

May 24, 2024

KDDL Limited: Ratings upgraded to [ICRA]A+(Stable)/[ICRA]A1+ from [ICRA]A(Stable)/[ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term- Fund-based/ Cash Credit	33.0	33.0	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)
Long term Fund-based/ Term Loan	24.90	24.90	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)
Short term- Non-fund Based	31.50	31.50	[ICRA]A1+; upgraded from [ICRA]A1
Fixed Deposits	15.00	15.00	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)
Long term Unallocated	2.28	2.28	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)
Total	106.68	106.68	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade reflects ICRA's opinion that KDDL Limited's (KDDL/ the company) operational and financial performance will continue to remain healthy supported by an expanding retail business and steadily growing manufacturing business in addition to its strong liquidity position. The company has been witnessing steady demand across segments and has been expanding its product portfolio with focus on value-accretive products. The ratings favourably factor in KDDL's prominent market position in the watch components segment as a leading supplier of watch hands and dials, and established relationships with leading global luxury watch manufacturers. KDDL continues to benefit from its subsidiary Ethos Limited's (Ethos) position as the largest organised luxury watch retailer in the country. Ethos has continued to witness significant sales traction across its store network with growing average realisations and sustained healthy margins. Ethos had also raised equity of ~Rs. 175 crore through a QIP in FY2024. Further, KDDL also diluted its stake in Ethos which resulted in improvement in KDDL's liquidity position. Overall, KDDL had free cash and liquid investments of more than Rs. 500 crore as on March 31, 2024. Consequently, on a consolidated basis, the company's credit metrics are expected to continue to remain comfortable with growing cash accruals and limited external debt dependence with a large part of its planned expansion, primarily in the retail business, being funded by its existing cash balances and internal accruals.

The ratings, however, are constrained by the susceptibility of the watch manufacturing segment to demand volatility in the global market in the luxury and high luxury segments. Additionally, the company is exposed to forex fluctuation risk for both its manufacturing as well as retail businesses. Moreover, the business remains working capital intensive, led by high inventory requirements in retail along with moderate inventory and debtors for the manufacturing segment. Nevertheless, ICRA notes that the expansion of the retail business, including new store launches and additional inventory requirements, will be funded largely through equity proceeds (which have already been raised) and internal accruals. Further, the company is exposed to competition from domestic players and international markets in the retail business and from other global manufacturers in the manufacturing segment. Also, its ability to expand its store network while maintaining its margins and debt metrics, remains a key rating sensitivity.

The Stable outlook on the long-term rating reflects ICRA's view that KDDL will continue to benefit from the experience of its promoters and leverage its established relationships with major watch manufacturers and its healthy market position in the retail segment.

Key rating drivers and their description

Credit Strengths

Buoyant demand across manufacturing as well as retail segments – The company has reported a healthy CAGR of 35% during FY2021-FY2024 on a consolidated basis. In the manufacturing division, the company witnessed stable demand in the domestic as well as export segments, which reflected in ~12% growth in the top line in FY2024 through a mix of high and low-value units. Further, favourable forex movement also supported the company's revenue growth in FY2024. KDDL has a healthy order visibility, particularly in the watch component export and precision engineering segments and is expected to register steady growth in the current fiscal as well. In the luxury watches retail segment, the local demand grew with the company achieving revenue growth of ~27% from Rs. 789.6 crore in FY2023 to Rs. 999 crore in FY2024. In addition, the company witnessed significant traction in the high luxury segment, which has been growing for the past couple of years. Further, its increasing portfolio of exclusive brand sales augurs well for further growth and profitability. The company also witnessed significant Same Store Sales Growth (SSSG) of ~18% in FY2024, which resulted in operating leverage reflecting in the strong profitability of Ethos Limited at a standalone level. On a consolidated basis, the company's revenue increased by 24% from Rs. 1,119.5 crore in FY2023 to Rs. 1,391.0 crore in FY2024. A healthy demand environment, continued focus on expanding its product portfolio, apart from growing brand tie-ups will support the company's growth prospects.

Improvement in financial risk profile; coverage metrics to remain healthy - With continued increase in the top line and sustained healthy profitability, the company's overall financial risk profile has been improving steadily. At a consolidated level, supported by healthy growth in the manufacturing segment and economies of scale in the retail segment, KDDL posted operating margin of 17.8% and net profit margin of 9.9% in FY2024 against 15.0% and 6.9%, respectively, in FY2023. Moreover, the gearing improved to 0.22 times as on March 31, 2024 from 0.35 times as on March 31, 2023, supported by equity raise in Ethos during FY2024, limited debt dependence and healthy internal accrual generation. Interest coverage and TD/OPBIDTA improved to 9.5 times and 1.0 times, respectively in FY2024 from 5.5 times and 1.5 times respectively in FY2023. Further, the company's liquidity position also improved with equity raise at Ethos and KDDL's stake sale in Ethos in FY2024 resulting in free cash and liquid investments of more than Rs. 500 crore as on March 31, 2024. ICRA also notes that KDDL has received further cash inflow of ~Rs. 45 crore through Mahen Distribution Limited's (a wholly-owned subsidiary of the company) stake sale in Ethos in May 2024. In the absence of any major debt raising plans, the company's coverage metrics are expected to remain healthy, supported by steady growth and profitability.

Established market position - KDDL has a prominent market position in manufacturing watch components, as a leading supplier of watch hands and dials, enjoying established relationships with leading luxury watch manufacturers in the world like Swatch, Tag Heuer, Gucci, Breitling, etc. Further, its subsidiary, Ethos, is the largest organised luxury watch retailing company and the only organised player in the certified pre-owned watch segment in the country and operates from 63 stores spread across 24 cities in India (as of May 2024).

Credit Challenges

High working capital requirements - The company's working capital intensity increased to ~30% in FY2024 from ~28% in FY2023 and is expected to remain high, largely driven by the high inventory levels required at the Ethos' stores, which are expanding at a healthy pace. The manufacturing segment also has raw material and work-in-progress (WIP) stocking requirements and a moderate receivable period given the contribution of exports to its sales. While the inventory requirements are expected to increase, the funding for the same will be through equity raised from the QIP, internal accruals and Ethos' plans to raise working capital debt. With Ethos expected to increase its footprints across the country, along with increasing high-value and exclusive brand sales, the overall inventory requirement will remain high. For manufacturing, KDDL has sufficient cushion in the form of drawing power and utilization, while maintaining healthy free cash balances for its funding requirements. Further, its ability to expand its store network, which depends on the timely availability of store space from developers, will remain critical for the company's planned growth, going forward.

Risk of fluctuating demand amid ongoing global scenario - The company's performance is directly dependent on demand across both its business segments, which mainly rely on discretionary consumer spending. While the company has witnessed healthy growth in the past three years, the evolving nature of the economy and the demand outlook, particularly in European markets will be a key monitorable going forward. The demand in the retail business also remains prone to regulatory headwinds such as changes in Government policies regarding taxation. Further, the company is exposed to competition from domestic players and international markets in the retail business and from other global manufacturers in the component business.

Exposed to forex risks - In the manufacturing segment, the company is exposed to forex fluctuations as it is a net exporter and is highly dependent on the Swiss market. However, the retailing business is a net importer with approximately 40% of its watches being imported. The company, thus, remains exposed to foreign currency fluctuation risk. ICRA notes that the company receives periodic price revisions from brands; and that it practices natural hedging to a certain extent; but there are receivables, which remain unhedged as well, which are prone to variations in foreign currency.

Environmental and Social Risks

Environmental - The company is into manufacturing of watch hands and dials and retailing of watches & generally, the products do not harm the environment or is of any concern to the climate. Further, the company is spending a part of its earning on the corporate social responsibility causes throughout the year. The Company has taken some energy initiatives such as installation of LED lights & power saving equipment across the stores to reduce the electricity consumption and optimum use of air conditioner (AC) at all offices in order to reduce the electricity consumption.

Social - KDDL has high dependence on human capital as requirement of skilled craftsmen and manpower is critical its operations. Retaining human capital, maintaining healthy employee relationships and a safe work environment remain essential for disruption-free operations. The company conducts training sessions for all employees to upgrade their knowledge and skills from time to time. The Company prohibits employment or engagement child force at workplace and expects that its vendors also follow the same.

Liquidity position: Strong

KDDL's liquidity position is **strong** on account of the cushion available in its working capital limit and sufficient cash generation from its business to manage its working capital requirements and debt repayments. The company's free cash and liquid investment levels grew significantly to more than Rs. 500 crore as on March 31, 2024 as against Rs. 207 crore as on September 30, 2023, at a consolidated level, on account of net infusion of funds of Rs. 123 crore (net of capex and one-time dividend payouts) through stake sale in Ethos and funds of Rs. 175 crore raised in Ethos Ltd through QIP. The proceeds from QIP are earmarked for capex and working capital in Ethos. ICRA also notes that KDDL has received further cash inflow of ~Rs. 45 crore through MDL's stake sale in Ethos in May 2024. The repayments are modest as compared to the internal accruals and free cash available. Despite sizable capex plans of Ethos Limited in the near term, the liquidity position of the group is expected to remain strong in the near term.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates significant improvement in its scale and earnings in addition to sustaining its robust debt metrics and strong liquidity position.

Negative factors – Negative pressure on the ratings could emerge if there is a decline in scale of operation or earnings, leading to pressure on its debt metrics. Further, delayed ramp of new stores impacting the overall profitability metrics or stretch in working capital cycle and pressure on liquidity may also warrant a rating review. Debt/OPBIDTA higher than 1.5 times, on a sustained basis, might also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KDDL. The list of companies consolidated are given in Annexure-II.

About the company

Incorporated in 1981, KDDL manufactures watch components like dials and hands as well as precision engineering goods under the brand name, Eigen. The company is a leading supplier of high-quality dials and hands to watch manufacturers in India and Switzerland. KDDL enjoys a presence in Switzerland through its subsidiaries, Pylania SA and Estima AG, who are engaged in trading and manufacturing dials and hands for Swiss watch companies, respectively. KDDL's subsidiary, Ethos, was incorporated in 2003. The company is engaged in retailing luxury watches in India. It retails various premium, and luxury watch brands such as Omega, Jaeger LeCoultre, Panerai, Bvlgari, H. Moser & Cie, Rado, Longines, and Tissot, among others. The company runs 63 retail stores across 24 cities in India (as on May 13, 2024), including New Delhi, Mumbai, Bengaluru, Hyderabad, Chennai and Kolkata.

Key financial indicators (audited)

KDDL Consolidated	FY2023	FY2024
Operating income	1,119.5	1,391.0
PAT	77.0	137.5
OPBDIT/OI	15.0%	17.8%
PAT/OI	6.9%	9.9%
Total outside liabilities/Tangible net worth (times)	0.6	0.4
Total debt/OPBDIT (times)	1.5	1.0
Interest coverage (times)	5.5	9.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: A member of the Board of Directors of ICRA Limited is also an Independent Director on the Board of Directors of KDDL Limited. This Director was not involved in any of the discussions and processes related to the Rating of the instrument(s) mentioned herein.

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022
				May 21, 2024	Aug 10, 2024	Nov 22, 2022	Oct 25, 2022	Jun 09, 2022	Dec 08, 2021
1 Fund-based/Cash Credit	Long term	33.0	35.6	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)
2 Fund-based/Term loan	Long term	24.90	16.5	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)
3 Non fund based	Short term	31.50	NA	[ICRA]A1+	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2
4 Fixed deposits	Long term	15.00	NA	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	MA- (Positive)
5 Unallocated	Long term	2.28	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	-	
6 Fund based	Short term	-	-	-			[ICRA]A2+	[ICRA]A2	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term fund-based – Term Loans	Simple
Non-fund Based	Very Simple
Fixed Deposits	Very Simple
Unallocated Limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund - based/Cash Credit	NA	NA	NA	33.00	[ICRA]A+(Stable)
NA	Fund-based/Term loan	2018	NA	FY2027	24.90	[ICRA]A+(Stable)
NA	Non-fund Based	NA	NA	NA	30.00	[ICRA]A1+
NA	Non-fund Based-LER	NA	NA	NA	1.50	[ICRA]A1+
NA	Fixed deposits	NA	NA	NA	15.00	[ICRA]A+(Stable)
NA	Unallocated Limits	NA	NA	NA	2.28	[ICRA]A+(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
KDDL Limited		Full consolidation
Ethos Limited*	53.83%	Full consolidation
Pylania SA	100.00%	Full consolidation
Kamla International Holdings AG	100.00%	Full consolidation
Mahen Distribution Limited	100.00%	Full consolidation
Kamla Tesio Dials Limited	99.99%	Full consolidation
Cognition Digital LLP	99.99%	Full consolidation
Pasadena Retail Private Limited	50.00%	Full consolidation
RF Brands Private Limited	■	Full consolidation
Estima AG	100.00%	Full consolidation
Favre Leuba GmbH	■	Full consolidation
Silvercity Brands AG	100.00%	Full consolidation

Source: Company, * direct and indirect ownership

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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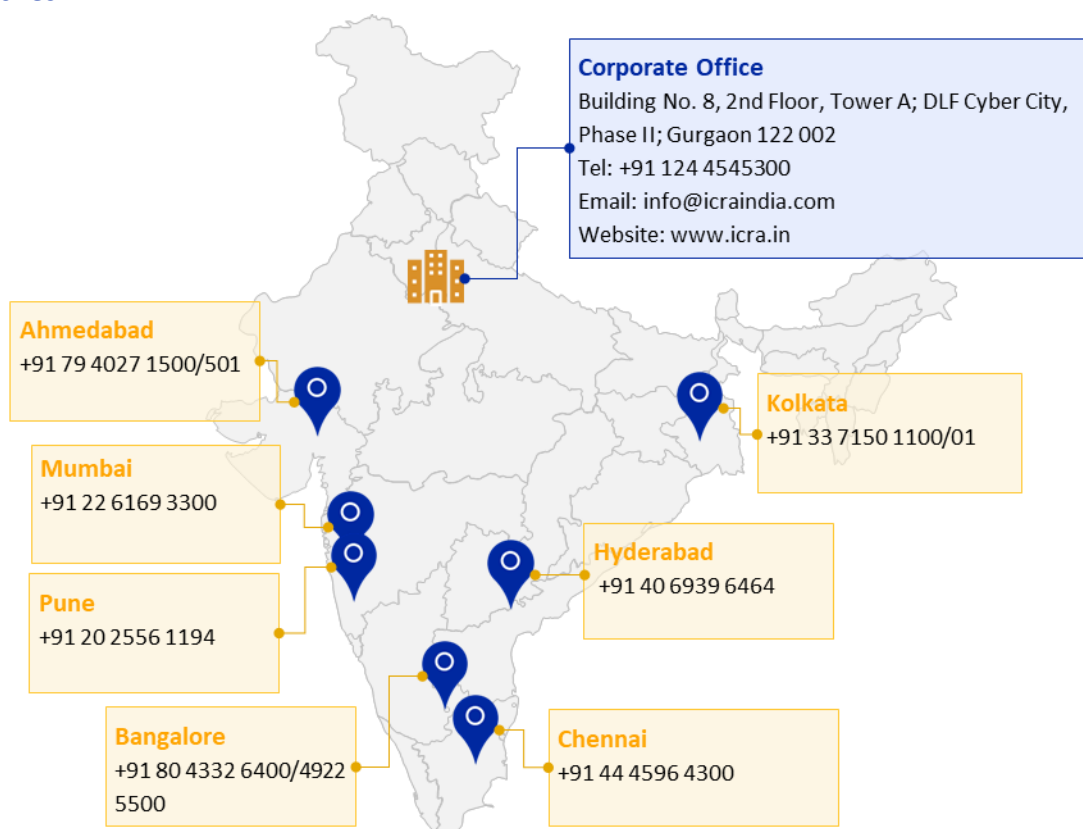


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