



“TTK Prestige Limited Q1FY16 Post-Results Conference Call”

July 23, 2015



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TTK Prestige Limited

July 23, 2015

Moderator: Ladies and Gentlemen, good day and welcome to the TTK Prestige Limited Q1FY16 Post-Results Conference Call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Rakshit Ranjan from Ambit Capital. Thank you and over to you sir.

Rakshit Ranjan: Thank you. Good afternoon, everyone. Welcome to the Results Call of TTK Prestige. We have with us the senior management team led by Mr. Chandru Kalro – Managing Director; Mr. Shankaran – Director, Corporate Affairs; and Mr. Sunderesan – Chief Financial Officer. I will now hand the conference over to the management to give an overview of the performance for the quarter, and then we will open the call for Q&A. Over to you, Sir.

Management: Good afternoon, everybody. Thanks for joining this conference call. I will give you a very brief overview; the results are already with you. Basically, what I want to communicate is that “we would like to compare the current with what was happening a few quarters before rather than trying to compare with the corresponding periods of previous years; because the underlying factors behind previous bases have been different and changing rapidly - in terms of the economy – both national and regional as well as company’s category mix. So what we believe is that from Q1 last year, we are able to see certain amount of improvement in sentiment, but not adequate to drive the growth in double-digits yet; in this quarter there is a slight improvement in the consumer sentiment, but not resulting in the larger consumption. From our experience, we see that when a predetermined customer wants to go for a brand, we stand to benefit; this is reflected in our own PSK growth during the first quarter as also the online growth. Both have shown quite an impressive growth as compared to what it was in Q4 or even Q1 of last year. Therefore, we need to wait and watch because the underlying things are not the same; April was good; May was not so good; June saw some buoyancy. It is not easy to predict the trend and provide a guidance.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We have the first question from the line of Ruchi Vora from CLSA. Please go ahead.

Ruchi Vora: My first question is on your various sales segments. Just wanted to hear some thoughts from the senior management in terms of what are the initiatives the company is taking to revise the category growth in terms of the product mix, in terms of new launches, and also in terms of channel expansion?

Management: In terms of categories, there are several initiatives that we have taken in the last few months, and in particular this quarter; one is that we have refreshed our existing range of Pressure



TTK Prestige Limited

July 23, 2015

Cookers completely with a new handle system, so the whole system has been overhauled. In terms of new products, we are also constantly trying to segment each category so that we are able to attract different price points and different kinds of customers. So specifically this quarter, one of the new segments that we have launched is the new Signature Series Cookware. Now this is a full range of 11 SKUs that we have just put in place. These are Hard Anodized Cookware with Nonstick... and it is probably the Most Durable Nonstick in the market today.

That apart, in the Appliance segment, we have been again segmenting each category; for example, in Gas Stoves, we have launched a high-end Gas Stove, which we call the Hob-Tops, which is India's First Convertible Gas Stove which can either be used as a Cooktop or as a built-in Hob-Top, and that has led to serious upward movement in the model mix and the price realization. At the same time, in Induction Cooktops which is a category which most of our other peer groups are actually dropping in volumes, we have launched several new models at entry price points; in terms of volume we have grown significantly and definitely in terms of market share. Rice Cooker is a similar story. We have also done a lot of things to enhance our presence in the built-in Appliances especially in Kitchen Hoods, because these are high value categories. So, actually it is all about straggling different price points and making sure the brand extends as much as possible. So this is what we have done.

Management:

If you look at our website today or what we have filed with the stock exchange, we have given a sample of whatever launches we have made in the first quarter, and these look very different from our current range of products in the market since last year. We hope this will drive up the respective categories in the coming quarters.

Ruchi Vora:

Sir, if you could highlight this in a little bit more detail and segmenting it across categories, how does your current let us say Pressure Cooker range differ from what it was a few years ago, and then elaborating further on Cookware Appliances categories?

Management:

In terms of Pressure Cookers, obviously our thrust areas are Inner Lid Pressure Cookers, because that is a relatively newer area for us, and in this area what we have done is, we have tried to differentiate ourselves with new shapes, we have always had colours; we are also trying to have another new shaped cooker out in the market very soon,;in terms of price points our colour range is completely Induction-friendly. So our focus has been completely on the Induction side to have a Pressure Cooker that works on any kind of heat source, so, for example, let me just to tell you, 80% of our sale in Pressure Cooker today is Induction-friendly Cookers almost, whereas that is not so with our competition. So we have tried to grow this area.

In Cookware, for example, as I told you there is a completely new segment which we have got into, which we were not there, which is the Signature Series, which is advertised with Nonstick. Clearly the differentiating point is Induction friendliness as well as very Durable Nonstick. So that is on the Cookware side. These two are major segments for us; as you know,



TTK Prestige Limited

July 23, 2015

they account for about 57% of our total sales, and in both these areas, we have added considerable amount of new products and new segments. On the Appliance front, there are four major categories that we talk of. Until now one is the Gas Stove category with regard to which I told you about the Hob-top. As a matter of strategy in the Gas Stoves, we have always tried to address the 'upgrade segment' and not the entry level segment, and we have clear leadership established now in the 'upgrade segment'. So in line with continuing that leadership we have launched the Hob-tops and they have met with great response because there are a lot of exclusive components which we have access to, and the accent has been now to access European technology as opposed to most of our peer group which accesses Chinese technology and copies. So the idea is to have some exclusivity on these products so that our leadership is extended.

On the Mixer Grinder segment we have identified a new segment, which is at the 550 watt with four jars and, it has received a good response. In the induction side, we have launched a brand new series of Induction Cooktops, what we call the V3, (Version 3) range. This is primarily with a view to make sure that we start attracting the higher price points as well in the Induction Cooktops. The key feature here is that we have come up with models which no one else has i.e. an automatic 'keep warm' feature, which means after your food is cooked, it automatically goes to the 'keep warm' mode so that you do not have to reheat your food. That is another piece of new technology that we have put in on the Induction side.

And on the Rice Cooker we have of course tried to segment in the market in terms of both Open and Closed types with newer and newer capacities and price points.. So these are the four developments in the Appliances. But, this year we have also taken up kitchen hoods as the new thrust area, because that is in line with the real estate trends that we are seeing. Kitchen Hoods offers us a big opportunity, and we have got the latest generation of Auto Clean Chimneys in place, and we are now straddling price points in excess of Rs.35,000 on these Chimneys, and they have met with a great response. I trust I have answered your question.

Ruchi Vora:

Thanks a lot for the detailed answer and my last question is on the e-commerce initiative, you mentioned somewhere in your write-up that you are in the process of finalisation with most of the e-commerce platforms. Could you touch upon what exactly are we doing on that front and how will it help us?

Management:

Until now in the e-commerce space, there are two models obviously, one is a buy-sell model with the portal, and the other is the marketplace model. The marketplace model is where our own retailers or distributors go and register themselves as resellers on the marketplace and then they sell. That is something that is largely not in our control and with the initial predatory pricing policy that the e-commerce price had, we were finding it difficult to manage the pricing. So as a matter of strategy we did two things: one is that we were trying to say that we need to have the full range available online, which normally is available only on our e-



TTK Prestige Limited

July 23, 2015

commerce-enabled website; the second was to make sure that we have a benchmark pricing that we can establish as a guide so that the channel conflict is minimised.

Now, as a matter of strategy, the major portals are also trying to minimise their losses. So they are also moving to the marketplace model rather than a buy-sell model. Given this trend what we are trying to do is register ourselves as resellers or sellers on the portals. So we have managed to do that. The second aspect of our strategy clearly was to have a fulfillment capability for e-commerce which is a B2C capability rather than B2B capability. So in that process we have already opened our first fulfillment centre at Hosur, which is now able to cater to a significant traffic of e-commerce customers. We are of course on the way to establish more fulfillment centres in the other zones, in the North, East, and West, which will bring down logistics cost, and therefore, our realisations get better. So this is largely our e-commerce. It is clearly a sunrise area and a growth area for us, and we probably want to be the earliest movers in this area in our industry at least. We have also tied up with India Post which means that we can now supply to any pin code in this country.

Ruchi Vora: Is it that the retailer-distributors, which register to sell your models and there is some risk of predatory pricing, has it stopped completely or that is still continuing and we are ourselves registering as sellers?

Management: It can never go away, there will always be situations like that created by the reseller, created by the portal; because everybody is vying for customer share; but that is getting reduced now, I would not say eliminated but reduced and what we are trying to do is essentially to have a price stabilizer by being a seller ourselves on the portal. What we are trying to say is everybody needs to make money for a sustainable long-term business.

Moderator: Thank you. We have next question from the line of Sayan Das Sharma from Crisil. Please go ahead.

Sayan Das Sharma: Just a couple of questions: First of all, how is the growth in the South and the non-South markets?

Management: Luckily for us, this time the South has grown, but like always in the last few quarters, the non-South has grown faster than the South. In terms of a few details, North has done very well for us, the West has done extremely well for us, so have Tamil Nadu and Karnataka, and Kerala has been a laggard, and the East has been a bit of a flattish performance.

Management: If you look at the South/Non-South ratio, today it is 55% in South, 45% is Non-South, so the ratio is less tilted towards South in the first quarter as compared to the past.

Sayan Das Sharma: I think this ratio is more or less same as that of FY15 is it Sir, I mean, 60:40 was the ratio last time also, so similar growth in both South and North?



TTK Prestige Limited

July 23, 2015

- Management:** Last time yes, but this time the non-South has grown faster than the South.
- Sayan Das Sharma:** My second question is on the PSK network. So how is the plan of expanding that and what kind of growth are we seeing in that, what kind of share of revenue will come from PSK source?
- Management:** Last time we told you that we were going to focus more on consolidation of the PSK, and on ensuring same-store growths and higher throughputs through the stores rather than just acquiring stores. Now that strategy has definitely paid off and we have had very nice growth in the PSKs in the first quarter, and we always believe that the retail and PSKs is a good lead indicator for us going forward for that to kind of reflect in the other channels as well. So basically, we are not looking at acquisitions that aggressively, but we are looking at an increasing throughput through an existing store so that we then have acquisitions happen automatically.
- Management:** Last time we explained to you in the same conference call, that because online is capable of cannibalizing branded walk-ins, we would like to fortify the existing PSKs; there is no point in trying to make a franchisee invest in a PSK and not getting traffic; so we need to calibrate it; we need to find gaps - where neither Mom & Pop nor online is reaching – and then we should put up our stores; thus there is quite a bit of research going forward. We want to ensure that the existing base is very strong, which we have ensured in the first quarter.
- Sayan Das Sharma:** What is the sense on the industry growth? The industry itself is growing, because I believe in the last two years industry has at best been flat, if not has declined.
- Management:** Our sense is that growth is still hard to come by, it is not really gaga on the growth front, but as long as you have the ability to do the right kind of innovation and right kind of marketing, you are in a position to garner share rather than work with the growing market. As of now the information that we have is that most of the categories are in the single-digit growth side with the exception of some sunrise categories and therefore growth is tough to come by.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Could you please talk a little bit about volume growth? I know it is a bit difficult to generalise but what has been the probable volume growth for Cooker and Cookware for the quarter?
- Management:** Of the six categories, what we are talking about, Cooker was flat, Cookware volumes went up by double-digits, Induction Cooktops in double-digits, but largely because of the entry level models; Gas Stoves went in double digit volumes, whereas Mixer Grinder was rather flat,, Rice Cooker also had a double-digit growth.



TTK Prestige Limited

July 23, 2015

- Management:** So actually four out of the six categories we have registered double-digit volume growth this quarter; Induction Cooktops, Gas Stoves, Cookware, and Rice Cookers.
- Management:** To qualify that, in Cookware, Induction Cooktop we are able to get more share in the value-added segments, and the other segments it was a non-value-added movement in the volume.
- Achal Lohade:** Could you please break-up the sales of the Appliances in our top three products: Gas Stove, Induction Cooktop and Other Appliances?
- Management:** The Gas Stove in terms of value was about Rs.47 crores; Mixer Grinder i was about Rs.27 crores; Induction Cooktop about Rs.34 crores.
- Achal Lohade:** So Induction Cooktop was pretty much flat actually?
- Management:** In value it was flat, volume went up dramatically, as we told it is the entry level model which is more active.
- Achal Lohade:** Could you please also talk a little bit about the industry size for Cooker and Cookware broadly, and what would be our market share; how has it shaped in last one year?
- Management:** I can tell you what, the latest Francis Kanoi is talked about, which is about the only research study that has been consistent in the last few years. What we are talking about is the Pressure Cooker market last year actually did not grow at all, and they are estimating it at about 14.5 million pieces.
- Achal Lohade:** This is total, organised plus organised?
- Management:** Organised plus unorganised. You know our Pressure Cooker volumes; we are about 27-28% of that, and in terms of value, we are of course higher in excess of 30% in that category. The Cookware has been growing last year as well, but again it is much smaller growth than the previous year. Cookware we have actually added market share point quite significantly last year. In terms of Gas Stoves, it is a category that did not grow. Induction actually came down significantly because of government policy and people not finding the need for it because it was essentially perceived as a backup rather than the mainline category. Cookers have also been flattish. So that is how the various categories have been behaving.
- Achal Lohade:** But in terms of market size for Cookware, how big would that be?
- Management:** It is about Rs.1021 crores as we would see in our segment, which is Anodized and Nonstick Cookware together, but I can double check those numbers, I do not have them here readily.
- Achal Lohade:** In terms of the growth outlook for the full year, would you be able to put up any growth guidance and the margins?



TTK Prestige Limited

July 23, 2015

- Management:** I wish I could, because things are now going, one day you see some very good results, one day you do not see them. So, I tend to believe that we will be on the growth path, but how much? It is difficult to put a number to it.
- Management:** We do not want to put any guidance. If you remember, in the last conference call we said last year we ended the year at 11.1% EBITDA margin, a very difficult year. We said going forward we will be able to improve it depending upon top line growth; but in the first quarter inspite of not having a very big top line growth we were able to take our EBITDA margins to 11.7% before exceptional expenses; and we believe that if we are able to grow a little more than what we have grown in the top-line and export kicking in the second half, our ability to keep our operating EBITDA margins between 11% and 12% is very much possible.
- Achal Lohade:** I was a bit confused about your statement in the press release. The other expenses you have shown separately and the exceptional item is shown separately. So, it is not clubbed right, sir?
- Management:** Not clubbed, exceptional is different, exceptional is the item after the normal items.
- Achal Lohade:** Yes, so in that case the EBITDA would be about Rs.38 crores. I think you have mentioned Rs.42 crores.
- Management:** It is before VRS & CSR expenses. CSR is new for this year.
- Achal Lohade:** It was Rs.80 lakhs right sir?
- Management:** Yes CSR expenses was Rs.80 lakhs, if you look at the operating EBITDA before CSR, we are talking about Rs.41.48 crores, and against that you compare that with last year, which is Rs.42.25 crores.
- Achal Lohade:** Are you including the other income as part of it?
- Management:** Other income is normal bank interest earned in our cash surplus, that is part of the normal income.
- Management:** That is recurring.
- Moderator:** Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.
- Ravi Swaminathan;** I just wanted to know, are we expanding our retail touch-points presence, that is the number of touch points on a pan-India basis, have we reached the nook and corners of entire India or are we planning to add more number of retail touch points and how many did we do last year because what I am seeing is, when I went through your Annual Report we have launched new SKUs... that is 87 SKUs to be precise, but in spite of that our growth last year was muted, but



TTK Prestige Limited

July 23, 2015

at least from a distribution standpoint if we can make any growth ahead, just wanted to get some clarity on that?

Management:

We answered this before, but I will say that again, our strategy since December this year is to actually consolidate on our retail network, PSKs to be precise, to make sure that we are able to increase the throughput per store and we are focusing more on same store growth rather than new store additions. We are now having 570 stores across 300 plus towns in this country. There is obviously scope for more stores, but our focus at this point in time is to make sure that our same-store growth are high, having a very profitable growing channel will automatically make acquisitions much easier. Also, since the Prestige Smart Kitchen really is a mood builder and a lead indicator for Retail, our focus is to ensure that the Branded Retail grows faster. We have been very successful in this in the first quarter of this year and the last quarter of last year. Going forward for this year we will follow with the same strategy, acquisitions probably we will come back to you with what we are doing a little later.

Ravi Swaminathan:

No, I am talking about, this is excluding your PSKs, that is your retail, regular sales channel.

Management:

The regular sales channel is an ongoing effort to improve distribution, not only in terms of the traditional trade, there has been a lot of churn and a lot of new opportunities that have come up. So if you look at the last one year, in spite of very difficult conditions, we have shown you some growth in top line primarily because we have added to the portfolio of channels that we have; we have added, for example, television shopping as a key channel; we have added online distribution as a key effort; we have added making sure that our appliances are in more and more large format outlets. Aside of that we have tried our best to make our own e-commerce quite significant, and that is an effort again that we are putting it. So in terms of distribution, now it is not just about more outlets in the traditional trade, but also making sure that we have more and more other channels coming up. We have also last year added in our distribution organisation and NGOs who work in rural India, who are buying our products and then actually selling them in rural. So these are the kind of efforts we have taken in improving distribution.

Management:

To put it in perspective even last time we had told you the touch points regarding be Mom & Pop Stores; it is for the entrepreneurs to open outlets and it will be our endeavour to reach most of them. We are in most of the touch points, which sell branded stuff.

Ravi Swaminathan:

Regarding completely new products all together apart from your Water Purifiers and Slow Juicer, etc., are we having any plans for that going forward, the existing ones they are seeing slow growth, but new products, anything over the next 6-12 months?

Management:

We are currently in the Kitchen domain and whatever is in the kitchen domain, probably we are already there; we are finding newer and newer mini segments there. The idea therefore is to make each and every category work better for us. Our focus until last year was on six, we are



TTK Prestige Limited

July 23, 2015

trying to see how we can focus on another two more -meaning Grinding Appliances and Kitchen Hoods as a strategy. There are new products in each of these categories. We are not yet outside the Kitchen domain and I do not think we have said we are also outside the kitchen domain.

Management: Water Filter we are experimenting with the models and various price points, and are testing water with water-filters. So we will have to see next year where we are going with water.

Ravi Swaminathan: Regarding competition, someone like Hawkins has increased their ad spends by 30% last year, and they are also launching new Cookers with different colours, etc., and coatings. So, how is our strategy especially in the non-South market to tackle them in the Inner Lid Cooker?

Management: Our ad spends as a percentage of our revenues are much higher and a multiple of what our competition spends as a percentage of its revenue. In terms of new products, they have launched color cookers only now; we have launched them 9 years ago. We have more sizes in colour cookers. In terms of new products we are ahead of competition in terms of our ability to put in those new products. Having said that, it is a very good brand, they make very good products, and they are very good competitors to have.

Management: If you look back when we launched Inner Lid Cookers in 2006, we pioneered the shapes and colours even at that point in time, and with more safety points. So if you look at it, we have taken a leap forward, that is why we are able to break that market and build a size of more than a million Cookers there.

Management: Induction base for example in Inner Lid was something that we pioneered and the competition was followers in that area, aside of being followers in the color cooker area.

Management: Probably, we would like to avoid talking about named competition in a public forum.

Ravi Swaminathan: And for us Cookers, have we taken price increases this quarter? Volume-wise you have told that.

Management: We increased our price at the end of March, and some of that has already come in because we did have old price stocks, but we increased the price, yes.

Ravi Swaminathan: What would have been the quantum, 3-4%?

Management: About 4%.

Ravi Swaminathan: Regarding this VRS scheme that we have incurred Rs.3.5 crores of exceptional items, how much more could come in that particular category going forward?



TTK Prestige Limited

July 23, 2015

- Management:** What we are trying to do is that we are trying to ensure that overall cost of making Cooker comes down. Labour is one of the costs; there are other areas of operational efficiency which will bring down manufacturing costs; having implemented TPM in Coimbatore and in the process of trying to extend the same practices to other factories, we will get operational efficiency; but we are also trying to get the human resource cost leverage. To ensure improved productivity, we have voluntary retirement scheme, which we completed in the first quarter; maybe if there is a need and demand from workmen we will do the another tranche in the next few quarters. We will continually ensure that we get more and more productivity per human resource employed – both in number and value.
- Moderator:** Thank you. The next question is from the line of Nikesh Shah from Motilal Oswal. Please go ahead.
- Nikesh Shah:** Just want to know, what is our strategy on the Microwave Pressure Cooker, we are seeing significant amount of degrowth as well as in the export part of the markets?
- Management:** We were largely Japan-focused on Microwave Pressure Cookers; what we trying to do is actually extend the footprint of Microwave Pressure Cookers as a category across the European market and even the Americas. We made considerable progress. Most of it will probably fructify hopefully in the third quarter of this financial year, but if you are asking me whether we will reach the old levels of Japan, it is unlikely, but what will happen is we will probably have a more sustainable volume as we go forward with multiple markets coming in.
- Nikesh Shah:** So this large amount of degrowth is because of Japan not scaling up or ...?
- Management:** Absolutely.
- Nikesh Shah:** My second question was on the Water Purifier. We took some products back from the market, we were supposed to reengineer it and kind of do a relaunch. So what is the status on that?
- Management:** On Water Purifier we did not take any product back. You know it is a very-very crowded area and it is a very tough area. While it is very crowded there are very few brands which have maintained leadership status among the various segments. What we tried to do was actually get our feet wet literally, no pun intended, and get a learning from the market; we are now working to make a full range of products, as an organisation we are very committed to this category, you will see our next launch with a slew of products in different segments as opposed to be in a single model/price-point category for us. So there is a lot of research and development going on right now.. We cannot say more than this but we can say safely that you will see a lot more activity from us on this front going forward in the next three quarters or so.
- Nikesh Shah:** What would be our blended capacity utilisation and if you can break specific to Gujarat as well?



TTK Prestige Limited

July 23, 2015

- Management:** In Gujarat, we have two plants; one is hard anodized, other is the Cookware plant. In The hard anodized we are in excess of 60% capacity utilisation. In the Cookware plant it was close to 50%. But we have built this plant for future growth, we are looking for 2020; it will take a while to pick up capacity; it depends up on the end demand; if you are able to look at the web site, our chairman speech is there. We actually carved out a EOU within the Gujarat complex so that we are able to tap the export market more competitively.
- Nikesh Shah:** Also on the strategy to do any acquisition in the export market, because you have a lot of capacity which is underutilized. Any thoughts on those lines?
- Management:** If you look at the exports, we are dependent on OEM export, we do not have our own brand. We are trying to see whether we can get our own brand outside India without manufacturing outside, because running a manufacturing in Europe is more difficult than doing it in India. We have got several offers, but all of them wanted to take over the manufacturing with huge employee cost; it does not suit us. We are still in the hunt. Let us see where it goes.
- Moderator:** Thank you. The next question is from the line of Aliasgar Shakir from Elara Capital. Please go ahead.
- Aliasgar Shakir:** Just two questions; one is on the market conditions, last couple of quarters we have seen a little low growth. I just wanted to check apart from the weak market conditions, is there a high competitive pressure in particular product categories or particular regions from maybe the unorganized market or Chinese outsourcers unbranded products or something in the competition side probably if you can give a colour, if that is probably impacting us and that is one of the factors for our low growth?
- Management:** If you look at the current conditions, the current conditions are in low growth phase that is the truth; but the good news is because of all the online and all these kind of resurgence of smartphones and things like that these are going likely to benefit branded players more than the unorganized players because when people buy without a touch and feel they prefer to buy the brands they know; and definitely as online grows, it is an opportunity for branded players better than the others and true barrier in this industry is not anything else other than marketing in brand and we have always invested heavily in the brand building and we will continue to do so, and so therefore competitive pressure if you are saying they are not very different from what they were earlier.
- Aliasgar Shakir:** So, with the low growth that we may have seen, you are saying it would be a market condition and not anything pertaining to any high competition who may take away...?
- Management:** In most of the categories we have actually gained the share in the last year and not lost share.



TTK Prestige Limited

July 23, 2015

- Aliasgar Shakir:** Now, we are a net cash company, and we do not have any CAPEX requirements. So how do you plan to utilize your cash generation over the next few years – would that probably mean a higher dividend payout or probably there is another way that we plan to utilize the cash?
- Management:** It is very difficult to answer the question in which way. We increased our payout ratio from less than 25% to 33% including dividend tax. That is an indicator that irrespective of drop in profit last year, we decided to increase the payout because we had cash. So we have got a very positive view of how to reward the shareholders in terms of paying cash dividend. At the same time, we have not stopped the hunt for inorganic growth in any respect whether it is in India or outside India. We need to build certain amount of cash just to ensure that we take the opportunity immediately. We do not want to gear our balance sheet too much with debt. It will be a calibrated mix of free cash and debt as we move forward.
- Moderator:** Thank you. The next question is from the line of Arnav Mitra from Credit Suisse. Please go ahead.
- Arnav Mitra:** My first question is on the gross margin. With the fact that metal prices are down probably year-on-year and you had a price increase, I am a little surprised that your gross margin did not expand. So any reason why that expansion did not happen?
- Management:** Let me tell you from last year to this year if you compare the metal prices, the impact of the reducing commodity prices will be seen in the following quarters. We have a certain arrangement on our raw material which is a kind of a hedge. So we get stable prices for the quarter based on the previous quarter's prices. So going forward you will see these things coming in.
- Management:** Because what you see in the sheet is only the gross margin after all the material cost including purchase of finished goods. If you look at where aluminum is directly raw material, our margins have improved internally. If you look at the fact, my total turnover consists for Induction Cooktops which is about Rs.50 crores in terms of turnover, because we are selling only entry level models. Therefore, it increases this mismatch that is why we put in a note that the future margin improvement depends on two facts; the continued depression in the commodity prices and our model and category of goods. Depending upon model and category of goods, margin will improve.
- Management:** Also, if you look at the dollar, the dollar has been becoming a little expensive compared to what it was last quarter. So there is a certain limit of imports which also though reducing by strategy for us will impact. So it is a mix but going forward, yes, the metal prices will impact us positively.
- Arnav Mitra:** Should we see that in the second quarter or it is more second half when that...
- Management:** Some of it in the second quarter and more of it in the second half.



TTK Prestige Limited

July 23, 2015

- Arnav Mitra:** Next question on the e-commerce side. Just wanted to understand, because you are not directly selling on e-commerce and therefore there is obviously channel margin which you give when you sell through dealers. So, is the discounting that you see because you are passing on part of that to the eCommerce, even on MRP there is a discount even where are directly are selling. Is that the reason why the discount is there because you pass on the dealer margins to some extent?
- Management:** The price that we are trying to operate on the e-commerce site is the same that we actually operate in our PSK stores. While you are right that the channel margin is not there, the logistics costs are high currently. Currently, we have a single fulfillment center. So we are really looking for a single parcel going anywhere in the country, which is why going forward we are going to open more of these fulfillment centers across the country to bring that part of the cost down, but in terms of MRP to discount, what we are trying to do is whatever is the market operating price in our stores is what we want to operate online.
- Arnav Mitra:** Just to carry on to this, as you said channel margins you retain that but logistics cost is higher, so net-net is it similar to selling offline or is it more profitable or less profitable?
- Management:** It will be similar to selling offline through our stores.
- Arnav Mitra:** The other thing is on exports. I understand the issues in Japan, but that we were also expecting a couple of years back that Cookware exports we should be able to ramp up. Now, is it looking likely anytime FY16 that big ramp up could happen or it is still work-in progress and it is too early to say that we see a big jump in exports there?
- Management:** Premature to say right now for two reasons; one, because normally people do not change supply chain so easily at least in the developed country; second they have a long process to actually certify vendors, for example. Safe to say that we are in talks with a lot of people. When they will fructify? We do not know. You know the European market conditions are not very good. That is our target market. But, yes, it can happen any time, the way these things are going, the ball is moving in the positive direction.
- Arnav Mitra:** On the PSK, you had last time said you had gone into positive at same-store sales growth after a while. So, just on that element, I was seeing demand looking up or even there the trends are mixed that you have some months which are very good and some months which are not very good.
- Management:** If you look at this quarter, June was very good as compared to April and May, and the growth rates this quarter for our own stores have been better than last quarter. So if we take that as a lead indicator then that bodes well for us.



TTK Prestige Limited

July 23, 2015

- Arnav Mitra:** I just wanted to understand the impact of GST not in a very detailed supply chain way, but what is the current excise and VAT that you kind of pay and total indirect taxation on your products?
- Management:** On our Pressure Cookers and Cookware, we are at the merit rate of excise duty which is single-digit, on the Appliance front there is a 14.5% VAT, that is high.
- Management:** Across Cookers and Cookware, net tax burden is less than 10%; for the others it is more than 12%; so we will have to see how they are going to define merit rate; what we see in news reports is that merit rate will not exceed 14% rate for non-merit goods will not exceed 20%. But until we get the rate for the input as well as output, we would not be able to make a comment on it.
- Moderator:** Thank you. The next question is from the line of Vikash Mantri from ICICI Securities. Please go ahead.
- Vikash Mantri:** Taking the e-commerce question further, currently, while we plan to sell at our PSK store-level prices, is it not some of our partners selling much lower than that of same products?
- Management:** No, what happens is that the e-commerce portal adds on some subsidies which makes the price even lower.
- Vikash Mantri:** So, when we have now discussed with the e-commerce platforms, there will be a similar pricing across, will that be the arrangement that we are looking for?
- Management:** We hope. I do not think we can say that with any degree of certainty that they will stop their predatory pricing policy as we speak because if Flipkart is now decided to reduce its losses or become profitable, there is a new person like Paytm which comes and changes the whole equation. Are we going to be stable right now in online? Unlikely; but seeing that the problems are mitigating.
- Vikash Mantri:** On the Cookware segment, at least we have seen a better growth in this quarter. Any reasons why Cookers not growing as well as Cookware?
- Management:** In the Cookware segment we have launched a brand new segment called the "Signature Series" which is the new segment for us and the value added segment for us, which is one of the reasons why you are seeing that growth. You are going to be seeing there is a lot of traction because of that going forward as well. The new products in Cookers are going to hit the market in the second quarter, particularly the Inner Lid. So we will see some growth hopefully in that area as well going forward



TTK Prestige Limited

July 23, 2015

- Management:** If you look at the Cooker market it has been there right from 1959 whereas the Cookware market developed only in the last ten years. So we will see more growth in Cookware than in Cookers.
- Moderator:** Thank you. The next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.
- Kashyap Pujara:** Just wanted to ask you, you said that there was earlier the dealers and distributors were basically participating in the marketplace model and now we are directly participating and that is how pricing can be uniform and channel conflict is getting eliminated. So, as we speak today, TTK products are only sold to the online participants directly by us and not through our channel partners, is this the right understanding?
- Management:** No, the marketplace model will continue to have our channel partners and dealers who will be registered on the marketplace. That is not something that will go away. All the e-commerce portals are desperately trying to increase the number of players on their marketplace. So that is not going to change. What however can change the way the marketplace works is on seller ratings and the kind of range that we offer. No dealer of ours will be able to offer the entire gamut of SKUs that we have. We are planning to therefore offer a range which no other channel partner in a single entity can actually offer.
- The second thing is because of our investments in the fulfillment capability we are hoping to get much better seller rating which means what they call the “Buy Button” will come to us by default. So when you actually ask for a product on a website, the first seller that comes hopefully will be us. That means, competition on the marketplace certainly exists, they will be there and they will continue to be there.
- Kashyap Pujara:** So essentially is it a fair way to put across or understand that basically whatever is less moving or the older inventory of the channel partners or dealers, they can use the online marketplace as a liquidation channel for those things. So in that case, how will you end up removing the channel conflict that some dealer who wants to get rid of an inventory might not discount it below what you are offering the product to the same entity?
- Management:** Again, I cannot control that because if he wants to discount it, there is very little I can do. A Re-seller is free to sell at any price below the MRP. But the moment if the dealer that discount it, or say the website portal that is discounting, the channel conflict is much easier to manage. Because now I can tell the channel that one of you guys doing it, it is not me on the website. As I said this is only likely to reduce conflict, never eliminate. We have not seen the end of the day on the conflict side yet, we are seeing a reduced conflict. We are doing our bit to make sure that we benchmark operating prices so that everybody in the channel and customer gets a good deal. We cannot control re-sale prices.



TTK Prestige Limited

July 23, 2015

- Management:** What you have to understand is that basically the brand pulls. Because every channel wants to maximize the sale, whether they buy from TTK Prestige and sell it in the online portal or the online portal directly buys from us or we directly sell on line through our portal, the brand-pull is the criterion. This is churning phase for all channels and things will balance out at some point in time.
- Management:** Give you another example just to make you understand when the modern format came in 10, 12 and 15 years ago, there was a similar strategy that they also adopted but they were discounting heavily if you remember and over a period of time sanity prevailed. The same thing we are hoping will happen here also because over a period of time this unending cash chest will end up not being there, the people will have to start making money finally.
- Kashyap Pujara:** While we are at e-commerce and we all know that the kind of excitement that has been around it is also because you can return the goods if you do not want them and you are getting them cheaper because of maybe someone or the other who is discounting, but do you see any threat, have you seen traditionally since the time you have been selling incrementally high amount of goods, return that are coming in your way, what is the experience there, because we are also realizing that the goods return can actually make up the cost of that reverse logistics can be pretty high which can knock off the profits that you end up making there?
- Management:** Returns so far is from our current experience are well under control and well within what we expected them to be.
- Kashyap Pujara:** You were mentioning that PSK Stores growing reasonably stronger. Could you give us a split as to what is the total if I were to split the revenue pie, how much is the sales coming from PSK and how much is from the other distribution channels?
- Management:** If you look at the channel mix, PSK contribute to about 17% in last year first quarter, that contribution has gone on to 18% this year. You can say that there is a disproportionate growth in the PSK as opposed to the rest of the channels.
- Kashyap Pujara:** In terms of asking a bit more generic, that you have the capacities in place, you are missing out on exports or whatever is deferred and apparently you have tried to enter a lot of new products, segments, etc., and I hope that some of them go right for us and we end up getting good, but what is your view because last year you slipped after a 20-25% growth stint over a decade and you have been softening, it is basically we have been barely there and you are saying that you are seeing some signs of consumer revival in the first quarter the sentiment is picking up. So what is your sense of belief in terms of sustainable growth rate that the company can achieve over a long period of time?
- Management:** I inherently believe first the consumer sentiment has to go up so that we can at least start achieving double-digit growth and then take off from there. I do not think at this point in time,



TTK Prestige Limited

July 23, 2015

we can go beyond the double-digit, the moment we hit the double-digit then of course so we will then start moving faster on that direction.

Kashyap Pujara:

I think my question was also from a perspective that since the company has well derisked itself from just being into Cookers and across so many categories within the Kitchen segment and in which way it is a strong brand there, so you are just trying to make yourself more relevant in the same space, but many of these initiatives probably have not really seen the scale up that should have seen maybe your Purifiers or maybe the new products that you are talking of Kitchen Hoods, etc., and hence the question that do you expect that the company can go back to the double-digit, mid-teens kind of growth rate if the consumption basically that starts reviving?

Management:

Safe to say that we will be in the best position to be there before anyone else. And also just to take that a little further if you look at '13-14 vs '14-15, '13-14 we were (-3%) because there was a sharp decline in Induction Cooktops and the Induction story given the government policy the way it was, but it was only (-3%) in spite of the category drop into that extent because we have significant growth in our Mixer Grinders and Gas Stoves, otherwise our situation would have been worse. Last year from that minus, we have come back to plus. Now we are continuing that plus going well. What we told in the beginning of this call was we have six core categories, we are now trying to take that up to eight core categories. We have seen decent traction in our Kitchen Hoods segment in the first quarter and there are more initiatives that we are taking like you said within the Kitchen domain so that we get more growth areas than our traditional category. So as I said we will be probably in a best position to get that growth.

Moderator:

Thank you. The next question is from the line of Rakshit Ranjan from Ambit Capital. Please go ahead.

Rakshit Ranjan:

In the first quarter you talked about new launches including say our Signature Series, the 'keep warm' feature on Induction Cooktops and so on and so forth and also launches schedule for the second quarter you are saying are expected to drive growth. Would it be fair to say that the launch pipeline for the next say 3-4-5-months is far stronger than what we have seen over the past 3-4-months or is it pretty similar?

Management:

It is kind of spaced out; because you cannot launch everything in the same quarter while you do not get launch volumes correctly then. So what we have done is actually spaced out ourselves, so used all the first Signature Series happening in Cookware; you are going to see some very nice and effective launches happening in Pressure Cookers in the second quarter and you are going to see some very good exciting launches happening in the third quarter. So we are actually spacing this out as much as we can. The pipeline is stronger than what it was last year if you want to say that way.



TTK Prestige Limited

July 23, 2015

- Management:** What we launched in first quarter we will see some traction in the second and third quarter. What we launch in 2nd sector can see more traction in the following quarters. So probably we will have to see the whole year to gauge how the new products help growth.
- Rakshit Ranjan:** To what extent, these new launches will have product differentiation which cannot be replicated very easily or very soon by competition?
- Management:** In the Pressure Cooker segment, we do not believe that they can come so easily because of the kind of product that we are likely to launch. In the new Induction Cooktop Model which we are going to have, it will take a long time to catch up because there is a serious development effort that has gone in. So this time what you will see in terms of development we will give us the first mover advantage probably for a longer period of time than normal.
- Management:** These are proprietary design and technology development. I do not think anyone can reverse engineer easily.
- Management:** Our investment in the innovation department has started to pay off in short.
- Moderator:** Thank you. The next question is from the line of Ruchi Vora from CLSA. Please go ahead.
- Ruchi Vora:** I just wanted to understand very quickly what would be the catalyst for expansion in margins? We discussed with a participant that commodity prices have come off and that benefit could fully accrue in the second half of this year. To that extent also in terms of the improvement in value mix or product mix within segments, should we expect a margin improvement with let us say a single digit kind of a topline growth or you would need a meaningful revenue acceleration to see margins bumping up?
- Management:** At the current level of commodity pricing with a single-digit growth, you can see some margin improvement certainly. If the commodity prices remain stable or do not reduce drastically this is holding good. But if they reduce drastically, there may be market pressure for us to reduce prices.
- Management:** You cannot act in isolation because margin improvement comes from three aspects: larger growth, better capacity utilisation, operating efficiency and raw material prices. If two of these are fairer to, other margins will definitely improve quite fast.
- Ruchi Vora:** Yes, so if we assume that commodity prices stay where they are and a single digit growth this year in terms of top line, what is the extent...I am not asking for a number, but could it be a material margin expansion or could it be like a few bps?
- Management:** Once again it depends upon the composition of sale. If the composition is loaded with value-added products we can expect significant improvement in margin expansion. Otherwise margin expansion will be incremental driven largely by efficiencies.



TTK Prestige Limited

July 23, 2015

- Ruchi Vora:** We keep on discussing the fact that our market shares have gone up across categories. Could you be able to quantify that in terms of what would be our market share in various categories or even various sub-segments, let us say, the last year and what would that be now or whatever the latest data is available?
- Management:** We have the data for Pressure Cookers for example where there is a clear 2 percentage point increase in our market share over the previous study. In Induction Cooktop as well there is a 3 percentage points up over the previous study. We were already the leaders remember in this category. On Cookware we do not have the clear data yet available on this thing, but it is safe to say that just we have been growing quite significantly and much more than our peers, I guess we would have increased market share.
- Ruchi Vora:** On the channel mix, just wanted to understand, what are the initiatives that we are taking on the other channels ex-PSK and is there headroom for expansion over there or how are we looking at the other channels? We understood online, we understood PSK. Ex the traditional formats if you could throw some colour on that?
- Management:** If you look at the traditional format we are constantly on the lookout for expanding the number of outlets where we are available. If the outlet sell branded products then we want to definitely be there. If the outlet is only selling unbranded products I guess we do not belong there. It is a constant exercise that is happening; we have a constant relationship building and expansion with the modern formats in the brick-and-mortar. Clearly, they have identified our brand being as strong as it is, as one of the key walk-in drivers to their category, and therefore, we are always expanding our trade with them. With the modern format probably getting hit by online, they are also fighting for foot-falls and they also need brands to drive walk in rather than themselves.
- Ruchi Vora:** I am assuming a lot of our sales is skewed towards the urban population. So are we expanding the traditional trade channels in absolute numbers?
- Management:** Yes.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Wanted to understand, you talked about PSK same-store sales growth was about 25% in fourth quarter. What would that number be in the first quarter?
- Management:** It is in double-digits.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand over the conference back to Mr. Rakshit Ranjan for his closing comments. Over to you, sir.



TTK Prestige Limited

July 23, 2015

Rakshit Ranjan: Thank you. On behalf of Ambit, I thank all the participants and the management for being on the call.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Ambit Capital, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.