



“TTK Prestige Q1-FY13 Earnings Conference Call”

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MODERATORS: MR. BHASKAR BUKREDIWALA – ASSOCIATE DIRECTOR, CRISIL EQUITY RESEARCH



Moderator	Ladies and gentlemen good evening and welcome to the Q1 FY13 Earnings Conference Call of TTK Prestige Ltd. hosted CRISIL Equity Research. As a reminder 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. I would not like to hand the conference over to Mr. Bhaskar Bukrediwala – Associated Director, Equity Research at CRISIL Research. Thank you and over to you.
Bhaskar Bukrediwala	Good evening everyone, on the half of Crisil Equity Research I welcome you to the Q1 FY13 results concall of TTK Prestige Ltd. I have the pleasure to have with us the senior management of TTK Prestige represented by Mr. S Ravichandran – Managing Director, Mr. K. Sankaran – Director Corporate Affairs and Mr. V.Sundaresan– CFO. During course of the call we will discuss the main factors that grow the operational and financial performance of the quarter and provide insight on the overall business scenario which will be then be followed by a question and answer session. I would now like to hand over the call to Mr. Sankaran and his team, over to you sir.
K. Sankaran	Good evening everybody. First many thanks for taking this conference call and I think quiet of you are tuned. Just to give you a brief the 1st Quarter of has really good one and we did a 30% growth against the backdrop of slowdown of Indian economy as talked by everybody and we also improved our margins and registered EBITDA growth of 28% from 37 to 48 crores and the the broad point is that grown both in volume and value and we are looking forward to 25% the present growth for overall major 12-13. We already booked key facts on the website this morning and you can please ask the questions and we will answer to the best of our abilities. Except those questions where we believe that something would be market competition sensitively we will answer on that otherwise we will freely friendly share whatever we can share with you.
Moderator	Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from Achal Lohade from JM Financial, please go ahead.
Achal Lohade	Only two queries, one on the capital employed, if I see sequentially capital employed for kitchen appliances has gone up from 340 crores to 433 crores, just wanted to get the sense as to what this driving, is it only the CAPEX which is increasing the capital employed or it is more than that?
K. Sankaran	It is capital employed on the apparel perception increasing because of the investment in the working capital not because of capital expenditure.
Achal Lohade	It is which segment particularly, if you could identify. Is it possible to identify?
K. Sankaran	Even now we are applying the sections, there are capital employed both in the traditional pressure cooker and cooker where they are going on adding about 300 crores of CAPEX for last two years and there is addition in updated appliances in terms of net investment in working capital these are the two components.
Achal Lohade	The other expenditure grew by 6% YoY as against sales growth of 30%. So I wanted to know where has been the cost saving as such and how do you see the margins for FY13 as a whole?

- S. Ramchandran** No not necessary, we as have been said this time and again we are giving guidance of between 20 to 25% growth in turnover and profits. The quarter wise expenditure growth versus the sales growth is a matter of various market factors and what we do. They are necessarily not to be confused with whether they will increase the margins or decrease the margin from the guidance.
- Moderator** Thank you. The next question is from Yuti Dalal from Corporate Database, please go ahead.
- Yuti Dalal** I had a couple of questions, firstly you talked about the growth target for FY13 at about 22% to 25% top line growth which Mr. Jagannathan has talked about in an interview earlier as well. He also mentioned that expected EPS for FY13 is 140, it was Rs.100 in FY12 so that means you are expecting 40% growth in EPS?
- V. Sunadaresan** There is a little bit of confusion in that statement and when the team interview happen sometimes the questions are not understood clearly what he was talking about is to be able to reach about 140 crores in terms of post tax profit so not exactly 140 EPS of courses that thing would have comes through we should be able to another figure.
- Yuti Dalal** The other question I had was on the new venture, how the new ventures are doing you started the Coral business, how is that picked up so far and you also talked about our starting Mayer in June 12 so how is that going as of now?
- S. Ravichandran** The coral business was really started in the month of June for the first month and right now we are in July we are feeling the pipeline, the pipeline feeling itself will take up to August between Coral and the other brands Corningware and Pyrex and etc. So at this point of time distribution expansion and pipeline feeling is going down I think we should give ourselves a little bit of time to study and because the season is coming, India is a big season from August onwards so I think we should give ourselves time for 2 to 3 months to fill up the pipeline wait for the season to come and then make the evaluation.
- Yuti Dalal** Okay is Mayer is already in place as well do you have that distribution?
- S. Ravichandran** The Mayer cookware again is there is going to be distributing that in the month of July end or August beginning we just said that had I think a couple of months delay in receipt of the products so once again I think in the third quarter we will really feel on how the products are getting accepted both at the trade level and at consumer level.
- Yuti Dalal** Okay and then do we also I think earlier in another call you had mentioned that the expected revenues from the high-ups is about 60 crores in FY13 about 100 crores in at FY14 do you still maintain that all sequential?
- S. Ravichandran** Obviously maintaining that on the basis of the current plan.
- Yuti Dalal** Okay I have just one last bookkeeping question what is the current debt on the book as on quarter end?
- V. Sunadaresan** Debt is about 70 crores.
- Yuti Dalal** And cash?

- V. Sunadaresan** Floating cash is there it is about 7 to 8 crores.
- Moderator** Thank you. The next question is from Aliasgar Shakir from Elara Capital, please go ahead.
- Aliasgar Shakir** First of all just had a bookkeeping question, actually you have already mentioned on your website the segmental breakup but I was just looking in the appliance, actually previously you were giving electrical appliances and gas segment separately could you breakup that for me for this quarter 122 crores how much is gas stove and how much is electrical appliances?
- S. Ravichandran** Gas stove for the quarter was 27 crores as compared to 24 crores previous year.
- Aliasgar Shakir** The other thing which I wanted to know is could you tell me the ad spend as the percentage of revenue for this quarter?
- S. Ravichandran** We plan to spend between 6 to 6.5% in advertising apart from the trade related scheme this is necessarily not to be spent in particular way in terms of equal etc, it depends upon the market conditions and the amount of range that we have, the amount of new products that we have introduced and when we introduce etc. and I think this quarter it is 5.6% putting in a little bit more weight in advertising in the second and the third quarter during the season.
- Aliasgar Shakir** If I understand correctly maybe because you're new products will now be launched and we can see this ramping up at a higher pace launched towards products so I mean that will be part of other expenses I believe?
- S. Ravichandran** Yes part of the other expenses.
- Aliasgar Shakir** The other thing I wanted to understand is I was reading the Chairman speech which was focusing on the microwave pressure cooker that we are exporting and we expect as a percentage of sales to grow, can you just throw some light on about what the geographys' we are focusing and what is the traction we are getting?
- S. Ravichandran** We are exporting microwave pressure cooker to many countries USA, UK, Germany, France, Japan, China, Korea and also some other countries like the Middle East etc. the majority of the sales today is coming from Japan and because the US and the other countries are not increasing but the majority is coming from Japan.
- Aliasgar Shakir** Would you be able to give a number that we are doing right now and the amount of ramp-up we expected in terms of sales number from this particular product category?
- S. Ravichandran** Microwave pressure cooker, we hope will be touching about 900,000 to 1 million during this year.
- K. Sankaran** If everything goes well in Japan we would definitely do 1 million, a product of this nature which captures an instant attention of the consumer always tries to bring copycats and I am sure Japan manufacturers are no exceptions so while we make our plans based on the current run rate if it goes it is possible if not perhaps 800-850 in that range will be there.
- Aliasgar Shakir** What would be the approximate ballpark figure we might have done last year?
- K. Sankaran** Last year we did 1,20,000.

Aliasgar Shakir	So this is like significant huge jump.
K. Sankaran	Yes a significant ramp up in trades in terms of microwave cooker exports.
Aliasgar Shakir	Would you be able to tell the value number probably it is 1 million will get sold I do not know the rate in which you sell?
K. Sankaran	That is exactly which I do not want to say in terms of value because then everybody will know what price we are selling by dividing you can come down to our office and have a cup of tea and then I will tell you.
Aliasgar Shakir	The other thing is there was some news that we are also looking at acquisitions overseas do we have a mandate in our hand or any particular target that we are looking or any geography or anything like that?
S. Ravichandran	There is a dream and there is a plan, acquisition is a dream as soon as we hear the plan and we will tell you.
Moderator	Thank you. The next question is from Gautam Chaocharia from UBS, please go ahead.
Gautam Chaocharia	A quick question can you give us some sense in terms of mix of the induction friendly cookers and the cookware?
S. Ravichandran	What exactly do you want?
Gautam Chaocharia	How much percentage of cooker and cookware came from induction ready cooker and cookware?
S. Ravichandran	The ratio is not very different compared to last year because it was only the first quarter I think once again it is a bit of sensitive information but we can tell you anyway it is about 30% plus easily.
Gautam Chaocharia	Last year I think by the end of fourth quarter we got a sense it is about 50% plus in cookers?
S. Ravichandran	This is due to market dynamics every product has its own mix like we have several models and several varieties in this one and naturally as the market dynamics demand we are supposed to go up or down.
Gautam Chaocharia	But it is a similar number as last year, it is not gone up as a percentage?
S. Ravichandran	Within this industry and within this company if you want to think that growth of only induction ready pressure cookers is going to be the sole indicator of the prosperity of the sales growth that is not right we have an entry-level pressure cookers, we have the top in pressure cooker and then we have in between aluminum induction ready pressure cookers that consumers decides on what they want, season decide what they want there for quarter wise there will be variations but I do see as FY13 progress and even in FY14 our average business or ratio of induction ready pressure cookers will increase year after year.
Gautam Chaocharia	And what is the value of the induction cook top is sold in the first quarter?
S. Ravichandran	Cook tops is 38 crores.
Gautam Chaocharia	Compared to what last year?

- S. Ravichandran** We had a 70% growth. About 65% of the growth between over Q1 of FY12.
- Gautam Chaocharia** And one last question what is the update of the capacity expansion in terms of timing?
- S. Ravichandran** Capacity expansion we have given that we will be able to complete the Gujarat plant by about December. January we should be able to produce from there.
- Moderator** Thank you. The next question is Rakshit Ranjan from Ambit Capital, please go ahead.
- Rakshit Ranjan** I just wanted to check, what was the price hike taken during the quarter?
- S. Ravichandran** The price we actually took in March end about 7% to 8% price increase in aluminum pressure cooker and about 3% in cookware.
- Rakshit Ranjan** All right and nothing in the appliances during the quarter?
- S. Ravichandran** No, in appliances we do revise in the month of February and again in some appliances in the month of June, we have raised the price upward by anywhere between 4% to 5%.
- Rakshit Ranjan** If you can just give a sense of to what extent have we seen import substitution or rather in-house manufacturing of nonstick cookware for the quarter, I mean given that the last quarter oppose to..
- S. Ravichandran** Quarter is done, it is annual plan because it depends upon how we ramp up our manufacturing capacity that we are putting in but as you know, as you have been regularly in touch with us but the very clear plan to increase the indigenization of the production and move away from imports. During FY13 substantial improvement will be made and in FY14 we would have tilted the balance dramatically towards overall indigenous production not only in cookware but also in some other appliances.
- Rakshit Ranjan** Just one final point, elaborating on that export discussion that you had minutes ago. The countries that you highlighted the way microwave cookers and other products are being exported, these are being sold in Prestige's own owned brands or is that an outsourcing across all countries?
- S. Ravichandran** No, they all of them are under OE brands except to Middle East, all of them are OE brand that the other party brands. Except in Middle East where we sell prestige brand.
- Rakshit Ranjan** Is there a specific thinking in terms of medium to long-term strategy on outsourcing versus buying a brand or distribution model? When it comes to export expansion is the purchase of a brand and the distribution model you think a better strategy rather than outsourcing it across countries?
- S. Ravichandran** I think you all know that we own Prestige Brand in India, we do not own it outside so any other brand creation, any other own brand means you have to create a new brand, given that globally many brands are very strong in each of these markets, I think it will be a very good strategy to provide good designs products at a right price and let them take care of the selling and distribution and marketing. There is enough money in such a strategy, of course, wherever opportunity rises, if there is a brand available we will acquire it and then exploit that brand with our technology and our products but as Shankran said a few minutes ago that there is a dream and there is a plan but clearly towards outsourcing if you would like to call it or OE brands would be the way the exports will grow.

Moderator	Thank you. The next question is from Ankit Babel from Shubhkam, please go ahead.
Ankit Babel	My first question is that in this quarter what was the volume growth overall?
S. Ravichandran	We had significant volume growth, in pressure cooker the average growth was about 23%, in cookware 22%, in induction cook top about 60 plus percent and in other appliances between 15% and 30%.
Ankit Babel	How much you said for pressure cookers?
S. Ravichandran	Pressure cookers 22% volume growth.
Ankit Babel	As you just mentioned that you took a price hike of 7% to 8% in aluminum and pressure cookers and around 3% in your cookware in February. Any chance for any more price hikes in the near future?
S. Ravichandran	I think, price increase in the function of cost increase in case of aluminum, aluminum is trading low today in the LME market, so our assumptions of input cost quite favorable with effect to the current LME traders so we do not believe that there is any necessity in order to take price increases to shore up margins. In the case of appliances dollar import I definitely have a problem with that, we have taken some prices as I told you a few minutes back, we are rationalizing the prices, we are looking at how to sell at the lower cost or so on. Continues price increase is not a solution to this problem because dollar might drop to Rs.45 tomorrow so we need to balance it so all the pressure cookers and the cookware or current trends no further price increases is there. All appliances we are quiet with a later price increases we are okay for the dollar import rate and we do not unless the dollar goes to Rs.60 or Rs.65 I do not see any further price increases.
Ankit Babel	You just mentioned that slowly and gradually you are shifting all your production indigenously so your dependence on imports would be minimum?
S. Ravichandran	Not minimal reduced.
Ankit Babel	Just one thing that if suppose the rupee comes back to 48-50 levels then will you go back to Chinese imports?
S. Ravichandran	No, not at all there is a lot to be said about domestic manufacturing, indigenous manufacturing controls. Material controls you can do much better in terms of new design, control inventory is much better. We used import as a strategy to ramp up turnover very quickly and I think the time has come for TTK Prestige to shift back to efficient manufacturing of these items so that so that we actually gain trade locally in terms of many areas in the business.
Ankit Babel	So you will not shift back to the Chinese imports, whatever capacity is you have in-the house?
S. Ravichandran	Yes quite imminently yes.
Ankit Babel	One last thing that in the pressure cooker segment you have increased your capacities to around 8 million and then further plan to increase it to 12 million pieces per annum?
S. Ravichandran	Pressure cookers are about 7 to 8 million, cookware is about 12 million.

- Ankit Babel** For pressure cooker you feel that there is absorption of supply in the market, the growth is good because I believe that the industry is growing at just 8 to 10%?
- S. Ravichandran** See, we have being growing at the rate of 15 to 25% in the last three years in volume only and we have clear strategy to see to how best to maintain volume growth around that 15% and unless we ramp up capacities we tend to lose sales or tend to lose opportunities for sales at many times many seasons. So we have gone ahead spending money to ramp up capacities and we do believe that these capacity would get used up between two or three years.
- Ankit Babel** These capacities are sufficient for next 2 to 3 years?
- S. Ravichandran** Yes.
- Ankit Babel** How do you face the competition is doing sir in this pressure cooker segment?
- S. Ravichandran** We have not heard anybody adding capacity. I'm sure that they are adding capacity but we have not heard about it.
- K. Sankaran** We do not public data on any competition.
- Ankit Babel** Any other new product launches we are planning in the near future apart from whatever you have?
- S. Ravichandran** New product launches is being backdrop of our group strategy and we never take **26.34** of new product launches. There are a lot of new products that are being brought into the market in the next couple of months in all segments and therefore we will be continuing to be launching new products.
- Ankit Babel** Okay. Cook tops you import 100% as of date?
- K. Sankaran** No, we do make a smaller percentage but our intention to make lots more in this year and the coming year.
- Ankit Babel** When you say in the next two years you will try to reduce your dependence on the import. So if I say that from FY15 which all categories you will be importing, you will continue to depend on imports?
- K. Sankaran** Primarily the smaller electrical appliances like kettles, toasters etc.
- Ankit Babel** So basically the cookers, cookware and cook top you will be manufacturing in the house and other electrical appliances and other small.
- K. Sankaran** Only the tactical import in the appliances because appliance is a global phenomena, it is design development, new technology etc takes place in many places in China quickly catches on and driven by exports so there are really tactical imports in these areas. Cookers and cookware, once we get to the manufacturing, I do not think we will import again.
- Ankit Babel** Any differential margins in profitability when you import or when you manufacture in house?
- K. Sankaran** If we work all at companywide EBITDA, there will always be differences between different product groups on different sourcing arrangements. But all averaged out and we deliver what we deliver.

- Ankit Babel** That was only worrying me that when you used to import, your margins were 15% -16% and when you are going for indigenization when you will be producing more again you are adding for the same margins. I am just confused that are the margins seems whether you import or whether you manufacture?
- K. Sankaran** Yes, we work towards minimum margins, minimum EBITDA whatever be the product, and whatever be the verticals whichever way you are seeing that.
- V. Sunadaresan** One thing you understand we have been telling time and again we are not any category on margin alone. The strategy is that we should deal with the company depending upon another country for supplies. We should deal the company from having a long pipeline of stocks. The manufacture within India got enormous flexibility. This will certainly give some transaction cost advantage that will be reflected in margin that will be offset by little bit extra manpower cost because labor is expense in India, power is more expensive in India, that is why we believe that we will remain margin neutral whether we buy or whether we make.
- Ankit Babel** Okay, so it would not impact your profitability. Thank you so much.
- Moderator** Thank you. The next question is from Atul Bhole from Tata Mutual Fund, please go ahead.
- Atul Bhole** As we are entering the busy season of Q2 and Q3 festival season, what sense you are getting from channel partners or distributors or retailers basically?
- K. Sankaran** Very clearly we have a slowdown on the market. Our 1st Quarter growth last year or 1st Quarter this year is an example. Having said that the 30% growth in the 1st Quarter stands ideal, I do believe we will stand out tall among many companies that they will be putting out the results soon. Therefore, it is both the combination of caution and at the same time bit of understanding that the economy is not on best feet but we believe that from a prestige point of view they are doing many things including new product launches to try and keep up our guidance of 20% to 25% growth.
- Atul Bhole** From the distribution angle in terms of expansion or opening new stores or adding new dealers, what is going on the ground?
- K. Sankaran** It is a continuous process, we will the question in two parts, first is the own stores, own store is a very concentrated focus strategy to increase year after year, because it is a very integral to our distribution and selling our new product introduction strategies. This year too we have already added about 20 to 25 stores and we are looking at adding close to 100 stores by the end of the year. In terms of distribution, the Indian diasporas offers automatic distribution expansion year after year especially when the products is doing well. Generally, we add about 10% to the mom and pop stores distribution year after year.
- Atul Bhole** Okay, particularly on the northern part of the country, how is the expansion happening?
- K. Sankaran** As much as in South in terms of proportions.
- Moderator** Thank you. The next question is from Amar Kalkuindrekar from HDFC Mutual Fund, please go ahead.

Amar Kalkuindrekar	At the end of Q4 when excise duty was raised, you had raised prices of pressure cooker and cookware also but the duty hike I think was only 1%. Did I get you right that you have increased prices actually by 7% in aluminum cookers?
S. Ravichandran	If you have been in the previous analyst conference call you would have heard that we try to average out the price increase based on expected aluminum price for the year and we are trying not to disturb the market by frequent changes in pricing. Aluminum had gone up in that period when we looked at it so we took up the prices and it has softened a bit giving us little bit of benefit but still higher, therefore on that basis we have taken.
V. Sunadaresan	Any due to increase is a cascading effect. If STP goes up by 1% they said there is a sales tax, there is VAT, there is this that and everything we have to bear it so it is not that government increase ST to 1% you increase the price by only 1% is not correct.
Amar Kalkuindrekar	That is fair. I just wanted to make sure and secondly in cookware also you have taken about 3% point price increase?
K. Sankaran	That is correct.
Moderator	Thank you. The next question is from Akshat Gandhi from Sahara Mutual Fund, please go ahead.
Akshat Gandhi	For the June quarter may have the inventory debtors and the payables amount please?
K. Sankaran	Our inventory turns at the end of Q1 identical to the Q1 FY12; we managed the inventory in a very identical manner in terms of inventory returns. In terms of debtors, I think it slight the same about 0.2 or 0.3 Yen, normally it is an overall current assets have changed in terms of number of turns.
V. Sunadaresan	Full twelve months utilization of assets in terms of net worth at least remains more or less the same.
Akshat Gandhi	But then when we look at your capital employed has increased to which I understand is due to working capital, and the proportion to sale increase it would have increased at a faster pace so then what would be the reason for the increase in capital employed at a higher pace?
K. Sankaran	The capital employed increase not only because of working capital because additional depreciation is made during the quarter, When - as we are adding 300 crore hike from last 2-3 years.
Akshat Gandhi	Also what I want to understand is that what is the number of total outlets we have as of June 30 th 2012?
S. Ravichandran	Own outlets.
Akshat Gandhi	Own as well as other outlets.
K. Sankaran	Other outlet it is quite difficult for me to give you the math. We have about direct is about 370 as on 30 th June.
Akshat Gandhi	Alright. Have we done any kind of hedging contracts on the foreign currency exposure which we have?
K. Sankaran	We do not have any as yet.

Moderator	Thank you. Next question is from Niket Shah from Edelweiss. Please go ahead.
Niket Shah	Just wanted to know what will be the impact on the margins because of rupee depreciation in this quarter if you can broadly give us the range in terms of how much would have affected the margins?
V. Sunadaresan	The margin erosion has been compensated both with price adjustment that we have taken in June. So in financial year I do not see a major reduction in our margin in the appliances side. There could be 0.5% or so erosion.
Niket Shah	0.5% erosion on entire, I mean complete business side?
V. Sunadaresan	Appliances to import.
Niket Shah	0.5% on appliances only, right?
V. Sunadaresan	Yes. We do not have any erosion on the manufacture product side.
Niket Shah	Could you just give me some sense in terms of how would have your margins shaped up in the segment-wise broad cut idea, if not exact numbers?
V. Sunadaresan	Margins between appliances and between manufacturing which is not significantly different when we apply all other costs to it like manufacturing cost, other distribution and other promotion costs that we do and we try to work on basis of delivering a minimum EBITDA on each vertical. I explained it earlier. So it is not very different when it comes out to the bottom line.
Niket Shah	If I have to compare on a Y-O-Y basis your gross margins have kind of come of, is that largely on account of product mix only?
V. Sunadaresan	Yes. If you look at the gross margins, yes. But if you look at the EBITDA 15.7% this year versus 15.9% last year. So these are the adjustments that take place when you are sourcing mixed versus the manufacturing mix changes.
Moderator	Thank you. The next question is from Kalpesh Gothi from Wallfort Financial Services. Please go ahead.
Kalpesh Gothi	If you can give me the revenue break up for the quarter on product-wise.
K. Sankaran	On pressure cookers we have 121 crores compared at 98 crores, cookware was 54 crores as of compare to 41 crores, appliances 152 crores as compared to 90 crores and others is about 12 crores as compared to 8 crores, total 339 over 237. These numbers are already available on the website. We have put yesterday night.
Kalpesh Gothi	Can you give us the quantity?
K. Sankaran	I can give you the volume growth. I do not have the exact numbers with me right now. Volume growth in pressure cookers was around 23%, in cookware about 22%. That is the numbers I had.
Kalpesh Gothi	Appliances?
K. Sankaran	Appliances they range from 15%. That is depending upon the product.

Kalpesh Gothi	Earlier in the annual report we used to give the quantity sold of each product, in this annual report we have only mentioned the amount?
K. Sankaran	Requirement of maintaining quantitative details has been discussed with the Government and that has been due to lot of consultation of many trade bodies and because the quantity mention is something that is close to every company's heart. It is a trade sensitive information. Nobody would like to lose an advantage they have by keeping these things to themselves because the products category-wise and then model-wise disclosure hurt the company in the long run, this could go to competition.
Kalpesh Gothi	And coming to your guidance are we maintaining the 25% guidance for the next two years?
K. Sankaran	Look at next we have been within this range so we hope we will do 20% this year.
Kalpesh Gothi	And can you give some update on the real estate projects?
K. Sankaran	Real estate is going on. As mentioned in our Director report it will close in 2014 calendar year and they will get some portion as one-time receipt from rentals we can get from this year onwards. Till that time, we cannot see any color of money in that project.
Kalpesh Gothi	So it will be reflected in the FY15 only.
K. Sankaran	Correct.
Kalpesh Gothi	Okay. And can you please give our ad agency name, possible?
S. Ravichandran	Ad agency, of course you can. It is Mudra Communications.
Moderator	Thank you. The next question is from Umesh Gupta from Reliance Wealth Management. Please go ahead.
Umesh Gupta	Could you give the geographical breakup incomes of revenue, south and non-south what will be the percentage now?
K. Sankaran	That is continuous to be 65% in South and 35% in Rest of India.
Umesh Gupta	And what has been the growth in these two geographies in first quarter? Is it different?
K. Sankaran	Similar growth.
Umesh Gupta	Similar growth across India. But given your low base in non-south region, shouldn't that growth be higher there?
K. Sankaran	See here it is only internal. If you see the growth quarter-by-quarter each zone has its own buying pattern and season patterns. This pattern measure is on annual basis not on quarterly basis.
Umesh Gupta	On annual basis is North India growing higher than South?
S. Ravichandran	But it will be looking better than South.
Umesh Gupta	And this second question is on Microwave induction cooker which you have been importing to Japan. You said last year was about 1,70,000 and this year it is about 8,00,000 odd, is that right?

K. Sankaran	In Microwave friendly pressure cooker.
Umesh Gupta	This microwave friendly pressure cooker, is it imported from China or you are manufacturing in India?
S. Ravichandran	It is a patented product by TTK Prestige with a US patent. It is made in total as per in India. It is completely invented, designed and built by TTK Prestige.
Umesh Gupta	But you said that you expect the copycats started manufacturing this kind of pressure cooker in Japan.
S. Ravichandran	I said in relation to question saying which will you definitely hit a million I said that when the product is an instant success somebody will try to copy the product.
Umesh Gupta	But you have the patent.
S. Ravichandran	I said that you cannot just say yes we will do a million.
Umesh Gupta	No I am saying that you have the patent for it worldwide.
S. Ravichandran	I understand. But you know patent does not give you a 100% protection. What we have found, somebody can always copy and if they lose they will return the profits to the original company. Some creative fellow can try and do that even now.
Umesh Gupta	But these pressure cookers are completely made in India.
S. Ravichandran	Completely made in India.
Moderator	Thank you. The next question is from Abhijit from Crisil . Please go ahead.
Abhijit	Just two questions. First thing is your financial cost actually went up to 25 million so just wanted to know what was the interest cost and what was the breakup of this 25 million?
V. Sunadaresan	Entirely interest cost. As we told you that our FOREX go up during the peak of capital in the first quarter and the second quarter and borrowing we expect to maintain about 770 crores at the end of fourth quarter. So we can see similar interest spends in every quarter.
Abhijit	What I have understood is that your debt is 70 crores so your interest cost is around 14 to 15%, in that 25 million is there or?
V. Sunadaresan	11 to 12%.
Abhijit	And one more question I had. In the inventory what could be the proportion of your imported goods as of Q1 FY13?
S. Ravichandran	It is almost the sales ratio about 40-45%.
Abhijit	Okay 40-45% of the Q1 FY13 sales.
S. Ravichandran	That is right.

- Abhijit** Your cookware sales actually grew by 32% this quarter compared to 10% last quarter. So is there anything special that happened or it is also a normal business activity that you saw?
- S. Ravichandran** Seasonal and various factors like exchange program is there, sales promotion. These are the factors.
- Abhijit** For all these exchange programs they will continue like it happens every quarter or?
- S. Ravichandran** Normally the exchange programs are seasonal program for the first quarter.
- Moderator** Thank you. The next question is from Yuti Dalal from Corporate Database. Please go ahead.
- Yuti Dalal** I wanted to come back to something you mentioned in the annual report on your agreement with Bialetti Industries, Italy where you bought the pressure cooker and cookware manufacturing plant? Can you just talk a bit about that? What the rationale for it? Was there any cost involved? And what benefits it is likely to give it to the company?
- S. Ravichandran** There are two things that you mentioned, one is the pressure cooker and the other is cookware. In the case of pressure cooker we acquired it so that back to back export contract to execute with them and we are supplying them pressure cookers for their market exclusively using that plant. In the case of cookware it is an addition of new technology and a completely automated line to which we are shifting to and there were available prudence will be bought up. If they were not available we would have bought it from somebody else.
- Yuti Dalal** What is the cost involved in this?
- S. Ravichandran** In only the equipment?
- Yuti Dalal** Yes.
- S. Ravichandran** Well these two equipments costed us about 46 crores.
- Yuti Dalal** Okay these are entirely shifted to India now.
- S. Ravichandran** Yes.
- Moderator** Thank you. The next question is from Rahul Bhangadia from Lucky Securities. Please go ahead.
- Rahul Bhangadia** I had just one or two small book keeping questions from the balance sheet. In your latest balance sheet you have shown the current liabilities, salaries and benefits of about 19 crores which are outstanding. If we see your yearly employee cost of 73 crores that comes out to roughly 3 months of salaries so how do we understand that?
- V Sunadaresan** That's largely incentives which are paid after the end of the quarter.
- Rahul Bhangadia** So you are suggesting that out of the total employee cost that you have 3 months of that is roughly about incentives or whatever.....
- V Sunadaresan** That is what is included there.

Rahul Bhangadia	And sir the second question was about a year back when you had on your CAPEX plan of about 200 to 225 crores you had mentioned that your manufacturing margins will be at least 2 to 3 percentage points higher than what you were doing at that point of time which is 15-16%. Rupee was at 45 that time and now rupee is at 55 and you are still suggesting that the margins will not be 2-3 percentage points higher but lower. I am just trying to understand what is changed in the last one year given that the circumstances have gone in favor of the manufacturer?
K. Sankaran	I don't understand, what context is being talked about. We talked about indigenizing some of the items that being imported from China. And question as per that will there be any advantage in the margins? What I was explaining normally we do not expect any major changes in margins. What here is that the transactional cost on which the working capital will come down which will give certain amount of advantage in this one. These are indicative numbers. Basically as I told you it is strategic to ensure that we do not depend on China for imports entirely. We need lots more facilities in tapping the Indian market and we need to maintain supply chain clean and this one. These two are advantages and we cannot put them in numbers at this point in time.
Rahul Bhangadia	In your related party transaction as you have disclosed in the FY12 annual report there is 17 crores others payment about which there is no further details, if you could help us with the details?
V Sunadaresan	You are talking about last year balance sheet.
Rahul Bhangadia	FY12 balance sheet.
V Sunadaresan	Against purchase has come packing material.
Rahul Bhangadia	Sales and purchase have been given differently so that is why I asked.
V Sunadaresan	It is salaries and commission paid to key management personnel.
Rahul Bhangadia	That is 14 crores which is given separately. Page #35 of your balance sheet if you are looking at the hard copy and at 37.
V. Sunadaresan	We will get it separately.
Moderator	Thank you. The next question is from Niket Shah from Edelweiss. Please go ahead.
Niket Shah	Just wanted to know your exchange offer which is buy anything for anything, how much would that constitute as a percentage of sales?
S. Ravichandran	No.
Niket Shah	Just rough cut.
S. Ravichandran	Normally the net cost is equals to the kind of promotion that we do is about 2-2.5%. You will be surprised that we give 30% and then do 2.5%. For that you have to come and work in my company, how to do that? But it will not be more than 2 to 2.5%. Such monies are allocated for some other promotion in the second quarter and third quarter and so roughly these things we have small money which we spend differently.

- Niket Shah** What will be the major cost savings once your newer plant comes up apart from the working capital part of it that we mentioned, do we see some significant amount of saving?
- S. Ravichandran** First of all we would be insulating the company from swing in foreign exchange. The second thing is clearly the manufacturing cost can be kept under control because we have committed plant with the set of labor and thirdly dollar to Yuan exchange fluctuation will not affect this. Chinese yen will be continuously gaining and that will not affect us.
- Niket Shah** Will this plant will have little amount of lower employee cost as compared to what your other plants are because given the state of art?
- S. Ravichandran** Yes there will be lower too on the production line.
- Moderator** Thank you. The next question is from Jagadishwar Pasumoori from Karvy Stock Broking. Please go ahead.
- Jagadishwar Pasumoori** One question on your FY12 balance sheet, there is bank charge which was under other expenses which is like 4.7 crores in FY12 and 3.7 crores in FY11.
- S. Ravichandran** In FY13 you want this.
- Jagadishwar Pasumoori** Can you please let me know, what exactly is that like mix or the charges that you have taken loans or is it something else?
- V. Sunadaresan** Bank charges come under everything. For example in India still collections charges are paid on instruments outside India house collection charges under LC open charges, guarantee commission, all this will come.
- K. Sankaran** Someone asked a question about some 17 crores is related to gearing and product commissions brought in the space.
- Moderator** Thank you sir. The next question is from Raj Mohan, an individual investor. Please go ahead.
- Raj Mohan** I had a few questions. First one is, though you mentioned in your starting call in generally somber environment but you advised caution over there in immediate future. Does the company expect any negative impact of a poor monsoon? It does not seem to have started off well?
- S. Ravichandran** I do not think that I can predict that. If the monsoon is so bad that the economy is brought to its knees TTK Prestige will definitely also feel the heat.
- Raj Mohan** Next, though you have indicated to the continuous graduation of masses to higher models offering growth opportunities. The higher base does impact growth like over the previous years sales growth has started slightly tapering off. Are you confident that you will be able to hold on to around 20-25% over the foreseeable future?
- S. Ravichandran** As of now the progress is that we will be able to hold on to the growth rates. We have grown by 30% in the first quarter against our guidance of between 20-25%. So we do believe that we are on track at this point of time.
- Raj Mohan** When you say as of now it could be over a period of next two or three years?

- S. Ravichandran** Yes with product strategy and the business strategies that you are following is to achieve such a growth rate.
- Raj Mohan** Next is on your indigenization program. What is the kind of indigenization improvement that you are looking at on cookware and other appliances over the next two years? Like from what levels are they currently and to what levels they will be moving to?
- K. Sankaran** We will largely indigenize on the mind setting for cookware and induction pressure cooker. We believe in FY14 the import fluctuation in terms of value is 100 crores.
- Raj Mohan** Okay but in terms of percentage like currently what are these in terms of indigenization for cookware?
- K. Sankaran** See the percentage I am not disclosing. What I am trying to say that is in FY11 we are doing. We will be sharing 100 crores of import in the years 13 and 14. But it does not means the import will come of and we will be still importing some appliances as the company is growing.
- Raj Mohan** But will that be a material kind of impact?
- K. Sankaran** No the whole idea is that the EBITDA margins are protected.
- Raj Mohan** Okay so you are still looking at protecting the EBITDA margins?
- K. Sankaran** The EBITDA margins and getting flexibility in operation, the two are important.
- Raj Mohan** Next again coming back to the operating leverage angle. Longer term was a next 3 to 5 years and the company sort of consciously trading to improve margins on its higher base with a sort of greater indigenization and probably easing commodity prices. In that sense can we sort of expect operating margins to improve steadily and probably inch towards 17-18%.
- S. Ravichandran** Today we are operating at about 15% EBITDA margins. This is one of the steps in this category and even follows that in terms of consumer products. It is not going to be the intention of the company to try and go on increase the EBITDA margins but actually trying to maintain the margins and invest enough in the company to grow. I believe growth will have to be given the priority from the points of investment as long as we maintain the EBITDA margins the company as a shareholder and the stakeholders will benefit a great deal from this strategy. So margin improvement is only one part of the whole thing but we will look at stable EBITDA and reinvestment in the company to grow.
- Raj Mohan** Okay but will greater indigenization sort of a lead to an incidental improvement in EBITDA margins and not sort of having that as the final goal.
- S. Ravichandran** It appears to be something. If it was Rs. 45 such a question would not even be valid so I think once we have started indigenizing and arriving at certain business parameters and ratios it will be our endeavor to price the product according to our EBITDA strategy.

- K. Sankaran** We are creating right in the last two to three years in our analyst meet as well as our Director's report we are not a margin led company. We have got two clear parameters of growth and return on capital employed. Margin is the strategy to expand our market share so just because to increase the margin with 20% and drop the sales by 40% the company will be in roll drums. We are not operating price erosion. There is competition. Competition's also price it depending upon the cost increased inflation. So we cannot independently price our product so that we make huge margins. It will be short lived.
- Raj Mohan** One question I had on your debt. When you plan to close up the entire debt of 75 crores?
- K. Sankaran** In the next financial year.
- Moderator** Thank you. The next question is from Sandeep Raina from Edelweiss Securities. Please go ahead.
- Sandeep Raina** I just had a very small and simple question actually. If I just look at the EBITDA it is at 15% constant but if I just try to break your raw material and other expenses, my raw material expenses have actually gone up so my gross margins is actually come down from 47 to 42. Am I right in saying that?
- V. Sunadaresan** The margins at the raw material level will depend upon the composition of the state because their composition will come under pressure cookers, cookware, appliances and imported indigenous manufacturer. So this raw material expenses item is a mixture of these. What we want to ensure is that the EBITDA level will be able to operate around in the median of 15%.
- Sandeep Raina** That I have understood so there is no basically question on that. The question is basically very simple that are we looking at gross profit pressure. Basically that is the simple question that I have.
- V. Sunadaresan** We are not facing any pressure on gross profit or whatever it is as I told you if it is only in appliances which constitute about 57 to 60%. The mix decides in what we are interested is that what is the absolute profits we make and what is the return on capital employed. That is where we have to look at it. It involves several stages. What I have invested is that am I using the capital efficiently giving a decent return on the capital employed.
- Sandeep Raina** Okay understood. And the second thing is other expenses have mostly 5-6% increased. So where has the significant dip in that happened?
- V. Sunadaresan** The other expenses consist of several things including advertisement and sales promotion. This is related to our activities based on what you want in the sales in the particular period. It will depend on seasons, based on patterns impact and all those things. So we do not operate on any equation. Exactly it will be in this way or that way. On analysis basis these expenses can be in the same proportion as it was last year.
- Moderator** Thank you. The next question is from Ankit Babel from Subhkam. Please go ahead.
- Ankit Babel** Just one thing. I agree that you are currently in your investment mode wherein you are spending to increase the capacities but just wanted to know once your capacities are on stream, any plans to increase your dividend payout ratio going forward from the current level of around 15 to 20%.

- V. Sunadaresan** We have been distributing little over than 25% of PAT till three years back. Then once we started to continue resources for the capital expenditure program. We kept it at 15%-16%. As you know the company has too much of cash and I think if we look at the proper distribution ratio.
- Ankit Bavel** Because in some of your peers distributive even 60 to 70% of their earnings.
- V. Sunadaresan** See I cannot comment on our peers. We have a very clear plan of adding capacity and making the company very strong and manufacturing very strong. It will be ongoing for us to distribute all the dividends and borrow at 14 to 15% in a high interest market. It neither benefits the company nor the investors.
- Ankit Babel** Just to continue with the question which the last participant asked about your raw material up by 40% and other expenditure up by 6%. Just wanted to know whether any reclassification of various heads which happened in this quarter to comply with new accounting norms.
- V. Sunadaresan** No. These are the different nature of the expenditure. They depend on the convocation of the sale. Secondly they also depend upon our program of sales promotion so these things keep changing quarter-to-quarter depending upon season of – which we will took it on an annualized basis.
- Ankit Babel** So you mean to say that you have some flexibility in terms of reducing your other expenditure to maintain your.
- V. Sunadaresan** There is flexibility in the policy cut which vary with top-line as well as our.....
- Moderator** Thank you. Ladies and gentlemen that was the last question. I now hand over the conference back to Mr. Bhaskar for closing comments.
- Bhaskar Bukrediwalla** Thank you everyone for attending the conference call. On behalf of CRISIL Equity Research I thank the management of the TTK Prestige for the conference call. Thanks once again and a very good evening to all.
- Moderator** Thank you very much. On behalf of CRISIL Equity Research that concludes this conference call. Thank you for joining us.