"TTK Prestige Q3 FY12 Earnings Conference Call"

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Hosted by

Inga Capital

PRESENTED BY:
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Moderator Ladies and gentlemen good day and welcome to the Q3 FY 12 of TTK Prestige hosted by INGA Capital Pvt. Ltd. As a reminder for the duration of the conference all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing '*' and '0' on your touch tone telephone. Please note that this conference is being recorded. At this time I would now like to hand over the conference to Mr. TT Jagannathan, Chairman of TTK Prestige. Thank you and over to you.

TT Jagannathan Thank you good afternoon all of you. This is about the Q3 performance of TTK prestige. We have had a very good quarter the key highlights of the quarter top line grew by 42% from 240 crores to 340 crores in spite of a slowdown in the economy. EBITDA grew by 25% from 43 crores to 54 crores. EBITDA margins were around 15.9% Q2 as supposed to 15.9% Q3 as supposed to 16.52% in Q2 had a marginal drop of 0.6%. Net profit after tax increased by 18% and EPS grew by 18%. This is in spite of the fact that the rupee depreciated considerably to the dollar our imports for the quarter was $19 million we lost roughly Rs. 5 to the dollar that is 10 crores loss on margin in spite of that we have been able to maintain a good performance. I leave it to ask any questions that you have.

Moderator Thank you so much. We will now begin with the question and answer session. We have the first question from the line of Rahul Bhangadia from Suryavanshi Investments. Please go ahead.

Rahul Bhangadia Congratulations on a good set of numbers sir. I had just two simple questions; one was on the balance sheet side. In the September balance sheet you had revealed a current liability number of 190 crores; could you help us with the breakup of that number in terms of creditors for goods, acceptances and the other liabilities? If you could share with the numbers as of December?

TT Jagannathan One minute we'll have to get the numbers for you.

S. Ravichandran Creditors for goods 129 crores.

TT Jagannathan This is as of Q 3.

S. Ravichandran That includes acceptances.

Rahul Bhangadia Okay so basically you have included acceptances as our creditors for goods, is it?

TT Jagannathan That is right.

Rahul Bhangadia That the number if we include that from 75 you have gone to…

Moderator I think Mr. Bhangadia's line has got disconnected. We will take the next question. Our next question is from the line of Rakshitn Ranjan from Ambit Capital. Please go ahead.

Rakshitn Ranjan Good afternoon sir. I had just three questions. First of all incomes or the transient loan on the balance sheet, can you just quantify as of December what is the amount?

TT Jagannathan As of December 31 the loan is about 90 crores and our total CapEx is supposed to be 250 crores, we have already spent 200 out of that and hopefully from now on this is all loan start dropping.

Rakshitn Ranjan So you do not expect any more transient debt to be raised?

TT Jagannathan No, our average borrowing will not exceed 60 crores on an annualized basis.

Rakshitn Ranjan Okay fair enough and would you expect this loan to be fully paid off before the end of this calendar year?

TT Jagannathan FY 13 March.

Rakshitn Ranjan Okay fair enough. The second question was on price increases, when can we expect and what sort of quantum can we expect in terms of price increase going forward?

TT Jagannathan Actually in terms of the appliances we have already taken a price increase because of the effect of the dollar and rupee unfortunately because all the laws of this country it takes three months to put that it effect, the price increase has come to effect now, so this quarter we will see the prices going up.

Rakshitn Ranjan Okay what was the quantum of on appliances?

TT Jagannathan Between 4 and 7% depending upon the product.

Rakshitn Ranjan And in terms of pressure cooker and nonstick cookware, is there a price increase likely in the near term?

TT Jagannathan Pressure cooker actually there will be no price increase for this quarter, aluminum has been fairly stable and other components those that have gone up those have gone up marginally in price, aluminum will drop the price little bit so that will compensated, we do not expect any price increase in pressure cooker, there will be a marginal price increase in nonstick cookware.

Rakshitn Ranjan Okay fair enough and finally in terms of your reliance on imports for appliances and gas stoves the capacity expansion that you are doing can you quantify where is the reliance on exports headed, is it going to decline substantially, to what extent and…

TT Jagannathan First corrects you there is no reliance on imports of gas stoves, 100% gas stoves are made in India. The appliance business we import in India we make gas stoves and mixes and the rest we do import and we expect to see these going down with the FY 13 because we are moving some of the imports into manufacture India.

Rakshitn Ranjan Okay and this will be the Vadodra unit?

TT Jagannathan No it will be Roorkee actually we get tax benefits there.

Rakshitn Ranjan Okay that is it from me thank you.

TT Jagannathan Thank you.

Moderator Thank you. We have Mr. Rahul Bhangadia from Suryavanshi Trades, was asking the question. We will take a question from your side. Thank you please go ahead Mr. Bhangadia.

Rahul Bhangadia I was disconnected the previous time I was just asking you on the breakup as you gave the breakup so if you could just help us with the breakup more in terms of acceptance is and creditors for goods as well?

TT Jagannathan Acceptances is 60 crores and creditors for goods are 69 crores.

Rahul Bhangadia Okay sir the debt on the books as of December?

TT Jagannathan About 90 crores.

Rahul Bhangadia And just one question on the other liability side, roughly 60 to 65 crores of other liability what would that be, what are the payables on the other side because creditors for goods that would be your biggest expenditure, so what is the 60 crores that is outstanding against?

S. Ravichandran It includes items likes tax provisions, largely tax provision because we pay tax and show it in advance and since it is a liability it is contra.

Rahul Bhangadia But tax provisions are put to the provision side of the balance sheet, right they are not put on the other liability side?

Management 1 7.50 Here we're not talking in terms of schedule 6 balance sheet; we only have a rough balance sheet out of which we are talking now.

Rahul Bhangadia I'm talking about the September balance sheet only the only question was that if the 60 crores is against tax liability then what are the provisions for 90 crores?

S. Ravichandran One second we will take this question a little later once we get the September balance sheet with me. In the meantime somebody else, some of the questions we'll answer them.

TT Jagannathan We do not have the September balance sheet with us right now; we have the December balance sheet.

Rahul Bhangadia You can give me the answer on the December balance sheet as well that is fine with me?

S. Ravichandran We do not prepare in the SEBI format. I will give you the details probably separately.

Rahul Bhangadia Okay thanks so much.

TT Jagannathan Can we have the next question?

Moderator Sure we're going to take the next question sir. Our next question is from the line of Nitesh Sharma from Espirito Santo, please go ahead.

Nitesh Sharma Good evening sir, could you please help us with the breakup of revenue by product as well as growth obviously in the quarter?

TT Jagannathan We will give you by category, pressure cookers grew by 26%, cookware by 61%, appliances by 54%, and total growth was 42%.

Nitesh Sharma Okay and what would be the volume growth for the same?

TT Jagannathan This is all volume growth.

Nitesh Sharma Okay and revenue?

TT Jagannathan Revenue roughly it was the same that was no price increases within the quarter.

Nitesh Sharma Okay and sir there was also talk that you are in talks with a lot of foreign players who are interested to enter kitchen market so what exactly is going on if you can throw some light in that aspect if you are looking for a JV?

S. Ravichandran One second we are constantly on the lookout for getting better and improved products on the same kitchen category. At this time we are in dialogue with quite a few foreign parties, we are at various stages of discussion and in order to keep the confidentiality and then the other related requirements we would make an announcement as and when we are ready to launch the product.

TT Jagannathan We had to make the first announcement in the Bombay Stock exchange if we will it is all in the final stages of negotiation, we will probably sign everything before 31st of March.

Nitesh Sharma Okay sir, thank you very much that is all for my side.

TT Jagannathan Thank you.

Moderator Thank you. Our next question is from the line of Shivani Mehra from Techno Share & Stocks, please go ahead.

Shivani Mehra Sir, I just wanted to know your strategy on how we would tackle any further rupee depreciation since fiscally we have seen a bad situation on the fiscal front in India, how exactly are we planning to tackle this?

TT Jagannathan We have taken a price increase as of now for all the depreciation of the rupee.

Shivani Mehra Correct sir for the coming quarters this will come in this quarter but is there anything that we are looking are we looking to shift some of our outsourcing here?

TT Jagannathan You are absolutely right we are planning to shift a large proportion of the outsourcing into India but this will not happen overnight it will happen over the next seven to eight months.

Shivani Mehra Sir we have capacity for shifting appliance production to India?

TT Jagannathan In fact a largest quantum of import is nonstick cookware and we have just created large capacities in India. We have 9 million piece capacity in India of which nearly 5 million pieces will kick in by April and so we will move back from China to India.

Shivani Mehra Okay thank you so much sir.

TT Jagannathan Thank you.

Moderator Thank you. Our next question is from the line of Reena Patel from I Wealth Management, please go ahead.

Reena Patel Good evening sir. Congratulations on a good set of numbers there are a couple of queries. The first is with regards to the capacities expansion that you are being doing for pressure cooker and the nonstick cookware, so when would this be on steam?

TT Jagannathan Pressure cooker is already on steam we have created additional pressure cooker capacity in Hosur, Coimbatore, Roorkee, they are already functioning we have taken pressure cooker capacity up from 4 million to 8 million per annum and as of now it has kicked in. Cookware we have just started increase its capacity about 5 million we kick in from 1st April and another 6 million will probably kick in by November-December of the calendar year 2012.

Reena Patel Okay and as of now what is the capacity utilization?

TT Jagannathan See capacity utilization is very daily and monthly, we do not produce stock ever we produce the demand. We are always need excess capacity because demand fluctuates we are a seasonal product and demand fluctuates fairly largely and so we need excess capacity to meet the demand always which is what we have built in now.

Reena Patel And sir what percentage of the nonstick cookware has been outsourced, I mean imported?

TT Jagannathan About 50%.

Reena Patel And with regards to raw material cost it has been increasing and in this quarter it was almost 56% ?

TT Jagannathan No the raw material cost has not decreased, it is the cost of the import of appliances that have increased because of the dollar rupee equation.

Reena Patel Are we importing any percentage of raw material?

TT Jagannathan Of our aluminum is not imported we buy largely from Hindalco but it is pint in dollar.

Reena Patel Okay thank you very much sir.

TT Jagannathan Thank you.

Moderator Thank you. Our next question is from the line of Jasdeep Walia from Kotak Securites, please go ahead.

Jasdeep Walia Good evening sir. And what is the quarter on quarter trend in pricing and the consumer appliances division let us say from Q2 to Q3?

TT Jagannathan Q2 to Q3 it was flat.

Jasdeep Walia Okay sir between these two quarters rupee would have depreciated by close to 10%, so…

TT Jagannathan That is why the margin dropped because the law in this country is once you have mark the MRP in China you cannot change it in India. So unfortunately it takes one quarter to increase prices that is why the margin dropped in Q3 because of the dollar rupee equation.

Jasdeep Walia Okay but considering the depreciation in rupee the fall is not much?

TT Jagannathan Yes, that is what we did an extremely good job. We've lost 10 crores on exchanges itself and still managed to maintain that growth in both EBITDA and PBT.

S. Ravichandran We ensured that it is used to our advantage and increase the market share in the market.

Management 1 42% growth in top line.

Jasdeep Walia And this 4 to 7% price increase would be effective completely in Q4?

TT Jagannathan No, not completely we have started kicking in already on 1st January but depending upon which appliances we clear and what prices that we mark on the supplies it will happen from January to February.

Jasdeep Walia So effectively can I take it to mean that the margins that you have shown in this quarter are actually the draft margins and margins should rise from here because you have taken prices increases?

TT Jagannathan You are quite right.

Jasdeep Walia And what is your opinion on the competitive scenario in the consumer planned industry because we have been hearing that a lot of new players are coming into the industries like

Havells would have launched around 4 to 5 months back, then Orient appliances is coming into the market then V Guard is there, so what is your opinion on that?

TT Jagannathan We have not seen any effect in the market yet and we believe that it varies from position so while competition is always competition, in this case we are geared to weather the competition.

Jasdeep Walia Okay understood that is all sir. Thank you.

TT Jagannathan Thank you.

Moderator Thank you. Our next question is from the line of Raj Mohan from Professional Investor, please go ahead.

Raj Mohan Thanks for taking my call and congratulation to the management on a good set of numbers. You talked about the price increases which you have affected from January; you are not seeing any flattening of growth based on price elasticity?

TT Jagannathan No, no slacking of growth at all we will continue to maintain our growth rate.

Raj Mohan Okay you also talk about increase in house capacity over the next one or two years I generally wanted to understand what will be the reduction in the outsourcing from China from the current levels over the next three years?

TT Jagannathan We expect to bring it up to more than 50% in calendar year 12.

Raj Mohan Okay so from the current 25 to 30% of sales it will come down to less than 10%?

TT Jagannathan About 12%.

Raj Mohan Okay the next question is on your operating margins. Your operating margins has been around 16% for the past two years does the management believe in the existence of a further operating leverage as more in-house manufacturing of appliances is happened, can we sort of say over the next 3 years if other things like materials remain stable there is a potential for operating margins to extend closer to 20%?

TT Jagannathan No, that will be too much and very far. No we do believe that the operating margins will go up marginally because of efficiencies not because of moving products from China to India. Moving products from China to India is basically to de-risk it from dollar rupee equation and to make sure that the working capital cycle comes down but we do not expect substantial savings.

Raj Mohan Okay but still there could be some step up in operating margins because of that?

TT Jagannathan No, there will be step up in operating margins only because if turnover goes out overhead cannot go up proportionately to turnover.

Raj Mohan Okay understood. Does the management believes that the base effect is progressively catching up and maintaining topline growth of over 40% will be too difficult or the scope of margin?

TT Jagannathan You are absolutely right of the 50% last year we have done 42% this year even that I think is commendable in spite of the base effect.

Raj Mohan Where do you think it will settle down because the scope of the market is also pretty high and you are also expanding your products portfolio? So where do you think you can settle down at comfortable position?

TT Jagannathan Hopefully for the next five years is if you want me to predict and that is a very wild prediction I predict that we will operate at a CAGR of 25% both top and bottom line.

Raj Mohan Okay thank you so much sir and all the very best.

TT Jagannathan Thank you.

Moderator Our next question is from the line of Rohit Ledwani from Kotak, please go ahead.

Rohit Ledwani Hi sir can you just give me the breakup, the sales breakup at which the numbers you said Cooker is 26%, appliances 54%?

TT Jagannathan That is correct cookware is 51%, total 42%.

Rohit Ledwani Okay is it possible to share what is the EBITDA margin across these products on a blended EBITDA margins?

S. Ravichandran We do not have EBITDA margins across the product line but largely in cooker and cookware our EBITDA margins are 20% or more, in appliances it would be around 12 to 13% depending upon the appliances.

Rohit Ledwani Also can you share some details on your capacity expansion plans', when would be that come up?

TT Jagannathan Like I said we are expanding pressure cookers from 4 million to 8 million that has already come up with in Roorkee, Coimbatore and Hosur. We are also expanding cookware from 3 million to 12 million of that 5 million addition will kick in April and the balance will kick in November.

Rohit Ledwani Okay that is it from my side, thank you.

TT Jagannathan Thank you.

Moderator Thank you. Our next question is from the line of Kalpesh Gothi from Wallfort, please go ahead.

Kalpesh Gothi Good evening sir. What were your total imports as a percentage of sales compared to your last quarter Q2?

TT Jagannathan For the last nine months it is about 40%.

Kalpesh Gothi Okay are we seeing a drastic decline in the FY 13 because we are building our capacity and this will come in on stream by March 13?

TT Jagannathan By March 13 we may take it up on stream completely you are quite right.

Kalpesh Gothi Supposed FY 13 the total import will be close to roughly 25%?

TT Jagannathan FY 13 yes, it will drop to about 20%, FY 14 it will drop further.

Kalpesh Gothi Okay one more question regarding the last two or three years we have seen the less margin in Q4 compared to whole year?

TT Jagannathan Yes that always happens, Q4 margins are always the lower because the turnover is also the lowest so what happens is that the amortization of overheads is on this one because we are a seasonal product company, the last quarter of the turnover is the smallest.

Kalpesh Gothi Are we expected to and the Q4 with the 15% EBITDA margin?

TT Jagannathan Yes, we will achieve that we will do better than last year.

Kalpesh Gothi Okay can you throw some light on your advertisement expenses, what were your strategy because of the last 4 years we have seen that you are spending close to 8 to 9% on ad expense?

TT Jagannathan It is 7%.

Kalpesh Gothi How much is spent till date and what were your target therefore FY13 because we are going to come up with the newer products and the newer categories of products?

TT Jagannathan This year we will spend that for 80 crores and next year we will have it to go up considerably because of the newer products in newer categories.

Kalpesh Gothi Okay which new product you are going to introduce can you share some?

S. Ravichandran We will get back to you on this by March because there are reasons of confidentiality we cannot disclose the…… will be in the kitchen and dining space that is the domain we will be in.

Kalpesh Gothi And one more question what would be interest cost, the cost of debt?

S. Ravichandran See on an average our borrowing is about 60 crores annualized basis, our cost of debt is about 10% you can take about six crores as the absolute rupee cuts of the interest that will be booked in the balance sheet in this year.

TT Jagannathan In this year it should come down fairly dramatically.

Kalpesh Gothi The total CapEx for the whole year is close to 200 crores?

TT Jagannathan Actually our CapEx for 24 months period was 250 crores.

S. Ravichandran And we spent about 170 crores so far balance we spent in the next year financial year.

Kalpesh Gothi Okay by FY 13 it will be close to 250 crores?

TT Jagannathan 250 crores totally.

Kalpesh Gothi Thank you sir.

TT Jagannathan Thank you.

Moderator Thank you. Our next question is from the line of Deepa Mirchandani from UBS Securities, please go ahead.

Deepa Mirchandani Hi sir. I just had one question it is regarding your inventory, current inventory levels where exactly are you positioned?

TT Jagannathan Actually our inventory as of 31st December is quite high because we wanted to protect ourselves on the imports so we imported a large quantity to protect ourselves, it will start coming down fairly rapidly over the next six months.

S. Ravichandran I think you should know about supply chain imports from China, China is practically close to February India especially due to the Chinese new year so we will have to advance the budget in December and this will be sold between January to March.

TT Jagannathan Always December 31st inventory is highest for us.

Deepa Mirchandani Okay but your Q4 sales are generally the lowest, right so we will see inventory buildup being carried forward in….?

TT Jagannathan No, you will see substantial reduction in inventory; purchases will drop fairly dramatically because of the Chinese New Year and so on.

Deepa Mirchandani Okay what about your inventory level that that your dealership basically how are they?

TT Jagannathan Very good actually I would say that inventory with the dealer is less than 15 to 20 days.

Deepa Mirchandani Okay, thank you so much.

TT Jagannathan Thank you.

Moderator Thank you. Our next question is from Rajesh Khanna from Helios Capitals, please go ahead.

Rajesh Khanna My question is that right now when you import your appliances from China what is the per piece cost approximately in China and how would that cost change when you start manufacturing that in India?

TT Jagannathan It depends upon the appliances, various different appliances are different costs we do not expect a substantial reduction in cost but there will be a substantial reduction in the transaction cost because the inventory levels will come down and the stock holding will come down and also the predictability will go up.

S. Ravichandran Our free cash will improve because nowadays we lock in money in working capital in the supply chain that will get reduced that means you will have an extensive ...

Rajesh Khanna Okay thanks a lot. That is the only question I have.

TT Jagannathan Thank you.

Moderator Thank you. Our next question is a follow-up question from the line of Nitesh Sharma from Espirito Santo, please go ahead.

Nitesh Sharma We are expending the time so I just wanted to know how the margins will pan out as new fixed cost kick in?

TT Jagannathan Actually the fixed cost kick in the turnover also will go up so it absorbs the fixed cost.

S. Ravichandran If you're talking differentiating at EBITDA level margins will remain stable rest of them will improve.

TT Jagannathan And also you must remember that capacities we are putting in largely for sales is already doing, importing it from china selling it that will be replaced by products in India.

Nitesh Sharma Right but cooker will take time?

TT Jagannathan No, even cooker will not take time. Even today the entire capacity we are using in this season.

Nitesh Sharma Okay also on the number of PSK stores what is the current status?

TT Jagannathan 340 growing roughly 2 or three a week.

Nitesh Sharma Okay and what is the management target for FY 13?

TT Jagannathan	FY 13 we would be going to 500 stores.
Nitesh Sharma	Okay so that is it from my side thank you.
TT Jagannathan	Thank you.
Moderator	Thank you. Our next question is from the line of Ritesh Chheda from MK Global, please go ahead.
Ritesh Chheda	Good afternoon sir, just couple of questions one if you could tell us in the industry growth rate in the first nine months for cooker, cookware and the kitchen appliances?
TT Jagannathan	There is no strong data on this but they believe from what we see in the market that cookers have grown between 8 to 9%, we have grown by about 26%. Appliances have grown by about 20% we have grown by about 50%.
Ritesh Chheda	And cookware?
TT Jagannathan	Cookware there is no data at all on growth we have grown 51%.
Ritesh Chheda	Second few comments and I just wanted to check in with you and you commented that you have the inventory which you have built up in the December quarter because the Chinese year falls in February which means that these inventories obviously are at a high dollar price and the MRPs are lower?
TT Jagannathan	No, these were ordered after we realized this because they are at new MRP's.
Ritesh Chheda	So they factor our price increases which you have to take in order to get the margins back.
TT Jagannathan	Yes.
Ritesh Chheda	And next year you commented about A&P spends going up will it offset or will it have an impact on the EBITDA margins next year?
TT Jagannathan	No, it'll come out on the margins.
S. Ravichandran	Still about 7% is what we budgeted.
TT Jagannathan	7% is budgeted for advertising and as we grow we spend that 7% unlike other companies where is they grow they cut out on that 7% and they give the bottom line, we do not we want to build the brand very aggressively so we spend that 7%.
Ritesh Chheda	Now in the light of the competition and in the light of the fact that you have grown far too robustly in the last 2 to 3 years, do you think that there is a case that the growth rate moderate

significantly over the next 4 to 5 quarters? And also knowing the fact that the consumption is at least is taking a little bit of it?

TT Jagannathan I am not able to predict that all I can say is that we will see no slowdown in our sales at retail level it is still very robust but if the economy tanks, because the economy growth rate drops to 4% and 3% I really do not know what will happen.

S. Ravichandran Let us look at one picture; in Tamil Nadu in the last 45 days in the proper sales could not take place because of the Mullaperiyar dam problem so these things keep on happening otherwise should have gone much better in the Q3 itself.

Ritesh Chheda Thank you very much and all the best sir.

TT Jagannathan Thank you.

Moderator Thank you. Our next question is from the line of Kuldeep Khanapurkar from Kotak Asset Management. Please go ahead.

Pankaj Good evening sir, this is Pankaj. Couple of questions, one can you help us understand in your new capacity, how long will it take the asset turns to come back where we are because the story of the TTK over the last seven years has been increasing asset turns and when I look at your gross block it is almost from 80 to 85 crores moving to 250-260 crores in next two years which is FY12 and FY13. Can you help us understand how the capacity utilization or the asset turn will start shaping up because to us it seems that the return ratios for the company has peaked out on next couple of years? Can you help us understand that?

S. Ravichandran You are talking about gross block turnover? Now we are building capacities further next 3 to 4 years. The gross block turnover to get an optimal five times it will take 3 to 4 years but we will get there. In the meantime there is no expansion or overheads other than depreciation cost so what we produce out of the factory is we will carry margin not less than the current manufacturing margins we have in other course. It will not affect your EBITDA, it may affect our depreciation increase but that will be offset by the tax saving in it. At the EPS level there won't be any depreciation.

Pankaj I agree on the EPS level at what I was trying to understand is that there could be two ways in which you can expand your ROE and ROCE going forward. What is your, coming back to the same asset turn in your new capacity and the second is increase on the margins? You clarifies the second point, I think increasing margins from here on to one of the questions to 20% probably is not possible so on the asset turns if I have numbers suggest right, last year FY11 you were on 8x, we had a gross dock of about 85-86 crores you have the top line and about 760 odd crores. So just trying to understand that this 8x cannot be repeated in the future any time, right?

S. Ravichandran The ratios cannot decide how the company growth. We are looking at maximizing our market shares. We're looking at the production reduced sourcing may be for these purposes. I cannot assure return on capital but quarter-to-quarter, I can assure you return on capital employed by averaging for a period of 24 months.

TT Jagannathan So I will ask you a question, do you want me are you a profit, are you a ROCE or number of turns and so on. Our ideas to deliver constantly higher profits and higher ROCE. As an example if I grow 100 crores of turnover and make 2% EBITDA on that is 2 crores, if I grow 5000 crores the turn over period 0.2% that is 4 crores so it depends how much you are doing. It's a profit ROCE, profit that we work for, percentage EBITDA doesn't make any sense.

Pankaj That's what I'm trying to understand. So this asset turn probably, I'm just asking in next two years only could come back to 6-7x back do you on a gross block of 270-280…?

TT Jagannathan At the end of three years as for sure.

Pankaj Okay, that's what I'm asking. And also in terms of operating an leverage, do you think any more areas is been left unexploited where you can have operating leverage once you keep going at 25% - 30%, an operating an leverage can kick in more or you think this operating leverage is probably peaked out?

TT Jagannathan I don't understand the question of operating leverage?

K. Shankaran Okay if you're talking about operating leverage on fixed expenses and other things, there will always be improvement. The improvement could be 0.5%-1% and these are very practical. It is Management's philosophy whether to retain it in the balance sheet or spend it further for improving the shares of the companies in the market. So operating leverage will be available, how to use them and take it bottom line or improve the company's future it's a matter of strategic decisions that you make from time to time.

TT Jagannathan Our philosophy to improve EPS every year.

Pankaj Okay, the last question is any tax intensive on your CapEx?

K. Shankaran See, what are we doing in Uttaranchal will carry tax incentive like some of the appliances which we are sourcing from China are going to assemble in Uttaranchal so that will kick in and give us a tax efficiency but still that is the matter it will occur as and when we progress in Uttaranchal that will fade out at some point in time. So in the next 2-3 years you will have the benefit.

Pankaj And last question from my end, which are the new SKUs which possibly over the next couple of years could see from the product portfolio of TTK?

TT Jagannathan I did not understand the question, you repeat it please?

Pankaj Which are the new SKUs which can be possible from the product portfolio on TTK?

TT Jagannathan Which can be possible to do what?

Pankaj Any new SKUs which you think probably large scope is there and probably there could be a chance to exploit that?

TT Jagannathan Yes, we are getting into new types of cookware. We are getting into revolutionary cookware; it is ceramic cookware and stainless cookware. We are also getting into the storage ware and we're getting into water filters. We believe there are large scope in the areas that we are getting into.

Pankaj Water filters, is it similar like Aqua guard or thing like that?

TT Jagannathan Can not tell you now.

Pankaj Okay, all the best sir and hopeful you keep on delivering. Thank you.

TT Jagannathan Thank you.

Moderator Thank you. Our next question is from Aliasgar Shakir from Ellara Capital. Please go ahead.

Aliasgar Shakir Sir, first of all just wanted to understand in view of the slowdown and there is anticipation of discretionary spend reducing. We are also seeing white good is getting impacted very sharply. I just wanted to understand the outlook in the categories we operate and what is the outlook in terms of the industry growth rate?

TT Jagannathan We are not seeing any slowdown anywhere. It still seems fairly robust I think probably because you don't have to borrow money to buy a pressure cooker so the fact that the interest cost have gone up and so on and the tight money supply that does not seem to affect us.

Aliasgar Shakir All right and sir what would be the industry ballpark rate growing and what could be our internal guidance in terms of the growth in the electrical appliances?

TT Jagannathan We have grown in electrical appliances by 450% over the last five years and I believe we will continue at growth rate at least for the next two three years.

Aliasgar Shakir All right. I just wanted to understand the number of; we are reducing our imports over the next two years and would be taking more producing in-house. What could be the incremental margin improvement that we can expect this to kick-in in our numbers?

TT Jagannathan As I explained earlier I don't expect a substantial margin improvement because our costs are not as much lower than China. What you would see is improvement into working capital cycle, turnover of inventory, turnover of debtors; you will see improvement in financial management. So turn tax cost will go down so you will see it coming down.

Aliasgar Shakir Sir, one last thing just wanted to understand the management's approach towards the margin, in that sense if at all for the new capacity that comes in, if the operating cost moves up even a raw material prices move up, would be keep the margins in the range of about 16% and maneuver with the ad spend that we have about 7% or we would probably keep the ad spend fixed at 7% probably help margins to come down?

TT Jagannathan No we will increase prices to make our margins stay stable but we will not reduce ad spend. Our most important asset is our brand and that is something we will continue to support.

Aliasgar Shakir All right and what about since we have CapEx coming in, it might have a higher operating costs also coming in the next FY13 as well as 14 so probably the operating leverage would be low in that case?

TT Jagannathan How do you say that? How do you say operating costs will go up? The turnover will go up much faster than the cost.

K. Shankaran It has hardly had effect in the past also. These new factories do not create new ID over its ForEx except the depreciation is at fixed write-off. Another thing we are not going to employ thousands people in one factory and then we'll say what we're waiting for market to….. These are all automated machines which employs less number of people there is no question of any overhead whichever cash outflows so it is not going to affect us.

Aliasgar Shakir All right, thanks a lot.

Moderator Thank you. Our next question is from the line of Anshul Mishra from ING Mutual Fund. Please go ahead.

Anshul Mishra My question was regarding the expansion plans that you have. If you can please share with us the expansion plans within various categories and facilities and per facility if you can share with us how much additional CapEx is required over next 1 to 2 years?

TT Jagannathan Like I said CapEx is already being budgeted at 250 crores and that will expand capacity of pressure cooker from 4 million to 8 million, of cookware from 3 million to 12 million and in selected appliances will be adding capacities.

Anshul Mishra Okay and the CapEx that is required is already budgeted in the 250?

TT Jagannathan It is already budgeted in the 250, yes, completely.

Anshul Mishra Okay and what is the timelines for like you mentioned that for cookware by April you will see 5 million kicking in and balance will come in November. What would be the stage for pressure cooker?

TT Jagannathan It's already come in. It's already kicked in.

Anshul Mishra The 8 million has already kicked in?

TT Jagannathan Yes.

Anshul Mishra Okay, that's all from my side. Thank you.

TT Jagannathan Thank you.

Moderator Thank you. Our next question is from the line of Arun Baid from IDBI Capital. Please go ahead.

Arun Baid Sir, just wanted to understand in electrical appliances or kitchen Appliances as we say, which product categories are doing really well for us?

TT Jagannathan The absolute star is induction cook tops and the second is rice cookers, they are really growing fairly dramatically.

Arun Baid Sir, can you give some numbers because last year you said induction cook tops were about 100 crores, so where would we be right now?

TT Jagannathan 200 crores.

Arun Baid Okay and with regards to growth for next year would you like to give some guidance like what kind of growth you are expecting next year in FY13 for the company wise?

TT Jagannathan We have not got the detail, budgeting would be ready there about in a month.

Arun Baid Okay, thank you sir.

Moderator Thank you. Our next question is from the line of Paras Adenwala from Capital Portfolio Advisers. Please go ahead.

Paras Adenwala Just two questions sir, one, if you could just explain what is it that makes TTK Prestige so different as compared to competition especially in the cooker segment where you are growing at almost 3x the industry? And second, could you give us split between rural demand and urban demand?

TT Jagannathan Yes, I'll tell you why we grow much faster than the competition; it is innovation, innovation, and innovation. 80% of our pressure cookers sales is product launched in the last 3 years and the competition unfortunately or fortunately for us is not catching up with our innovation and that is the main reason why we are growing so fast, also we give consumers good value for money.

Paras Adenwala Okay and in terms of split between rural and urban demand?

S. Ravichandran We don't have data for urban and rural demand because the consumer seems to be moving from urban centers to rural centers. To give you an idea we have got the spread over 160 towns which covers the metro and mini Metro and tier-3 markets and the growth is coming across all the stores so we believe that the growth are similar to urban and non-urban places.

TT Jagannathan We don't track rural sales because we don't have any stores in rural areas. We have stores in Tier-3 markets and the rural consumer comes there to buy. All that I can tell you that Tier-3 markets are growing as rapidly as urban markets.

Paras Adenwala Okay, thank you very much.

Moderator Thank you. Our next question is from the line of Kalpesh Gothi, a follow-up question from Wallfort. Please go ahead.

Kalpesh Gothi Thank you very much for giving me an opportunity once again. My question belongs to the recent price increase that you have taken. I just want to understand the proportionate increase in the cookware and kitchen appliances?

TT Jagannathan Pressure cookers we have not take any price increase, in cookware between 3% and 4% and in appliances between 4% and 7%.

Kalpesh Gothi Fair enough sir. Just one more clarity rather needed, we are seeing that the current food security Bill would be formed and it will allow. So have we factored in this aspect also into our growth targets?

TT Jagannathan How will that food security Bill affect us?

Kalpesh Gothi That is my question. Is there any way that will be affected by that?

K. Shankaran See, it won't affect us. Food security Bill is that they are going to put more money into pockets of the rural people.

Kalpesh Gothi Absolutely.

S. Ravichandran Okay. It will have two effects, one they will have purchasing affect therefore the wage cost will go up; these are two things effects that will occur.

TT Jagannathan I will tell you one thing honestly, we do not know that how this food security Bill is going to be funded by government? How it is going to play out and if the money really going to go to the rural margins or it is going to go to the middlemen. We will have to wait and see how it plays it out.

K. Shankaran To the extent it trickles down to the consumer who does not spend on alcohol and things, which will come back as a purchasing…..

TT Jagannathan I think the single largest growth tenure will be alcohol.

Kalpesh Gothi Your assumption is may be right. I don't disagree with that but in case it trickles down to the lower strata where it is subjected to we might see greater demand coming from that strata?

TT Jagannathan I hope you are right.

K. Shankaran Then you have to further expand your capacities.

Kalpesh Gothi So we haven't taken any consideration of that in our books?

K. Shankaran No-no. We have not factored that at all.

TT Jagannathan To begin with I don't even think that bill will pass.

Kalpesh Gothi Fair enough. Thanks a lot

Moderator Thank you. Our next question is from the line of Shradha Sheth from Antique PMS. Please go ahead.

Shradha Sheth Just one question, with appliances growing in our overall sales mix from say 80% few years back to almost 35% plus now. And do we see some deterioration in our pricing power mainly because we are seeing when we speak with the dealers; we see a lot of promotional schemes in the market to promote appliances as a category. So we generally see bundling up of some products like free product being sold along with our cookware so are we seeing any of that?

TT Jagannathan All this is already budgeted. The margins that you are seeing now is after all that.

Shradha Sheth Okay so basically this should not impact our margins with all these?

TT Jagannathan No-no.

K. Shankaran Just to continue with the philosophy. We explain this when you we present in the last meet. We have very clearly see that we are company which sells doesn't sell products design by itself only for there we can pull your induction cookware separately you will not have any takers. So only the bundle of the cookware goes along with that you get the growths…...

Shradha Sheth Okay so basically it is also to keep our dealers constantly being interested in our product ranges with that?

K. Shankaran It is a solution to the consumer and not the dealer.

TT Jagannathan But every aspect, every three quarters should benefit. We must benefit, the dealer must benefit, the consumer must benefit.

Shradha Sheth Okay but all in all it doesn't impact our pricing power and hence our margins?

TT Jagannathan No it does not. Remember that the margins we are delivering are after all those discounts and freebees.

K. Shankaran There is no free lunch.

Shradha Sheth Okay, got it thank you sir.

TT Jagannathan Thank you.

Moderator Thank you. Our next question is a follow-up question from the line of Deepa Mirchandani from UBS Securities. Please go ahead.

Deepa Mirchandani Hello sir. Thanks a lot for taking my question again. Actually I was just looking through the cookware segment and the numbers you provide in an annual report. The units you purchased in the cookware segment which are supposed to go away because you have increased your capacity; you will be increasing your capacity. The costs of that purchasers comes out to be around Rs. 217 or something and the average realization for your cookware segment is around Rs. 435 so it is almost like double the profit that you are getting on those purchases you make for resale. Sir, if you are going to reduce those purchases so that would mean essentially sort of margins reductions in the cookware segment from currently 20%, I mean, some sort of impact?

TT Jagannathan Why because we make it as efficiently as we like, it would be very stupid for me to make it according to cost would it not. If we make it we make it at best, at worst same price will bought but never higher.

Deepa Mirchandani Okay so you are saying that you would probably be making at, you would be maintaining that sort of margin.

TT Jagannathan At least.

Deepa Mirchandani Okay, thank you so much.

TT Jagannathan Thank you.

Moderator Thank you. We have a question from the line of Raj Mohan, a follow-up question a professional investor. Please go ahead.

Raj Mohan Thanks for taking my question again. Just wanted one clarification on the staff cost. I just was wondering the staff cost for this quarter is gone up significantly. When you compare this year's staff cost to the previous two years because normally the third quarter supposed to be the highest volume quarter, where in your overheads get's absorbed in a bit of fashion so staff costs as a percentage of sales comes down between 2nd and 3rd Quarter. But this time the staff cost seems to have gone up so I was just wondering whether there is any incremental bonus element or any increments or is it purely the effect of labor in your new plants being booked to P&L?

TT Jagannathan No, it is not the labor in the new plant; it is labor in the old plant. We just signed an agreement to the labor in Hosur. As you know in India the older appliance higher the labor cost our new plants are very efficient. This is a one-time deal, it has four year settlement and this will happen every four years that one quarter is the will be substantial jump.

Raj Mohan Okay, thank you so much.

TT Jagannathan Thank you.

Moderator Thank you. Our next question is from the line of Girish Solanki from Anand Rathi. Please go ahead.

Girish Solanki Good evening sir and thanks a lot for taking my question. Sir my question is pertaining more on the tax rate front and you mentioned about the UT facilities coming in the tax rate reducing. Currently we are paying around 30% tax rate, what will that be next year and year after that?

K. Shankaran Tax rate is around 29%-30% because Uttaranchal contribute comes in, the other contribute and other factors also go up.

TT Jagannathan So the proportion will be similar so for the tax to go up around the finance will have to reduce tax rates.

Girish Solanki Okay so basically expected to be on the similar lines. And what is PSK as a percentage of sales, what is PSK basically contributed? It has basically grown from 15% to 20%?

TT Jagannathan That is correct, it is doing extremely well.

Girish Solanki Okay and another data keeping question will be basically on the segmental front, you mentioned about the growth rate but we do not have the absolute number for cookware appliances and cookware. If you could share those numbers with us for the three months and nine months?

TT Jagannathan I can give you the values. Cookers have gone up from 91 crores to 115 crores that is 26%. Cookware from 49 crores to 74 crores that is 51%, appliances from 92 crores to 142 crores at 54%, all for Q3.

Girish Solanki Okay and nine months, if you could call that data?

TT Jagannathan Nine months cookers have gone up from 246 crores to 323 crores that is 31%, cookware from 114 crores to 181 crores that is 59% and appliances of 208 crores to 359 crores that is 73%. Our nine months total will grow up to 50%.

Girish Solanki Okay that will be all from my end thanks a lot.

TT Jagannathan Welcome.

Moderator Thank you. Our next question is from the line of Chirag Setalvad from HDFC Mutual Fund. Please go ahead.

Amar Thanks sir, this is Amar from HDFC. Just one question on staff cost, you mentioned that there was a wage agreement at the Hosur Plant. Can you tell the impact of that and was there any one time cost incurred Q3 for that settlement?

TT Jagannathan The impact actually per piece produce actually will not go up so when we give substantial cost salary increases we match it with the productivity increases but staff cost will appear at balance sheet because it is disproportionate increase for that quarter then after it was slowly start coming down as percentage.

Amar Okay this run rate 21 crores, is it fair to say that this would be the quarterly run rate going forward per staff?

TT Jagannathan One minute, which number you are referring to?

Amar Staff cost?

TT Jagannathan That will be in the range.

Amar Okay thank you very much sir.

Moderator Thank you. We have next question from the line of Kavya Subramaniam from Capital Market. Please go ahead.

Kavya Subramaniam Good evening sir. Can you please share with me the growth retarded growth rate for a FY12 and FY13?

TT Jagannathan FY12 we have given indications that we will grow at 40% top line and 40% bottom line. We will stand by that guidance that we have given. FY13 we are not yet ready, we would be able to give you that guidance in about a month.

Kavya Subramaniam Thank you.

TT Jagannathan Thank you.

Moderator Thank you. Our next question is a follow-up question from the line of Rahul Bhangadia from Suryavanshi Investments. Please go ahead.

TT Jagannathan Yes, we have the information for you now.

Rahul Bhangadia	Okay sir.
K. Shankaran	Mr. Bhangadia you are having the September balance sheet with you?
Rahul Bhangadia	Yes, the September balance sheet is in front of me, sir.
K. Shankaran	Yeah, the provision figure of 93.8 is now 109 and then 189. 62 for the period of December it is 178 and which includes creditors.
Rahul Bhangadia	Now this 178, this includes how much of other liabilities sir?
K. Shankaran	126 was creditors I told you, the balance represent other liabilities. You want further details I can tell you later.
Rahul Bhangadia	Sir, you could just help us with the rough sense of what these other liabilities are? Who are the people you are supposed to pay because creditor for goods is the biggest expenditure that we have that is already standing there.
K. Shankaran	Other liabilities will include liabilities for expenses, liabilities for another provisions and gratuities.
TT Jagannathan	If you want any further details please do write to us and we would reply in detail to you.
Rahul Bhangadia	Sure sir. Thank you.
Moderator	Thank you. Our next question is from the line of Shraddha Shah from Nirmal Bang Securities. Please go ahead.
Shraddha Shah	Firstly did we launch any new products in December quarter?
TT Jagannathan	Yes we have launched already, in late December and we have launched ceramic cookware. It kept about hit the markets by end December.
Shraddha Shah	Okay and could you comment on your institutional business and how it is doing?
TT Jagannathan	What do you mean by an institutional business?
Shraddha Shah	Sir, your institutional sales to HPCL, BPCL and….
TT Jagannathan	It is not going very well, it is flat. No growth.
Shraddha Shah	Okay fine. Sir, that is all from my side, thank you.
TT Jagannathan	Thank you.

Moderator Thank you. Our next question is from the line of Atul Pandit from Vantage Securities. Please go ahead.

Atul Pandit Thank you sir my question. Actually as we know the 4^{th} Quarter will be a low turnover quarter so essentially are we effected price increases in this quarter which are coming to affect to in the 4^{th} Quarter so do you think that will impact our volumes negatively?

TT Jagannathan No-no, it will not. We will continue to grow at least 40%.

Atul Pandit Okay so you don't see any negative impact of the price increases taken?

TT Jagannathan No, they will improve our margins from last year.

Atul Pandit Okay and sir, your exports figure if I'd missed it, I'm sorry?

TT Jagannathan We have not yet given you the expert figures, actually the export figures for the nine months period is about 20 crores compared to about 15 crores last year in Q4. Our total imports should be in the region of 33 crores.

Atul Pandit Okay, thank you sir.

Moderator Thank you. We have a follow-up question from the line of Girish Solanki from Anand Rathi. Please go ahead.

Girish Solanki Sir, could you share the details of the acquisition that we are contemplating basically the Triveni in Maharashtra? At what stage are we?

S. Ravichandran Okay we have already referred the matter to the board to say how to go about this legal process. Pending that we are in a position to utilize the capacity of the plant, so the capacity utilization will kick in from April onwards and further details will be able to throw light as the Board completes its decision.

Girish Solanki But what will be the costs us, will it be around 30-40 crores?

S. Ravichandran We all come back to you because there will be share swaps there once we complete the attempts of the acquisition.

Girish Solanki And what about Gujarat, you are finding some orders in Gujarat?

S. Ravichandran The Gujarat kick in the next year financial year.

Girish Solanki Next financial year? But we have close to….

TT Jagannathan	It is in the process of acquisition of land and it is in the process of getting government approval and everything and hopefully we should be starting construction by January end-February.
Girish Solanki	So we have already spent around 31 crores on the acquisition of land and you will be spending 70 odd crores in building and machinery over there?
TT Jagannathan	You are absolutely right.
Girish Solanki	Okay fine, thank you.
Moderator	Thank you as that was the last question. I would now like to hand the call over to Mr. TT Jagannathan Chairman of TTK Prestige to add some few closing comments.
TT Jagannathan	I thank all of you for all the patience and the time that you have taken to ask all the questions. I was impressed with the quality of the questions. I hope we would be able to give you good answers. What surprises me that company is doing extremely well and the share market is as usual very…... I do not understand the share market to be honest but I can tell you that the company is robust and continuing to do spectacularly. Thank you.
Moderator	You are most welcome Mr. Jagannathan. On behalf of INGA Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.