2FY23

Revenue was up by 32% from Rs.134 Crores to Rs.178 Crores in Q2 of this year. EBITDA was up by 93% from Rs.15.4 Crores in Q2 FY2022 to Rs.29.7 Crores in Q2 this year. EBITDA margin for the quarter stood at 16.4%. Profit after tax for the quarter stood at Rs.13.6 Crores with a PAT margin of 7.5%.

For the H1FY23,

H1 of FY2023 revenue was up by 57% from Rs.223 Crores in H1 last year to Rs.351 Crores H1 this year. EBITDA was up by 117% from Rs.27 Crores in H1 last year to Rs.59 Crores in H1 this year. EBITDA margin for the half year stood at 16.5%. Profit after tax for the half year stood at Rs.26.4 Crores with a PAT margin of 7.4%. Inventory days stood at 162 days. Gross debt is Rs.9.8 Crores and cash and cash equivalence including other bank balances are at Rs.265 Crores at the end of H1. Before we go to the Q&A part of our discussion, allow me these few comments please.

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The luxury watch market in India is expanding rapidly. The overall industry is gaining traction with the rising discretionary income of HNIs and rapidly expanding base of these consumers. Watch buyers now know that luxury watches in India are competitively priced in comparison to other global retail destinations. Despite higher import duty and GST, India's prices are similar or even better than other global shopping locations. The Ethos watch buying experience is equal to or better than what consumers get anywhere else in the world. Ethos enjoys a unique trust of customers who believe that what we sell is genuine. It is sourced directly from the brands and it will be supported by top class after sales service. As a proof, I am delighted to share that 46% of our business is now coming from repeat customers up from around 33% about two years ago. All of this places us in a unique position to capture the lion's share of the growth that this market will experience in the coming years. We are carefully observing some slowdown in global markets, but we believe that the impact in India will be limited. Therefore we continue to hold our guidance given earlier this year. Our strategy continues to strengthen our presence in the luxury and high luxury watch segments. As a result, we expect a steady increase in ASPs that is average selling price over the next six to eight quarters. We have accelerated our growth plans against the plan to add 13 stores as per our prospectus at the time of IPO. We are now targeting 40 new stores in the next 24 months across metro cities and several new tier two and tier three cities are being added. We believe that they have a huge buying potential in the coming years. We are also continuing to strengthen our brand portfolio, especially exclusive brands. We are in discussion with several new brands for exclusive India rights and hope to be able to confirm and share many of these in the coming two or three quarters. Ladies and gentlemen, Ethos will not only be the leading luxury watch retailer in India, which we will be by far but our goal is also to become one of the top five global luxury watch retailers, but our ambition as you know also extends beyond watches.

You are all aware we have signed an agreement with Messika, Paris to be the official distributor and partner for Messika Jewellery in India exclusively. The addition of Rimowa luxury luggage to our portfolio is another category extension that will expand consistently. We will continue to take the required measures for such expansion. These collaborations and others under discussion will help us build growth vectors outside the watch business to make Ethos a veritable luxury detailed powerhouse in the years ahead. With these comments, I thank you very much for joining this call, and I open the floor 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 Rahul Agarwal from Incred Capital. Please go ahead.

Rahul Agarwal: Good morning and thanks for the opportunity. Season's greetings to everybody at Ethos and congratulations Sir for the company to host the Grand Prix 2022 last month. I hope the

event went well. Sir I have four questions? Should I go across all four together or take it one by one?

Yashovardhan Saboo: Please Rahul go through all four. Thank you very much for joining. Good morning.

Rahul Agarwal: Okay sure Sir. Sir, firstly on the new store expansion plans just wanted to know what has led to the change because that number looks like 40 stores in the next two years? It is quite a big number to achieve, could you help us with more detail in terms of location, capex, anything outside India we are doing, and the store mix we are seeing? Are we trying to do something with jewellery altogether that is the first question? Secondly on the CPO business how did the segment do basically in the first half and how it is scaling up? I heard on the TV as well that training has been happening in Switzerland but in terms of what is happening with the second lounge opening in Mumbai the availability of service and how do you see that business moving that is the second question? Third and fourth are basically the numbers? The third question is on the same store sales growth? If you can help us with the number for Q2 and first and half and lastly on exclusive brands within the 35 that we have which would be the top three in terms of revenue? Those are my four questions? Thank you Sir.

Yashovardhan Saboo: Right. Thanks Rahul. I will go one by one so on locations we always wanted to grow fast with locations, but frankly, until last year when the effect of COVID was still sort of uncertain as to when it would subside, we were a little bit conservative however, over the last five or six months we are seeing a confirmation of our belief that the market is growing steadily. We are seeing that the needs coming in from many cities where we are not present continue to grow not only for entry level products but also for middle to high level products and we see an interest from brands also to enter some new geographies so as a result of these various combinations, we said let us go and up the target for new stores. We also believe it will help us to get market share faster by being the first mover in various cities where luxury watch retail is still not present so as a result I said that we have a plan for about 40 stores. Some of these are already contracted. Some of them are in the process of discussion, but over the next 24 months or so we expect these to come up. Many of them are in new cities. For example there is Surat and there is Raipur. We are looking at Bhubaneswar. We are looking at Kochi so a lot of new cities. We have looked at Ranchi, Siliguri so these are new cities tier two and tier three cities that we are going to go to and we will be strengthening our presence in most of the metros most notably in Mumbai, Ahmedabad, Hyderabad, Gurgaon is on the cards. So I think in all we have got a fairly robust expansion program. It is also a combination of mono-brand boutiques as well as multibrand stores. Some of the multibrand stores are the Ethos Summit Stores and others are in Ethos stores which will go up to luxury, but will not include high luxury especially in tier two and tier three cities. We will not start with high luxury but we will go up to let us

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say from entry to luxury to luxury so that is the plan. We had in place capex in the prospectus that, I think we have provided for about Rs.33 Crores so of course that is there. There might be a little bit more not too much more which of course will come from our operating surpluses. I hope that answers your question regarding locations and I will now come to CPO. So CPO the business looks strong and very good. There has been a correction in the let us say the rationale of exuberance that existed in this segment internationally. You are aware that for many of the collectors brands and watches the premium was sort of increasing like at 5% and 10% a month which was very, very irrational for. That has subsided. That has corrected in global markets. While that has had a bit of a damper effect in India because people were crazy about paying any price for watches but in India still the demand and potential remains absolutely unabated. Our bottleneck and something that is of course determining the speed at which we can grow is the availability of watchmakers and their training that is happening. As it is happening we are stepping up our purchasing of watches. We had to slow it down because there was no point in purchasing watches if we did not have the capacity to refurbish them so we are now purchasing based on our refurbishment capacity. We are continuing to engage or look for watchmakers that are not easy to find. We are now actively discussing setting up training schools for watchmakers in some form or the other and we will initiate talks with some organizations in Switzerland that will help us to do that so the CPO business will continue to grow steadily. Even this year there will be high double digit growth compared to last year, but it is not going to be mediocre. It will be a steady increase over the next four to five years every time let say high double digit growth is what we are looking at. Your third question was regarding SSG. The SSG is strong very strong again in this quarter. We have had a SSG of about 17.2% and for the half year it is 44%. Of course you will remember that in the Q1 it was extremely high compared to last year because the first quarter last year still that COVID delta impact but overall for this quarter Q2 it is more than 17% which is extremely healthy. Your last question was regarding exclusive brands. I think we have a lot of exclusive brands which are doing very well. I would hesitate to call out specific names, but I can tell you that there are at least five or six of our exclusive brands that come within the top 10 or 12 brands overall for us.

Rahul Agarwal:

Right Sir and I would just request if you could share some takeaways from the Grand Prix. Anything which we should know about or anything which you thought were leading to more confidence on what we were doing in terms of business for CPO or new ventures either ways? Thank you so much for answering my question.

Moderator:

Thank you. The next question is from the line of Ankush Agrawal from Surge Capital. Please go ahead.

Ankush Agrawal: Thanks for taking my question. Firstly Sir what I wanted to understand is like typically as an analyst and an investor like what we have been accustomed to is general retailing in the market wherein a large part of growth is largely dependent on how many stores you keep adding whereas ours is a luxury retailing business wherein I believe the number of store addition is not directly linked like we will not obviously have a lot of new store additions so what I wanted to understand firstly is if you can highlight some of the dynamics around our stores like what is the capex, opex, like breakeven sales and what is the typical journey of a successful store because I have also seen that we have a lot of churn on the stores which is understandable given that it is not a general retailing and every store will have success so if you can highlight like what is the long-term journey of a store like how it grows typically in terms of long term SSG growth and all that stuff? That is my first question? The second question is about the gross margin expansion so if I look at our history I think even for the last four to five years we are seeing consistent improvement in our gross margins and you have already explained that it is because our share of the higher end of the watches and also own exclusive brands proportion of whole exclusive brands growing so what I wanted to understand is it something that keeps continuing because in our DRHP we have mentioned that in our kind of business the margin segment that you just said is around 20% to 35% and we are already touching 32% so do you believe there is a lot of room for our gross margin to expand or I think we are kind of sitting at the upper limit that is the second question and lastly on the store expansion so if you say you want to add 40 new stores is this the net new store addition or this is gross additions and whatever closure that we have would be separate those are the three questions that I wanted?

Yashovardhan Saboo: Thank you Ankush. So the journey of stores you mentioned that there is a lot of churn. Actually there is not too much churn barring some changes that happen. We have kept most of the stores we have started for a very long time. The journey of our stores it depends on what format we are talking about. As you know we have several formats. We have mono brand formats. Now these are expressions of brand identity and places where someone whose brand decided can go and pickup a watch. Now there the journey is pretty sort of clear. It starts and it grows as the brand grows. In terms of financials overall financials are not that different from multibrand stores. In most of the key parameters where it is per square foot or margin structures or whatever cost structures. For multibrand stores we have an Ethos store and we have the Ethos Summit Stores. The summit stores start with a portfolio which is higher in price point and the Ethos stores are mid to high price point stores right, but the journey is pretty much remains the same now especially that we have given up doing very small stores. In the past we used to do multibrand stores even with 500 square feet and 600 square feet. We are no longer doing that. We do not do multibrand stores below 1000 feet and wherever we see the potential for a flagship store which is 2500 square feet or so with do a flagship store. Now the journey is pretty simple. Actually the stores should start breaking even within the first year and normally its payback should

happen within three years or so, so we do expect stores to have a robust same store growth. Our target is double digit same store growth. In the past it used to be around 8% or 9%. We believe we will step up that same store growth. The same store growth has also helped by the fact that as a geography evolves and this is a very, very important point to understand. As a geography evolves we can continue to add higher price points and eventually a store that could be an Ethos store can morph into an Ethos Summit Store and continue to experience a strong same store growth. The case in point is Chandigarh. Chandigarh was not a great luxury market seven to eight years ago. We were selling mid to high price points but not very high.. Somewhere down the line the market evolved and we started to add more of the high price point brands even today Chandigarh continues to show high same store growth and we have been here for close to 15 years so the journey of a store is pretty much goes along these lines. Generally, we expect the same store growth to continue for at least seven to 10 years when we start a store. I hope that answers your question. Regarding gross margin expansion you are right. There has been a steady gross margin expansion over the last couple of years. Where we stand today it is actually what was our target one and a half years ahead. We have actually achieved a target of one and a half years ahead. I think we are at close to an optimal gross margin expansion however I do not expect this to grow too much further. Of course of profitability will grow through an operating leverage which is kicking in and you can see that in the overall PAT or PBT margins or the EBITDA margins however I do want to add a little caveat that if the import duties go down and the import duties are amongst in the world 23% is the basic import duty. If the import duty goes down which we hope it will over the years then we can expect a direct impact on the gross margin. Your last question was regarding new stores. Sorry can you repeat the last question.

Ankush Agrawal: What I was asking was...

Yashovardhan Saboo: Sure so, we have identified 40 new stores. These are new stores. I cannot rule out that there will not be any closures. We do not foresee any closures in the next two years. There are let us say a couple of stores where the performance is not optimal and if these do not work up then we might close them but it is going to be very, very few stores that we foresee closing down, very few stores.

Ankush Agrawal: Got it. That was very helpful. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: Thanks for the opportunity. Congratulations on a very strong set of numbers. I have two questions. The first one is the strong results we have witnessed in Q2 is that on back of secular industry growth or the result of market share gain for us? The second one is

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EBITDA margin performance has been quite impressive for us so wanted to check on the sustainability of these margins going ahead? Also if you can speak on how has been the accounting trends because last time you indicated that it has been lower so how is it Q2 and how do you foresee going ahead? In terms of working capital again it has been an impressive performance for 90 days remaining low at about 160 days and similar to FY2022 levels so wanted to check here that see if we see them returning to 175 to 180 days that we used to do historically or these are more sustainable and second on working capital is payable days this quarter has reduced by about 20 odd days so is it a seasonal thing where Q2 that this will reduce and by the year end it goes up again? Lastly I wanted to check if you can share key takeaways from the GPHG event that we hosted and wanted to check if global brands are viewing India more as an attractive market versus the previous perception so these are my questions Sir?

Yashovardhan Saboo: Thank you Devanshu. I will answer them as best as possible. The Q2 globe I think it is a combination of both. I think the market remains strong but not only the remaining strong. I think the Ethos name and what it stands for are getting stronger and therefore there is of course gain in market share. It takes some time to estimate market share because there is not too much published information in the watch business but I am pretty sure that it is a combination of a continuing strength in the market in India and of course a phenomenal strength that the Ethos brand is now gathering. Margin sustainability broadly I think yes it is going to be sustainable. There might be a bit of a variation. You must know that typically some losses happen due to the depreciation of the rupee. Historically that has been true. In fact during the last couple of months except for probably September the foreign exchange losses that we experienced were much lower. In fact in Q1 there was a bit of a gain so if I anticipate what could happen there, there could be a certain amount of loss which will deplete the margin marginally, but I think overall we are pretty much in a sustainable position as far as the margins are concerned. Working capital days again I think we will sustain this. As we add new stores and new brands it may go up a bit because there is initial stocking and then it takes time for the sales to build up so during this growth phase the number of days of slot may go up a bit but we are within the target range and even if it goes up a bit in 12 months it is going to come back to this zone. Our long-term goal of course is to bring this down from the current level of about 176 to more like 160 days or something like this 150 to 160 days. We believe this is going to be possible in the years to come. Payable days, yes it has gone down. One of the reasons is that with many brands we do negotiate and try to work on improving margins by shortening the credit period. We believe that is accretive especially in all that we are in a comfortable position with the cash flow but again we do not see many big changes happening on payable days. There may be marginal variations quarter-to-quarter but I do not think there will be a big change. Lastly the GPHG event super successful. Actually, tonight I am going to Switzerland for the international GPHG final event. I have been invited and will be sitting on the main table and this is in

itself a sign that India is arriving on the world's stage and Ethos is very proud to be able to be the instrument to do this so global brands are taking note. They see not only India as a potential growth market. They are aware that India is the fifth largest economy in the world but we are also aware that in India there is only one player of scale and international quality and that is Ethos so I believe the GPHG event has been super successful in showcasing not only India but Ethos as the best international partner.

Devanshu Bansal: Really encouraging to hear that. Sir last one book keeping question so what are the CPO revenues for this quarter and share of exclusive brands? Also can you give some color on the other income outlook going ahead?

Yashovardhan Saboo: Can I suggest that Ritesh, our CFO, will collect these figures and give them to you. I can tell you already that the share of exclusive brands in this quarter is about 29% so that are up from 26% or 25% in Q1. We expect this to stay at this level or possibly go up in the quarters to come and again for the CPO business I think in the previous question even Rahul or Ankush had asked about I think Rahul had asked about CPO business. We expect this year to clock about for the year as a whole to clock about Rs.70 Crores to Rs.75 Crores, which was Rs.33 Crores last year.

Devanshu Bansal: Got it and on the other income Sir?

Ritesh Agrawal: Devanshu what do you want to know on the other income.

Devanshu Bansal: We have some cash reserves so any outlook that you would like to on other income for the next year?

Ritesh Agrawal: So the available cash that has been part in the fixed deposit as defined in the prospectus so this is the market rate that is there, so we expect that the amount which will be there we will get the other income.

Devanshu Bansal: Go it Sir. Congratulations again and thanks for taking my questions.

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

Vinayak Mohta: Congratulations on a great set of numbers. Sir, my question was more or less regarding the ROCE and ROE so given that we have up's on the expansion front I see that we will be flowing in broadly around Rs.250 Crores including the inventory into the new stores, which would kind of keep the ROCE depressed for a little while more so just wanted to understand we are right now at around 13% to 14% ROCE with ROE of 8% to 9% assuming Rs.50

Crores to Rs.55 Crores for the year? How do you see this going forward? Do you think this can go up to the 20% mark and what would be the drivers of the same like one is operating leverage but apart from that do you something in mind that could take this forward and just confirming you closed down two stores for the quarter so specific reason apart from the performance of the stores for the closures and any update that you have on the newer brands when are they going to start and how are you going to take it forward like the Rimowa and the Messika to be specific and any other segment that you are looking at for new so that would be three questions from my side?

Yashovardhan Saboo: Right so let me answer to one on closures. The closures are essentially due to the deals expiring at a certain store and in a similar geography we have signed on another store which will become operational over the next couple of months so there is no really net reduction. In fact we have moved to a better location in the same geography. It is just a reduction in this quarter. Actually there should not have been a reduction because two stores in Indore were supposed to start in Q2. Unfortunately, the launch of the mall has gotten delayed so we hope that in Q3 by December those two stores will start and others will start as well. Overall we hope that 9 to 10 new stores will start most of them will happen in the Q4 of this year which is when malls are promising that their malls will become operational. If they keep to their promises, we believe that 9 to 10 new stores shall start before the end of this fiscal year. On your second question on ROCE and ROE, so you are right on the numbers so what happens is first of all obviously there is your capital. We are going to take some to deploy and when you deploy the capital and you put in new stores and new brands there is a certain gestation like every project before they start to become operational. Now in the phase that we will grow aggressively at, I believe the 18 to 24 months is going to be a phase when we are going to add a lot of new stores and we are going to add a lot of several new brands. This was the basic logic behind the IPO in taking in funds as well because the opportunity in India is there. There is nobody better than us to capitalize on that opportunity and the time to do it is now. It needs resources and it needs structure. Now we have both so we are doing that. In this phase we will see a rapid and aggressive growth. We will maintain and probably improve the ROCE and ROE especially on utilized capital and our long term goal of course is that exceed 20% and we believe it is very, very much possible. In the next two to three years we will start to approach that figure. Your last question was regarding new brands. We are discussing with several new brands which we believe we should be able to share news as and when the contracts or the agreements are finalized. Our Rimowa and Messika operations will start as soon as the malls are ready. Again it is planned for Q4 of this year. Unfortunately, the Rimowa will probably go into Q1 next year because we are starting with the boutique in Mumbai and the mall which was supposed to launch in February or March is now we have been told it will launch in April or May. This is of course the famous and the legendary Reliance Jio Plaza Mall which will be India's top

luxury mall so we are opening the Rimowa over there and Messika again is something which we believe we will start in the last quarter of this year.

Vinayak Mohta: Understood, and just two more on that front? Do you think you will need more capital to raise I think that you have decent cash at hand?

Yashovardhan Saboo: No we do not have any plans. We do not have any plans for raising more capital Vinayak.

Vinayak Mohta: Understood and one last question. The payback for a successful store is three years as you mentioned but if we include the churn is there a chance that it goes higher to four to five years or that includes...

Yashovardhan Saboo: On an average no. On an average it will never go. There could be a few stores which it could be higher. Similar there are stores where it will lower, but I do not think the average will change a lot.

Vinayak Mohta: And this payback includes inventory as well right?

Yashovardhan Saboo: Yes.

Vinayak Mohta: Understood okay great. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Vikram Suryavanshi from Phillipcapital India Private Limited. Please go ahead.

Vikram Suryavanshi: Good afternoon Sir and congratulations on a strong performance. I just wanted to know about your incremental investment in Kamala International what is the thought process and road map ahead and also if you can give us numbers for HTMIG so in terms of revenue, EBITA and PAT that is the first question and the second thing about would you like to share more on this new plant what we are setting up for manufacturing the steel bracelet in terms of opportunity and scalability in that business?

Yashovardhan Saboo: Vikram I have to remind you this is an Ethos earnings call. We are not answering KDDL questions but you know the company well and I am very happy to answer that offline.

Vikram Suryavanshi: But our HTMIG investment in Kamala International?

Yashovardhan Saboo: Those are all KDDL. Again it is not an Ethos investment but very glad to connect offline and we will answer your questions of course.

Vikram Suryavanshi: Sure Sir I will do. Thank you.

- Yashovardhan Saboo:** By the way the KDDL numbers are also released today.
- Moderator:** Thank you. The next question is from the line of Sabyasachi Mukerji from Centrum PMS. Please go ahead.
- Sabyasachi Mukerji:** Thanks for the opportunity. So I have three questions. First if you can help me understand the unit economics on store profitability that is what kind of capex is needed to open a store? What is the inventory typical inventory? What are the sales per store and what is the store level margins that is one? The second is if you can help me understand how we are competitive in terms of prices with respect to global markets despite having very high import duty and GST as well? The third is if I compare our numbers revenue and billing numbers between FY2019 and FY2022, the sales and billings have almost increased by 30% to 32% but the average selling price have almost doubled which basically means that the volumes have come down between FY2019 and FY2022? I see these volumes are increasing quarter-on-quarter, Q1 and Q2 they are increasing but what are the major volume drivers any thoughts on this? Those were the three questions?
- Yashovardhan Saboo:** Sure Sabyasachi good morning and let me answer your last question first which is on ASP and volumes. You are right the ASP has gone up. It has doubled and to that extent have declined. This is a reflection of the implementation, a very conscious strategy that we have adopted about three years ago which was to reduce our focus on the entry level price points and increase the focus on the high price points the luxury and high luxury. Why did we do that strategy, low price points especially price points below Rs.30,000 to Rs.40,000, those are price points that number one are being let us say that is where smart watches are taking a lot of market share and smart watches is a different business from what we are doing. Secondly it is a segment where you have a lot of ecommerce and other strong players in India while in the premium and high segment which by the way is the fast growing segment globally and also in India. There is no strong player and we have pretty much the most important potential, we are the most dominant player and that is our fastest growing segment so we decided to reduce our presence in the low price segments and increase it in the high price segments. Now obviously in the low price segments you sell much more quantity of Rs.20,000 watches than you would a Rs.5 lakh watches. If I sell one Rs.5 lakh watch it is the equivalent of 25 Rs.20,000 watches so this shift in emphasis actually meant that the average selling price went up. The quantity went down. Most of the quantity has gone down only in the price segment below Rs.50,000. In the price segments above, quantities have gone up quarter-on-quarter, but overall, you will see it as a matter of quantity coming down. We are happy to do that because it allows us to focus on the fastest growing segment and not get too much bogged down with the fashion segment which we do not feel is the future so this is as far as the volume is concerned. As far as prices are concerned India the pricing in India is determined by the brands. The brands specifies the

MRP and most brands were to specify a very competitive MRP in India because they want to develop the Indian market and they see it as a very large potential market in the future. It is important that the prices are kept competitive. It does not mean that they are 20% below world prices but typically there can be 2% or 3% or 4% below world prices or at least within a plus or minus 5% range. Compared to most countries India's price is competitive. How it is achieved despite the high duties it is achieved partly by the brand itself having a lower ex factory price for India than they have for countries where the import duties are low and partly of course the retail margins in India are lower than the rest of the world so we as retailers take a bit of the burden of the duties and the brands take a bit of the hit in order to ensure that the Indian consumer has prices competitive with the rest of the world. As far as the unit economics is concerned I am going to let Ritesh our CFO answer that question. Is that alright.

Sabyasachi Mukerji: Yes sure.

Ritesh Agrawal: So our capex requirement for a particular store if the size is about 1000 square feet and capex would be about Rs.1.2 Crores. The inventory requirement is about Rs.5 Crores and our break even for the stores that comes within the same year generally and payback period as we discussed it comes three year including inventory so that is the profitability that we maintain and the growth in new store at the first year definitely would be a gestation period and then year two would be higher SSG and then overall it will move to the steady SSG of 10% after two to three years to may be six to seven years.

Sabyasachi Mukerji: Just following up on this Ritesh so inventory is Rs.5 Crores you said. Rs.1.2 Crores is the capex. If I adjust for the payables in the inventory and calculate the total capital employed so roughly how much will be the total capital employed per store adjusting for the capex?

Ritesh Agrawal: I would suggest so there will be a lot of discussion which will take so I would suggest that we can take this offline and we can discuss in detail.

Sabyasachi Mukerji: Sure I will take this offline. Thanks a lot.

Moderator: Thank you. The next question is from the line of Ankush Agrawal from Surge Capital. Please go ahead.

Ankush Agrawal: Thanks for the opportunity again. Firstly can you highlight what kind of scale up that we are expecting in a see through business like in terms of what could be the overall contribution of CPO business in the medium to long term? I think currently it is immaterial at the moment but the growth that you are seeing could it be like 15% to 20% to 25% kind of business over the long run?

- Yashovardhan Saboo:** Yes Ankush it can be. What I want to point you to is I think it was a McKinsey study as you check out McKinsey's study of 2022 they said that the size of the preowned market globally is already one third the size of the new watch market in premium and luxury phase and it will grow to be 50% of the market in the next couple of years. Now India market it is a slower start and it would take time for the CPO market to develop that but I believe when you say medium to long term if we are talking about like five to eight years kind of a situation 15% to 20% definitely could be even higher.
- Ankush Agrawal:** Right and the dynamics of CPO business allow us a lower working capital requirement with a slightly lower gross margin right?
- Yashovardhan Saboo:** Yes correct so far that seems to be the case.
- Ankush Agrawal:** Lastly, just a clarification what CFO just mentioned on the SSG so what you said like after a store starts or after three to four years you expect a steady SSG of 10%? Did I hear it right?
- Yashovardhan Saboo:** Yes correct.
- Ankush Agrawal:** So like in the last quarter also you mentioned in a statement that you expect if SSG which was historically about 10% to 12% to grow to like on the higher 17%, 18% and 20% so if you are saying that SSG for new stores will be like 10%?
- Yashovardhan Saboo:** No Ankush it was never that. I think you are mistaken it was not SSG. The market was growing historically at about 8% or 9% in the past decade. I expect the market growth to increase and not to 17% and 18%. I think the market growth will increase to about 11% or 12% however overall growth I think will go into 18% plus which in the past years was again more or less like 9% to 10% sometimes higher. It is not SSG.
- Ankush Agrawal:** Okay. Got it. Thank you.
- Moderator:** Thank you. The next question is from the line of Rahul Agarwal from Incred Capital. Please go ahead.
- Rahul Agarwal:** Thanks for the followup. Sir one question on the new store fundamentally, I understood about luxury that it is not about having more stores but rather more throughput and higher price points and then fulfillment happens offline quite a lot? Should we assume most of the new stores would be more monobrand, smaller in sizes, acting as fulfillment centres, more about gaining lion share in new cities, and less of big flagship stores and the second part of

the question is how does CPO fit in this new 40 number? Is there a change in terms of CPO planning as well?

Yashovardhan Saboo: So it is a combination of multibrand and monobrand stores. Majority is not going to be monobrand. The majority is actually going to be multibrand stores. There will be some flagship stores. It is very important that in new geographies we establish a physical footprint because in new geographies even if I do not stock very high priced watches there is a market for those kind of watches which you cannot really solve. It is impossible to serve it completely online right. If you have a store you have credibility. You have people to talk to and you have people to network into. A good example of this is our experience in Guwahati right. Typically we stock midlevel to a few high level watches but not very high level watches but that does not mean we do not occasionally sell very high level watches. Now that share would be impossible if we did not have a store there. Furthermore, what is going to happen in a market like Guwahati five years from now. Will there be a growth if the sales are very high in watches of course there will be, but this growth is solidified and put in place and precipitate because we have a physical presence before any other retailer has like presence so in the other market whether it is as I said Surat, Raipur, Bhubaneswar, Ranchi, and Siliguri it is really this plan to establish a base and it is not only a fulfillment centre. It is not a delivery place. It is an experience place. It may not be a 3000 square foot store, but it will still be a 1500 square foot store and it will be bigger than anything else and in right now if at all there is store selling even Rs.30,000 or Rs.40,000 watches it is probably of very small store unless it is Titan store which case they are not selling premium watches so I think we are drawing experience from cities like Ludhiana and like Guwahati and we want to sort of capitalize on that. Does that answer your question.

Rahul Agarwal: Yes sure and how does CPO fit it into the plan?

Yashovardhan Saboo: So CPO we do not need so many stores for CPO so CPO has we mentioned earlier we have got the lounge in Delhi. The next one will happen in Mumbai and probably one or two in the metro cities. The start of CPO business will happen much more online.

Rahul Agarwal: Got it. Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Amin Shah from GPAY investments. Please go ahead.

Amin Shah: Thank you for the opportunity. Sir really congratulations on a good set of results deepening the market and market share gain is encouraging? Sir what I want to know is our inventory days currently would be around on sales over the last six months would be 168 days? As we see the same store sales growth also always picking up in a store do we see this

optimizations over a medium to long term after we have expanded on these 40 stores. Will that be a very good sort of optimization every year for a good period of time from 168 days?

Yashovardhan Saboo: We do expect optimization once this growth phase is over. Whether it is going to be a steady optimization forever and ever obviously not. It is a luxury business and the luxury business requires touch and feel. They require inventory to be there. The customers have to touch, feel, see it, and how it looks on their hand. It is not possible digitally until I do not know when it will happen. Until then I think it is important to have physical stock and when you have physical stock you gain market share so I believe there will optimization and lot of our analytical tools will also help in that optimization but I think to expect that we will go down to 60 or 90 days of stock. I do not think that is going to happen. Please remember that we also enjoy credit from suppliers so net, net paid is actually less than the 160 of stock that you see but medium to long term we do expect a reduction in the number of days of stock for sure.

Amin Shah: The reason Sir the way I was asking this I see ourselves also becoming something like watches of Switzerland where we a prime retailer in UK? Their inventory stock on sales is somewhere 95 days as of now?

Yashovardhan Saboo: Since you are studying watches of Switzerland you will noticed that they have now started to make a distinction between supply constraint brands and non supply constraint brands. Have you noticed that?

Amin Shah: No?

Yashovardhan Saboo: Please look at that so lot of their business comes from three brands which are their strength. Demand is far more than supply therefore it is very difficult to hold on to inventory. Whatever you get sells out right and if 50% of my business comprises of such brands then obviously my number of days of stock is very low but on the slip side what happens is if I am not going to get supply how am I going to grow so what Switzerland is now saying it is great to have the supply constraint brands, they give a great profit with the very little working capital requirement but if I have to grow I need to grow with brands that are not supply constraint so my suspicion is that over the years we are going to see working capital and number of days in watches of Switzerland growing and they will be very happy about it because it means that their growth will then kick start.

Amin Shah: Sure Sir that is very helpful. The second part very quickly Sir you said something like we want to be also top five global players? Does international expansion also right now does it fit in this or is it in ideation state?

Yashovardhan Saboo: When I said top five global I mean I do not think there is any country in the world that has the opportunities that India has and I believe it would be wrong not to focus completely on the Indian market and extract the maximum benefit that we can from the growth that India is going to represent. Whether we will go to a neighboring country probably it is on the cards not immediately but we will do that as the countries develop and in Sir Lanka you know the difficulties there but I think that is the potential but India itself has the potential and Ethos to become a global player just operating in India in terms of size.

Amin Shah: Alright Sir. Thank you and all the best.

Yashovardhan Saboo: We have got a couple of minutes left. I have to excuse myself. Can I request Mr. Hiren to come on the question queue. Can I request Hiren. I want to welcome him because he is not very often in this seminar.

Moderator: Thank you. We will take the next question which is from the line of Hiren Ved from Alchemy Capital. Please go ahead.

Hiren Ved: Congratulations on a great set of numbers. I just have one question as we expand into adjacent luxury streams like jewellery and luggage like Rimowa and Messika? I know it is difficult to kind of say but let us say in the next three to four years how big can these businesses become in relation to what we have on the watches side?

Yashovardhan Saboo: Hiren that is a great question and we constantly devise this. Frankly said I think you will start to see the size of these businesses on the grass but it will still be I would say rather small in three years compared to the size of the watch business. The watch business is easily the largest potential that we have going however, the business of branded jewellery is not for the next three years. I believe branded jewellery has decades of growth and it also serves the purpose of our broad base and our client base which is currently 75% to 80% male to at least balance it out to be 30% to 35% ladies and branded jewellery. Besides that branded jewellery internationally today amongst all the large luxury groups whether it is RICHMONT Group, whether it is LVMH branded jewellery is the fastest growing segment so taking the queue from global trends with are saying let us get an entry into this. It is not going to be great in three years time but six to seven years and five years plus and seven to eight years from now we will start to be very happy that we started this now. Similarly the Rimowa it is a brand of the LVMH Group the largest luxury group in the world. Getting this and they still have 40 to 50 brands that are very famous worldwide not in India yet. If we want to realize our ambitions in segments other than luxury watches, I think that connect is also very useful so these are long term plans. We are not going to do a huge amount of capital or energy. We will see them growing steadily and professionally. I think we will start to see a takeoff in, let us say three to five years from now.

- Hiren Ved:** Got it and you think margins will be in and around what we earn on the watches segment?
- Yashovardhan Saboo:** I think margins will be little better than the watch segment.
- Hiren Ved:** Thanks and all the best.
- Yashovardhan Saboo:** As we have got three more questions, I have to leave early so can we restrict to one question from each please.
- Moderator:** Sure Sir. The next question is from the line of Ajay Surya from Niveshaay. Please go ahead.
- Ajay Surya:** So congratulations on a good set of numbers. My question is regarding the exclusive brands so I wanted to understand how this works like it is like no one else in India will sell that brand or there are certain products on these brands which we will exclusively sell and do we have any kind of agreement with them or how does the contracts are made that is it?
- Yashovardhan Saboo:** So exclusive brands mean that nobody else in India retails these brands. These are retailed exclusively by Ethos and yes there are agreements and contracts with these brands and from time to time they need to be revised which is a normal process that we do, but most of them are governed by contracts.
- Ajay Surya:** Are you planning to look to add more brands?
- Yashovardhan Saboo:** We are. I mentioned that in the speech as well. We are in discussions with several brands and over the next two or three quarters we hope to be able to announce new brand collaborations soon.
- Ajay Surya:** That is it from my side. Congratulations again.
- Moderator:** Thank you. The next question is from the line of Abhishek Gupta an Individual Investor. Please go ahead.
- Abhishek Gupta:** Thank you for the opportunity. I have a couple of questions? How many units of watches did we sell in H1 FY2023?
- Yashovardhan Saboo:** H1 FY2023 about between 24,000 and 25,000.
- Abhishek Gupta:** Okay so why I asked this is because I think we sold around 39,000 watches so that 24,000 and 25,000 will take us towards the 50000 watch run rate which will be 25% increase in our revenue so I just wanted to understand do you think these 50,000 watches have corresponding 50,000 end customer or do you think there are buying multiple watches?

- Yashovardhan Saboo:** There are people buying multiple watches.
- Abhishek Gupta:** So how many would be unique customers as of you who will be buying these 50,000 watches broadly?
- Yashovardhan Saboo:** I am not very sure because it would also be that it is only this or are there repeat from someone who bought a watch in the last half year, but what I can tell you is that our repeat buying is 45% in this quarter so the same customer has bought a watch earlier as well. If your question is how many new customers we add, I can get back to you on that because we have got a loyalty program. We have an enrollment of over 90% in our loyalty program so my estimate is that we will probably add about 20,000 new customers every year 20,000 to 25,000 new customers every year.
- Abhishek Gupta:** I think you used to sell around 70,000 watches in FY2019 and that came down to 38,000 in FY2022 because of the strategy you said so I am just trying to understand that what are the end customers really and how we are adding that as you said so that will be good to know may be going forward because I think the actual traction or the business fundamental growth would be from you acquiring new customers so that would be an interesting thing?
- Yashovardhan Saboo:** You are probably leading to the same question that we often ask ourselves 50,000 watches in a year while India has 5 lakh millionaires right so should not the quantity of watches go up. Of course it should go up. It will go up as especially the younger generation is getting extremely interested in watches not only as a symbol of achievement but many times we also see it as a store of value so we do believe that the quantities are going to go up.
- Abhishek Gupta:** And just another if you could spend some time on the customer profile? Do you see these large families buying?
- Yashovardhan Saboo:** I can take one more question and there is already one Mr. Vinayak Mohta for a followup question, so I will be happy to answer that offline. I will get our CFO to connect with you.
- Abhishek Gupta:** No problem. Thank you.
- Moderator:** Thank you. The next question is from the line of Vinayak Mohta from Stallion Asset. Please go ahead.
- Vinayak Mohta:** Yes Sir I just had a followup question on the payback period that you had mentioned as I could see that you do Rs.80 Crores to Rs.90 Crores EBITDA which excludes the broadly Rs.40 Crores of rent that goes into the business which would give you a broad net EBITDA after rent of Rs.50 Crores which is broadly Rs.1 Crores per store so it somehow does not

matches up with the numbers of the payback years and because the payback period number should be Rs.1.6 Crores approximately per store coming over three years so am I missing something here or if you could just clarify?

Yashovardhan Saboo: Vinayak I am going to let Ritesh connect with you because the rental numbers that you are giving I am not sure where you get this from because please remember there is this Ind-As 116 so maybe you should. I suggest you connect with Ritesh offline and he will take you through the details.

Vinayak Mohta: No worries. I will do that. Thank you.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would like to hand the conference over to the management for closing comments.

Yashovardhan Saboo: Thank you and I hope we have been able to answer the questions satisfactorily. I know that some questions need a followup and our investor relation advisors, SGA and our CFO Ritesh will connect. I thank you once again for taking the time to join us on the call. Thank you very much and have a nice day.

Moderator: Thank you. On behalf of Ethos Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.