



**“TTK Prestige Limited Q2 FY 2016
Post-Results Conference Call”**

October 14, 2015



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Moderator: Ladies and gentlemen, good day and welcome to the TTK Prestige Q2 FY 2016 Results Conference Call, hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode. 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 “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rakshit Ranjan from Ambit Capital. Thank you and over to you Mr. Ranjan!

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

Chandru Kalro: This is Chandru here and just as an introduction, as we have told you the general consumer sentiment is still rather sluggish and we have probably done well in terms of our performance in spite of that kind of market sentiment. We must also keep in mind that Diwali is actually delayed this year as compared to the last year, so it is strictly not comparable in that sense. Therefore the performance should be viewed in that way. We are also seeing that e-commerce is continuing, we are drawing attention, but diminishing in its ability to disrupt though I think this month will be disruptive, I think because of all the big billion days and all that.

The deficit in the monsoon is actually continuing to plague many parts of the country in terms of the non-urban demand, which are being seen in our tier II and tier III figures. We have had a very good quarter for this time and I must say that we have also recorded our highest ever second quarter sales after a long time we have touched a new high in terms of the second quarter sales. While the general consumer sentiment is actually continuing to be sluggish and you know the monsoon has been disruptive in some rural markets, etc., there also the economic scenario globally is not very encouraging and that has adversely impacted our exports, but back to domestic, we have grown, come back our a double-digit growth and in most markets, we have seen improvement in terms of volumes as well as in terms of market shares.

Our margins have improved this quarter over the Q1 as well as over the last year for the same quarter. The company continues to be debt free and healthy working capital situation and also continues to carry sizable free cash. We are now open to any questions that you might have.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question is from the line of Achal Lohade from JM Financial. Please proceed.



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- Achal Lohade:** Good evening Sir. Thank you for the opportunity. Couple of questions Sir, if you could talk about the south and non-south growth how has that been? Have we seen improvement now in south also taking place?
- Chandru Kalro:** All zones have recorded a growth for us both in terms of south and non-south while the non-south of course has grown a little faster than the south.
- Achal Lohade:** Would you be able to quantify Sir by any chance?
- Chandru Kalro:** The south has grown moderately while the non-south has grown by over 15%.
- Achal Lohade:** Second question I had if I look at the Pressure Cooker it has grown about 8% to 9% while appliances have grown 16%. So, overall growth is led by appliance. If you could break it up in terms of how much would be the revenue from gas stoves, induction cooktops and other appliances?
- Chandru Kalro:** We would not like to disclose those details given competitive pressures today.
- Management:** we followed a very different strategy compared to competition, which has given a sizable growth in the appliances as compared to traditional products. If we reveal the entire breakup at this point in time, it will not be in the competitive interest of the company,
- Achal Lohade:** Just one question I had was if I look at the balance sheet, it appears that the debtors have gone up from 42 days to about 52-54 days and so as the liabilities. If you could talk a little bit of what is happening on the debtor as well as the current liabilities front?
- Chandru Kalro:** In terms of debtors, you have to compare it on a YOY basis then you will find that the two are very comparable, so the debtor situation is not very different from what it was last year September. On the liability front, we have obviously had to stock up for the season and those stocks have come in in September because we wanted to supply for the Diwali season and those payables will happen only after they are due and they are not yet due which is why you are seeing where it is.
- Achal Lohade:** So, it is nothing abnormal or exceptional out there?
- Management:** **Nothing exceptional.** The company carries free cash reserves of 40 Crores.
- Achal Lohade:** Absolutely. Any comment on the growth guidance this quarter because last quarter you said you would want to wait for a quarter to really talk about?
- Chandru Kalro:** We would still like to reserve guidance and continue to try and do well.



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- Management:** It is our intention to maintain the Q2 momentum of 10% growth in top-line and 20% growth in bottom line on YOY basis.**Achal Lohade:** All right Sir. All the best. I will come back in the queue. Thank you.
- Moderator:** Thank you very much. Our next question is from the line of Ravi Swaminathan from Spark Capital. Please proceed.
- Ravi Swaminathan:** Congratulations for good set of numbers. Thanks for taking my question. In this cooker sales of 10% how much of it came from price increase? How much of it was value and volume growth?
- Chandru Kalro:** Well it is a combination of both and the price increase has been about 4% in the beginning of the year but having said that the growth has come both in volumes as well as in value. We have also launched several new products, which has also caused the growth in numbers.
- Ravi Swaminathan:** Which one would have grown faster, your inner lid or outer lid cookers?
- Chandru Kalro:** Inner lid is being where it is it has grown and so is the outer lid because we have launched new models in both inner lid and outer lid for the half.
- Ravi Swaminathan:** Because we were clocking more than 20% growth in inner lid last year and has it sustained the same growth pace?
- Management:** Obviously not.
- Management:** As the base is becoming bigger, the rate of growth will get moderated to that extent.
- Ravi Swaminathan:** How have been our PSK sales growth Sir and your regular channel growth? Last two quarters PSK growth has been pretty aggressive, so how is it this time?
- Chandru Kalro:** The PSK growth continues to be good and it is almost in proportion to our overall sales growth.
- Ravi Swaminathan:** Last two quarters it was like more than 20% growth? So that has moderated to your regular growth rates?
- Chandru Kalro:** Yes.
- Ravi Swaminathan:** How much of the 10% growth that we have overall seen or have been because of dealer addition, distributor addition and how much of it due to same store sales growth?
- Chandru Kalro:** In PSKs?
- Ravi Swaminathan:** Overall?
- Chandru Kalro:** It is difficult to quantify.



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- Management:** Almost negligible amount to the dealers. Largely it is same store sales growth.
- Ravi Swaminathan:** But do we have plans to add more dealers in under penetrated geographies?
- Management:** We evaluate the market consequently and add new dealers consequently. There is a churn on this. We appoint dealers, we change dealers, and so it is a routine function.
- Chandru Kalro:** But one thing you should understand is that as a company we have always looked for newer channels, which we have done, so we have been aggressive on e-commerce, we have also done well on teleshopping. We have done well on the institutional segments; so all channels are firing for us.
- Ravi Swaminathan:** What about the urban and rural growth? Do you have any sense as to how much?
- Chandru Kalro:** No we do not have a sense of that because they are all feeder towns.
- Ravi Swaminathan:** What about the canteen sales growth? How much or what percentage of it is your overall sales and will there be a traction because of the OROP programme?
- Chandru Kalro:** Canteen sales are about 4% of our total sales in domestic and the canteen sales have been a robust growth. The OROP benefits have not yet kicked in because the money has not yet come in.
- Ravi Swaminathan:** But you expect it to actually drive?
- Chandru Kalro:** Hopefully yes.
- Ravi Swaminathan:** So, from a marginal perspective, we have seen a pretty good margin expansion how much of it could be because of raw material benefits? As a combination of both price increase and margin raw material costs being lower?
- Chandru Kalro:** Margin expansion is on account of two or three factors. You cannot link each one to a distinct percentage. If there has been a raw material advantage, it is there, second there is a combination of the product mix. We have sold more and more value added products in the new places. Therefore that also has added to the realization. The third is we had a better capacity utilisation across factories this time, so there is a far greater absorption of overheads in the new factories; all these three contributed to margin expansion.
- Ravi Swaminathan:** The gross margin level things have improved?
- Management:** The gross margin better realisation because of the product mix.



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- Ravi Swaminathan:** You had launched couple of interesting products in new products like Clip On, etc. How is the traction in that sir and what is the target growth that you would see over target revenues that you will be seeing in the next two years?
- Chandru Kalro:** We have only launched it in Bangalore as a test launch and we will be rolling it out in the coming quarters in the other places. Once we have some kind of threshold response we can answer such questions.
- Ravi Swaminathan:** Any other new products I mean like LED Lanterns etc., they are also coming up right?
- Chandru Kalro:** Yes that will be launched in the coming quarter.
- Ravi Swaminathan:** That will be launched in the coming quarters. How many new SKU products that we are bank loans this is the year and next year?
- Chandru Kalro:** A little more than 100 totally this for the year out of which probably 75% is already in.
- Ravi Swaminathan:** These would be more of SKUs than new products or how is it?
- Chandru Kalro:** Both. The LED will be a new category for example. Clip On will be a new SKU in pressure cookers, which is segmentation within in the pressure cooker category.
- Ravi Swaminathan:** This 16% growth in appliances which product that these two products have driven the 16% growth?
- Chandru Kalro:** We would not like to share those details.
- Management:** At this stage until we stabilise in the third quarter and fourth quarter it is getting very, very tough in the road. If you look at we are the only company product durables even gone by 10% in this quarter and we have sustained it right from May or June onwards. That is basically because the strategy we followed, we did not likely to it public and make some competitor benefit out of it.
- Ravi Swaminathan:** I am asking this because your induction cooktops there is still pricing pressure is what I hear from the market?
- Management:** There is no pricing pressure. What we have been telling is that induction cooktops we used to sell were value added models but today the consumers prefer the entry level model because there are more and more people coming from the lower income groups in the induction cooktops. We prefer to try lower price model to enlarge our customer base. We are not discounting anything.
- Ravi Swaminathan:** So would we have grown as a company in induction cooktops year-on-year?
- Chandru Kalro:** In volume yes.



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- Ravi Swaminathan:** In volume, value wise?
- Chandru Kalro:** I do not have a value wise.
- Management:** Value measure will be flat, volume measure grown very nicely.
- Ravi Swaminathan:** Very nicely and the mixer grinder?
- Management:** I told you I do not want to share this information but I have answered in the last question yes, we have grown the mixer grinder.
- Ravi Swaminathan:** Thanks.
- Moderator:** Thank you very much. The next question is in the line of Niket Shah from Motilal Oswal Securities. Please proceed.
- Niket Shah:** Congratulations Sir for a good set of numbers. Just had couple of questions. One is that while our growth in the cooker as well as appliance category tends to be double digit. I think cookware growth has still been around 3%. So any specific reason that you would like to point out Sir?
- Chandru Kalro:** Diwali, Diwali last year was in October. So September there was a lot of cookware sales happened. This year Diwali is in November will make it up in October.
- Niket Shah:** My second question was on the inventory part, how is that looking now at the dealer level also at the store level, if you can make just make some comments on that?
- Chandru Kalro:** There is no nothing. No major change from the last time that we spoke, so that is where it is.
- Niket Shah:** I mean even after the whole e-commerce being kind of really subsidizing inventory levels have been at levels where they were earlier when e-commerce issues were there?
- Management:** Niket that thing has subsided. It is still some what disruptive.
- Niket Shah:** So the third question was is there a significant amount of sales mix change channel wise that we have so we have trade, we have e-commerce everything. Has there will be any major change in the sales mix channel wise?
- Chandru Kalro:** The traditional trade as you call it contribution has come down because there is a disproportionate growth in the newer channels like online or modern format or even in the case of, our case it is teleshopping or so. To that extent there is a minor change but traditional trade still dominates in our portfolio.
- Niket Shah:** Has e-commerce really helped TTK in this quarter; I mean although it might be a very small proportion of sales but could have grown at substantially higher growth rate?



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- Chandru Kalro:** E-commerce gives you visibility at a different level in the digital space and that is always good for a brand like us and that it has helped and we have also consciously leveraged that benefit from e-commerce but it has not become so big that we have to start worrying about it. We have tried to leverage it to the best extent possible so that all channels also benefit.
- Niket Shah:** Great Sir best of luck and I will come back in queue for more questions.
- Moderator:** Thank you. The next question is from the line of Vikas Mantri from ICICI Securities. Please proceed.
- Vikas Mantri:** Good afternoon Sir and congratulations for the good set of results. Just wanted to understand more on the e-commerce side. I still when I am trying to browse your products on Flipkart or Amazon clearly Prestige Smart Kitchen is seller in only one or two products mostly our dealers and distributors. Also the prices that one can get at Amazon or Flipkart are much lower than the prices at prestigemarket.com. So setting up your own fulfillment center in this is not really helping on the pricing front though?
- Chandru Kalro:** . What we are trying to do is put in a system wherein we kind of stabilise prices and get back credibility with the rest of the channel space. Now clearly like you correctly said Prestige Smart Kitchen is not necessarily discounting beyond what it does in its offline stores and that is what we want to do. Years ago we had the same problem with modern format versus our traditional trade and we used the Prestige Smart Kitchen to stabilize prices, which is what we are doing right now. The buy button on a Flipkart or an Amazon comes for a variety of reasons to different sellers. It could be because of the proximity to the pincode from where the person is actually logging on and if I am going to dispatch it from Bangalore and if that seller is in Delhi and you are in Delhi then the buy button will go to that person. There are several other dynamics to this like for example if you use the logistics of Flipkart or Snapdeal and put your stock in a Snapdeal go down the buy button goes to him first. All of these problems exist but it will stabilize. It is not going to be overnight but it is slowly happening.
- Vikas Mantri:** On the pricing front your prices are much higher than what are available on Amazon and Flipkart PSK prices, the CSK, the online prices as well?
- Chandru Kalro:** Amazon had two major buying arms, which is Cloudtail and Olympia. Olympia and Cloudtail do not keep all our 600 SKUs. There will be specific fast-moving SKUs, which they stock and sell where there might be a pricing issue. Even in those cases what we are trying to do is to see if we can move to exclusive model so that that conflict kind of minimises over a period of time. The whole effort here is to make sure that there is credibility of pricing across channels.
- Vikas Mantri:** Thanks for this Sir. I will get back to you later for more updates.
- Moderator:** Thank you very much. Our next question is from the line of Sayan Das Sharma from CRISIL. Please proceed.



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- Sayan Das Sharma:** Thanks for taking my question. First of all congratulations on a good set of numbers. Most of my questions have been answered, just couple of questions. Sir it is possible for you to share the utilisation levels for a new plant?
- Chandru Kalro:** The way we stand as we told we build capacities to make ourselves future ready and also export ready and our utilisations have definitely improved like Mr. Shankaran said which is been one of the reasons why the margin has also expanded. We are at reasonable levels of utilisation, which is why you are seeing profitability where it is today.
- Sayan Das Sharma:** Sir my second question is on real estate project side. So should we expect that to come in this current fiscal or basically what is the progress on that Sir?
- Chandru Kalro:** We have to wait till the last quarter.
- Sayan Das Sharma:** Thanks that is from my side.
- Moderator:** Thank you very much. Our next question is from the line of Rakshit Ranjan from Ambit Capital. Please proceed.
- Rakshit Ranjan:** Thank you. Sir, in terms of new product launches, I see not just Clip On but I guess multi kadai, cute cookers, roti makers many such products have been introduced in one or two states or probably test launches to begin with. By when can we expect the successes out of this to be rolled out at a pan India level? Will be before Diwali as in next couple of weeks or will it be like sometime over the next six months?
- Chandru Kalro:** No, It will be over the next six months, Rakshit. The way we follow this is what we do is actually launch a product in a few market, test out the consumer response and then roll it out from there and normally given our pipeline and our spread being so vast in most of these cases it takes us that six months before we can roll these out. So there are several products like you correctly say and you will start seeing the benefits in the next six months. For example, Cute will be rolled out to all the non-south zones by the end of this month. So before Diwali it would be in across all the emerging markets, if you are going to talk about roti makers that will not be so widespread. So that will be in more specific markets as compared to that or for that matter Clip On.
- Rakshit Ranjan:** I guess multi kadai is the big success in south India right?
- Chandru Kalro:** So it is a big success across the board. In fact as we speak we are trying our best to meet demand in the markets we have actually launched.
- Rakshit Ranjan:** Fair enough and also now that you are rolling out new SKUs at a faster pace than you ever did perhaps in the fast five, six years. Any sort of challenges that you are likely to face around management of availability also ensuring that product is available because of I do not know some IT investment in your inventory management systems or any sort of those programs in place to ensure that availability is there wherever the demand is?



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- Management:** Rakshit, we told that we are future ready. As far as IT is concerned we are future ready.
- Rakshit Ranjan:** Fair enough and one last question on the appliances side, I think couple of years back the channel was sitting at very high levels of inventory of induction cooktops. Has that all gone down to normal levels or we still have more than normal inventory in the channels?
- Chandru Kalro:** We are at stable levels of inventory right now. ...
- Management:** I will answer that question a little differently Rakshit. This year will be the maximum sale of induction cooktops in volumes.
- Rakshit Ranjan:** By TTK or by the market?
- Management:** By TTK.
- Rakshit Ranjan:** Very interesting.
- Management:** The market absorbed it. The corollary is that they do not have more stock that is all.
- Rakshit Ranjan:** I think a year and a half or two years back several other branded organized players like Bajaj, Havells and a few others had suddenly flooded the induction cooktop market. How is the competitive positioning and how is the competition looking like from these branded players now?
- Chandru Kalro:** As far as the category of induction cooktops is concerned since the overall sales have not grown actually in the market and what you are seeing our growth is because of serious increases in market share ;the other brands all I can say they seem to have slowdown in this category. Also if you see what we have done in the last one and half years with constant new products and new introductions and some of our new innovations for example we have just launched our V3 series of induction cooktops, which are completely unique. These come with specific features like automatic keep warm, which we are going to advertise, it comes with the new feature called automatic whistle counter, which is specific for pressure cooking, and these are all value added features which we are doing constantly with our R&D. That kind of effort I do not see our competition putting in.
- Rakshit Ranjan:** Fair enough. That is clear. Thanks. That is it from my side.
- Moderator:** Thank you very much. The next question is from the line of Kashyap Pujara from Axis Capital. Please proceed.
- Kashyap Pujara:** Congratulations for a decent set of numbers. I had couple of questions. First is, you mentioned about 4% price increases which we took during the year. So is this a general across the board increase or were you mentioning it for a particular segment?



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- Chandru Kalro:** It was only in pressure cookers and cookware.
- Kashyap Pujara:** Only in pressure cooker and cookware. So basically x of that there was some degrowth in cookware as you said because Q2 had Diwali last year versus the Q3 in this year. So we will make that up in the coming quarter is it?
- Chandru Kalro:** Hopefully yes.
- Kashyap Pujara:** Second thing is that when I look at your gross margins while overall there have been a margin expansion but the gross margins have now really significantly expanded I mean more on if I look at it more from a YOY perspective. So do you yet see because the raw material cost structure etc., would have softened up. Do you see some room in further enhancing gross margins from here on?
- Chandru Kalro:** According to you 11.3-12.63% is negligible. This quarter only raw material softened and our EBITDA margins grew from 11.3% to 12.63%, substantially it is not small.
- Kashyap Pujara:** I mean do you see further room in terms of gross margin expansions?
- Management:** That would depend upon what raw material prices are. It depends upon the composition of sale. In a particular appliance the margin may be lower but I make a much better return on capital employed. But gross margin is a matter of actual mix of sales.
- Kashyap Pujara:** Correct fair enough. So this year obviously this quarter there was more the mix was more skewed towards appliances. So may be we are not seeing the full benefit pan out I mean?
- Chandru Kalro:** Absolutely right.
- Kashyap Pujara:** So as cookware shows as more meaningful in the coming quarter or there will be some skew in the gross margin upwards hopefully?
- Chandru Kalro:** That may happen yes you are right. We want that to happen.
- Kashyap Pujara:** Yes even we want that to happen, sir. Also one more aspect would be about the export side. You had earlier mentioned that there would be some difference. Some exports coming in queue second half what is your sense there. I mean how are we shaping up there?
- Chandru Kalro:** We still believe that second half will grow from last year export.
- Kashyap Pujara:** Second half will grow in exports. Fair enough and overall I mean while you did you gave a short-term very next quarter kind of a guidance but broadly if I were to just ask you your sense so how you are seeing the business over the next two to three years are you seeing some signs of demand shaping up because appliances definitely are showing the traction I mean you did grow at 16% and you do expect Diwali sales to be a bit better. So what is your sense over the next couple of



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years in terms of demand, near term you look fine but what is your sense over the next few years?

Management: Broadly I do not know, we are now taking month-by-month. It is very difficult to see the long-term picture.

Kashyap Pujara: That is all from my side. Thank you so much.

Moderator: Thank you very much. Our next question is from the line of Navin Trivedi from Trust Research. Please proceed.

Navin Trivedi: Good evening to all of you and congratulations to the management for this excellent performance. Sir my question is this quarter you had several macro challenges as well as the festive season was also late by month despite the fact you reported double-digit sales growth. So how much is growth basically late by also supported by new product launches as well as the e-tailing thing?

Chandru Kalro: The new product launches have basically helped us get growth. There is no doubt about it and a lot of our new products have met with extremely good response in the market. The full impact of that will be seen as I said earlier in the next six months because we have been launching in pockets as we go along we expand the geography and therefore there is enough room for that to give us benefits for the rest of the year.

Navin Trivedi: So how do you see the market growth in the last quarter for the categories which we have the presence?

Chandru Kalro: We see the market to be actually sluggish. We seem to have done better than the rest is what our impression is. We will of course know only when the rest of them come out with their results.

Navin Trivedi: So once that the market was flat we have shown 10% kind of growth?

Chandru Kalro: I would not say the market was flat. Sluggish is the word used.

Navin Trivedi: Okay sluggish but does a low single-digit growth kind of thing. So how do you see the Diwali thing because already the kind of new launches that we have done it is indicating that you are preparing for Diwali thing and the going ahead representing for the next coming quarters. So what is your expectation and your feeler from the ground level activity that about the festive season?

Management: I already mentioned that it is our intention to maintain the Q2 to momentum that is around 10% in topline and around 20% in bottom-line.

Navin Trivedi: So despite the quarter third we had favorable base and the new launches benefit will come in the quarter third. You are expecting a similar growth kind of thing not anything more because double



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digit it is fair from 10 to 20. The idea is that just to know keep is there chances that we can again surpass the performance, which we have seen in the quarter two?

Chandru Kalro: We would like to have that to happen but I do not think we can say that with any degree of surety at this point in time. The festival has just started with Navratri. This is where we actually start to see something. It is too early to say.

Management: In India a lot of external factors. For the first five days of October there was a trucker's strike. Tomorrow it would be some other issue in December, you see it is impossible to predict.

Navin Trivedi: But I am just trying to understand your sense about from the ground level activity.

Management: I told we are expecting double-digit growth.

Navin Trivedi: My last question is about the e-tailing growth, which you how were the growth in this quarter?

Chandru Kalro: We have grown by over that is probably I would like to say only this much that is our fastest growing channel but on a very small base as far as our revenues are concerned.

Navin Trivedi: Thank you so much Sir.

Moderator: Thank you. Our next question is from the line of Ali Asgar Shakir from Elara Capital. Please proceed.

Ali Asgar Shakir: Thanks for giving me this opportunity, just a few questions. First is on water purifiers. Just want to understand last year we launched water purifier. Just want to understand what is the response distribution, expansion and what is the growth that we are seeing in that category?

Management: As we said before in the past calls we actually what we did last year was we had a single product and we wanted to feel our way and understand the market by getting our feet literally. That we did. We are now building a slew of products in that area and that is an area we are quite serious about. We do not expect anything to come out very too much for this year but we can safely say that we are very seriously developing a lot of new interesting products in that category.

Ali Asgar Shakir: Since want to understand you have already spoken on the capacity utilization but I am looking at it more from the capex point of view. We have done a large scale expansion just a couple of quarters behind sorry couple of fiscal behind and I just want to understand in terms of capacity utilization where would we be standing today and what sort of growth we can still do on our existing capacity before when we would again require full large-scale expansion in terms of capacity?

Management: We believe that next two years we do not require substantial capacity expansion only maintenance capex. I do not think capex will be more than 15 Crores a year for the next two years.



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- Ali Asgar Shakir:** This is basically even supporting something sort of a 20% growth or do you think if you would grow very significantly higher than you may sort of require a capex sooner than earlier?
- Management:** Very unlikely.
- Ali Asgar Shakir:** Then coming to the follow up question over there. The next two years since you do not have much debt any very low capex. How do you plan to utilize your cash? Would that see increase in dividend or there is another requirement of cash that you have in mind in terms of inorganic growth or something?
- Chandru Kalro:** We should buy a brand in Europe, if that fructify we will use the cash to that; if that does not fructify I were to keep my return on capital employed ROCE, I will dividend it out.
- Ali Asgar Shakir:** Understood. Thank you Sir. That is all I wanted to ask.
- Moderator:** Thank you very much. Our next question is from the line of Rajasa K from Jefferies. Please proceed.
- Rajasa K:** Good evening Sir. My first question is it possible to share what the proportion of e-commerce is now as percentage of your sale?
- Chandru Kalro:** Between 2% and 3% of our total sales.
- Rajasa K:** Sir you talked about renewed product introduction cycle this year, you have about 100 SKUs how would you compare that with recent years in terms of any number?
- Management:** Nearly every year we do about 100 SKUs.
- Rajasa K:** So is it qualitatively very different now or it is business as usual?
- Chandru Kalro:** The difference is that what we are trying to do is aggressively segment out both our mature categories as well as look for new categories. We have specific schemes under which our innovations work. Those schemes have helped modernity, time saving and convenience and any other pain points that we might want to sort out in the kitchen and it is under those schemes that we are coming out with new products and given that our innovation team had been strengthened obviously is the kind of products that we have come out with this year or rather fast breaking and hopefully that trend continue as we go forward.
- Rajasa K:** Just interestingly in this LED Lantern how does this fit within you core vision of Prestige in every Indian kitchen?
- Chandru Kalro:** Good question. The way we are looking at it is over a period of time obviously we want to set up channels that will help us go rural and for the foreseeable future we do see a situation where power will not be surplus in rural area while that might happen in urban India and they become a



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very important part of that rural channel for us to actually pay for that channel as we go along and LED Lanterns along with water purifiers and our regular products then become a sizable chunk of portfolio with which we can address that market. So that is why we have got into this. Obviously it is a long way to go and we will have we will make sure that we have enough products to have a decent portfolio going there.

Rajasa K: Pardon my ignorance but does the market already have such products in the rural markets or you guys been the first?

Chandru Kalro: No, we will not be the first, there are products like these except over a period of time you will see newer and different kind of products. We will of course add value to the category.

Rajasa K: Right and these are mostly unorganised fragmented kind of?

Chandru Kalro: Currently yes.

Rajasa K: Sir I mean now that we have talked about the product side. Could you just elaborate a little more on your after sales service capabilities since I mean is that something that is a necessity for company like you or you think it is a distinct competitive advantage and you are building upon it?

Chandru Kalro: It is both. Actually it is necessity as well as it is an important competitive advantage that we have. We have 240 service centers as we speak aside of our own 27 and that is the system that is expanding constantly. We are trying to move as much as possible to home service where we can in big urban areas. So it is become a distinct advantage for us.

Rajasa K: Thanks a lot.

Moderator: Thank you. Our next question is from the line of Ankit Babel from Subhkam Ventures. Please proceed.

Ankit Babel: Good evening Sir. Sir, my first is again on the profitability. Since last few years our margins have been continuously declining and this is the first quarter where after a period of say around 13, 14 quarters, we are seeing an improvement in margins on a YOY basis. So Sir what is your call, I mean should we conclude that margins have bottomed out and they will improve or you still feel that there are chances of it again declining to those 10% or 11%?

Management: I feel that margins have bottomed out and it will improve. However the margins depend upon the topline growth. If the economy slows down and the topline gets dropped to single digit, margins will come under pressure.

Ankit Babel: So this full year can we expect a double-digit growth in your topline Sir?

Management: That is what we have told you.



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Ankit Babel: I thought you told only for the third quarter.

Management: No, I said third and fourth quarter. It is already this quarter we went up.

Management: The effort is to come to that double digit so that we continue this trend. It is difficult in this current market situation to directly put a number to these things. That is what we are consciously telling you.

Ankit Babel: And a few years back you had given a guidance of around 25% CAGR and I believe in that year you grew at 40% and you said that on a CAGR basis for next five years we will grow at 25%. I agree there were headwinds from the macro side but what you feel from hereon for the next five years?

Management: Yes, after making very stupid prediction I refuse to make any more prediction.

Ankit Babel: My other question is you mentioned on your LED Lamp what is the scalability of that market?

Chandru Kalro: In what sense?

Ankit Babel: I mean what is the size of the existing market and since you are launching it. So what are your targets that what can this market could be in the next five to 10 years?

Management: As much as we can get out of it.

Management: This is a product we will seed to reach the brand to rural areas.. Look at Induction cooktop. It became a success in the rural market or semi-urban markets. It has enabled us to get pressure cookers and non-stick cookware in the rural market or semi-rural markets. That is how we grew. We see a good opportunity to reach the rural consumer especially women with this product, which is needed there. Once the brand gets registered in her mind, whenever she gets money, she would look for a Prestige pressure cooker or some other appliance. So this is a very long-term strategy. There is no great investment in capacity. It is only in inventory and probably in brand promotion.

Ankit Babel: In terms of profitability how is this product as compared to our existing product and I know at this stage you are at a very nascent stage and it is not fine to talk on profitability but over a longer period?

Management: Ankit, we are not a charity. We do business for profit it will be as at least as profitable as our existing lines.

Ankit Babel: Lastly can you leverage on your existing distribution network for selling your LED Lantern?

Management: Yes but it is more than that. It will help us increase the distribution.

Ankit Babel: Thank you so much.



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- Moderator:** Thank you very much. The next question is the follow up question from the line of Achal Lohade from JM Financial. Please proceed.
- Achal Lohade:** Thank you so much once again Sir. By and large it is answered. Just one data question I had was about the advertisement spending. If you could talk about what was it for the quarter and how do you compare YOY?
- Management:** Similar, around 6.2% both YOY and this quarter.
- Achal Lohade:** And for the first half?
- Management:** Same that is the policy. It will be similar across the year.
- Achal Lohade:** Thank you so much Sir. I am done.
- Moderator:** Thank you. The next question is from the line of Preeti Rambhiya who is an individual investor. Please proceed.
- Preeti Rambhiya:** Thanks for taking my questions. Over the medium term does the company see an increased competition through e-commerce potentially disrupting pricing and margin and what is you trying to do to counter that?
- Management:** We do not compete with e-commerce. So we cannot see competitor from e-commerce.
- Preeti Rambhiya:** But with more branded players coming in more unbranded players it would be easier to build to grow without a strong distribution network given the e-commerce channel. So how do you see that the added competition what are your views. I mean I just want to understand what is the strategy?
- Chandru Kalro:** Like you correctly said what e-commerce is today is just a market place. Like any offline market place it is the digital market place. The market place that you see in digital has one problem. It does not have a touch and feel and when our experience is any market without a touch and feel and if it is a durable the market naturally shifts towards brands and therefore for us the e-commerce is the big opportunity that we are leveraging. We will of course see other people come into these market places. There will be disruptive pricing but that is something that we have always countered even in our offline market places. It is not that we do not face such competition in our offline. So that is something that you will see happening in these other market places also. That is what it is.
- Moderator:** Thank you. Our next question is from the line of J Radhakrishnan from IIFL. Please proceed.
- J Radhakrishnan:** Sir thanks for giving opportunity. Sir your balance sheet is already very strong and your net cash at present and you talked about an acquisition. So what kind of threshold we can expect for acquisitions and what is the kind of leverage at festival you will be having in your balance sheet?



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- Management:** Acquisition size we are planning is not more than 400 Crores at this point in time. For this we believe that we have cash 200 Crores in the company and the leveraging can be maximum 200 Crores by way of transient short-term borrowing
- J Radhakrishnan:** So threshold normally we can expect is that you will be going for any acquisition above 200 Crores?
- Management:** Maximum 400 Crores, 400 Crores will be funded by internal accruals and short-term debt .. It is a short-term debt because 200 Crores will be the free cash generation in one or two year's time. **J Radhakrishnan:** Thanks a lot.
- Moderator:** Thank you very much. As there are no further questions, I now hand the conference over to Mr. Rakshit Ranjan for closing remarks.
- Rakshit Ranjan:** Thank you. On behalf of Ambit, I thank all the participants and the management for being on the call. Sir, closing remarks from you?
- Management:** We are looking positive. We are looking for a great Diwali and wish everybody happy Diwali.
- Moderator:** Thank you very much members of management and Mr. Ranjan. Ladies and gentlemen, on behalf of Ambit Capital, that concludes today's conference call. Thank you all for joining us. You may now disconnect your lines.