



“Creative Peripherals and Distribution Limited Q4 and FY20 Earnings Conference Call”

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MANAGEMENT: MR. KETAN C PATEL – CHAIRMAN & MD
MR. ABHIJIT KANVINDE – CFO
MR. VIJAY K ADVANI – WHOLE-TIME DIRECTOR

Moderator: Ladies and gentlemen, good day and welcome to Creative Peripherals and Distribution Limited Q4 and FY20 earnings conference call.

This conference call may contain forward-looking statements about the company which are based on the belief, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants' 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ketan Patel – Chairman & Managing Director. Thank you and over to you, sir.

Ketan Patel: Good afternoon everyone. Welcome to Creative Peripherals and Distribution Limited earnings conference call for the 4th quarter and financial year ended 31st March 2020. I would like to begin by expressing my gratitude to all of you for taking the time to join us. On the call with me today is Mr. Abhijit Kanvinde, CFO; Mr. Vijay Advani, Whole-time Director of our company; and Bridge IR, our investor relationships team.

Before we get into the business and financial performance of the last quarter, I would like to share a brief insight into our company. We are market entry specialists for experiential brands across India, the Middle East, and southeast Asia. Our company specializes in market entry for global brands and works closely with its clients to achieve optimal market penetration and growth. Our network encompasses all 3 channels – online, retail, and general trade – thereby giving us a strong leverage to reach out to a wider market base. Furthermore, our value-added business model offers end-to-end solutions from market research and competition analysis to formulating and executing region-specific marketing and pre-sale strategies of the brand. Currently we have a strong long-term association with over 20 global renowned brands which we categorize in 3 broad divisions. IT, imaging, & lifestyle and security products. These wide spectrum of products have helped our company achieve economies of scale and become a single sourcing point to our customers. One of the key brands is Honeywell, a Fortune 50 company with whom we have a deep integration in terms of contract manufacturing and distribution across India and abroad.

We have identified our business in 3 broad categories – IT, imaging & lifestyle, and security. Our focus is on offering experiential products and enabling such brands to enter and establish in new markets. We continue to aim for higher operational efficiencies and adding higher-margin, value-added products to our portfolio. Associations with Honeywell, BaByliss, GoPro, and Cooler Master are steps towards this direction.

I would now like to take you through some of the key recent developments. As you are all aware, in the last few months, we have witnessed an unprecedented and unforeseen adversity in the form of COVID-19 virus. The outbreak of this pandemic has brought entire economies to a halt. It has impacted every aspect of our life including personal life and industries across the world. Like every other business, we are also facing the impact of the lockdown and its effects are likely to be seen over the coming months. However, we took this opportunity to refine and redefine our internal practices and improve our operational efficiencies and skill sets through various online trainings, etc. Moreover, we are currently working on the online B2B digital platform for our network of clients, which is expected to be released soon. The new platform will enable all our customers to transact, discover, and share products and brands to their buyers in their own companies' name. This platform will also assist them to showcase their inventory and trade amongst each other facilitating higher volumes and expanding the product portfolio being offered through Creative Peripherals. They will also be able to host their white label microsite on our platform. We expect this platform to fortify our presence as a one-stop shop for customers as well as improve our profitability. One of the key purposes of this platform is to help our customers expand their reach and make it easier for them to do business. We continually update and expand our brand portfolio to keep it fresh and relevant.

Before the COVID-19 crisis struck our industry, we had entered into distribution agreements with several international brands across subsectors. One of the latest brands we got on board, One is Panasonic which is a global market leader in consumer electronics. We are distributing their premium range of audio products in India. Other premium and niche brands that we partnered with recently include Cooler Master, a niche name in hardware brand; PNY Technologies, a US based specialist in high-performance graphic cards and SSDs; and BaByliss, a premier personal grooming brand with global presence. As industries reopen and businesses regain momentum, we will look forward to continue expanding our business portfolio. These associations not only diversify and expand our portfolio but also enhance and testify the company's recognition among global brands. As the consumers' sentiments improve, we are expecting strong demand for such products in the India market – both online and offline.

From an overall business perspective, this is all from my side. I will now hand it over to Mr. Abhijit Kanvinde – our CFO, who will take you through the financial performance of the company in quarter 4 FY20.

Abhijit Kanvinde:

A very good afternoon to you all. I will share the highlights of our consolidated financial performance after which we would be glad to respond to your queries. Our financials reported are as per Ind-AS guidelines.

Quarter 4 FY20 financial results: In the quarter ended 31st March 2020, our company achieved net turnover of Rs. 128.2 crores with a year-on-year growth of 12.29%. This is mainly driven by rise in demand for our new and existing products in imaging, gaming, and IT including GoPro, Samsung, Cooler Master, and PNY. EBITDA stood at Rs. 2.85 crores in Q4 FY20 as against Rs.

4.08 crores in the previous corresponding period. The impact of high margin brands such as Cooler Master and GoPro were offset by higher marketing and sales promotion spends for the brand and employee cost we incurred for strengthening our sales and marketing teams. The nationwide lockdown also adversely affected our inventory and working capital position. The net profit for the quarter is at Rs. 0.65 crores as compared to Rs. 2.1 crores in quarter 4 FY19. Our EPS for the quarter was Rs. 0.56.

Now I will turn to FY20 financial results. In the financial year ended 31st March 2020, our company achieved a net revenue of Rs. 459.06 crores with a year-on-year growth of 23.83%. This is mainly driven by strong demand for imaging, gaming, and IT products including GoPro, Samsung, and Cooler Master supported by addition of new brands in the portfolio such as PNY. The EBITDA stood at Rs. 16.82 crores in FY20, an increase of 26.28% year-on-year on account of higher contribution from high-margin value-added brands like Cooler Master and GoPro as well as addition of new product lines, which offset the rise in advertising and sales promotion and employee expenses. The net profit during this year is at Rs. 7.76 crores as compared to Rs. 5.81 crores in FY19. This represents a growth of 33.49% year-on-year. Our EPS for this year was Rs. 6.69.

This is all from our side. Now we can open the floor for questions.

Moderator: Ladies and gentlemen, we will now begin the question & answer session. We will wait for a moment while the question queue assembles.

The first question is from the line of Nayan Gala from Family Office. Please go ahead.

Nayan Gala: A have a couple of questions. First is on the financial side. During this quarter, we had an increase in revenues to around 128 crores. Despite that, our profits are lower. What has affected that? The second is on the inventory side. The movement of goods and everything has stopped because of the COVID situation. How does it impact us going forward?

Abhijit Kanvinde: I would like to answer your question. The gross margin for this quarter has been in line almost but there is an increase in sales promotion and advertising expenses for the quarter. In the last second half, we launched brands like GoPro; Hero 8 we launched and there were lot of advertising burst we had to do in the second half. So, some of the expenses have come in the second quarter. So, the Other Expenses for the quarter have been 9.07 crores as compared to the previous quarter 7.39 crores.

Ketan Patel: Further, if you understand, March is our biggest quarter and the industry is poised such as that 40% of your sale happens in the last 7 to 8 days. When we entered into the lockdown, we had started 2 new products. One is Samsung distribution also we started in the last quarter and we had taken close to 20 people for that business. And Honeywell Passive also we have started now, and for that also, we had taken additional manpower and February-March was our quarter to roll

out that product. In both these products, we could not get the sales out. Otherwise, we could have got almost 22 crores of extra sales if COVID would not have been there. And March quarter would have been better than the....

Nayan Gala: In the last 7-8 days, we had missed a target of around 150. We had a target of 150 crores in the quarter?

Abhijit Kanvinde: Yes.

Ketan Patel: We were planning to touch 500+ crores this quarter.

Nayan Gala: Sir, one more question on the inventory part. How are these things going to impact us and how are we well prepared to manage these things?

Ketan Patel: Two things. One, definitely the inventory got adversely affected because the March inventory did not move out. You plan your inventories for 2 months. So, the April inventory also came in. The May inventory also came in. So, inventory is kind of all-time high. This quarter, mid of May, there has been some traction in business and June also looks like there would be good business. So, if you consider the A-M-J quarter inventory, it would be higher than normal, but if you will consider July-August-September inventory.... 6 months' inventory will become proper because post May, all our orders for future material are on hold till the time the situation improves. That's the case. So, for the 1st quarter, definitely the inventory will impact but the next quarter will smoothen that out.

Nayan Gala: So, right now, we are not sourcing any new products for our distribution channel, right?

Ketan Patel: We are scouting for new products. We are looking at products which are digital, we are looking at products which have now become essential. For example, a robotic vacuum cleaner which Indian houses did not want to have now become as essential. A good TV, a good wifi, a good router, a good fiber internet connection, they all have become kind of essentials, and these products definitely will be there. And we are looking at the healthcare products, products which allow you to monitor your health at home, that have become very popular and that has now come into essential category. Your first aid box at home has completely changed. These are the products which we are actively looking at and you will definitely hear some good things about them in the next coming quarters.

Moderator: The next question is from the line of Nitin Dayal as an individual investor. Please go ahead.

Nitin Dayal: Sir, my first question is about the digital platform. Can you give a brief about the digital platform? How is it impacting on our profit margins?

Ketan Patel:

Nitin Bhai, you touched my favorite subject which has been there for now last 2 quarters actually. We are a B2B company, right? You get marketing and distribution rights for a brand and then you sell it to a distributor and the distributor sells to a sub-distributor and it goes to a retailer. We strongly think that everything will become a platform including distribution and so we wanted to make a digital platform which will help our customers to transact, to discover new products, and to share new products to their buyers in their own company's brand name. That is the digital platform we are building and this digital platform has additional features like the customer can have his own customized price list at the click of a button, the customer can also have his own marketing material created in his own companies' name which can be sent through a WhatsApp, he can place an order on the system, he can view a ledger, he can download invoice, and nowadays everybody is moving to a space of virtual inventory.

When I say a virtual inventory is that a customer places an order, but he wants it to be drop shipped to his customer directly. So, our digital platform also will help him to do the drop shipment and all this I am talking about is without any human intervention. He will be able to select where he wants to drop the product. He will be able to upload his invoice, and against his invoice, the product will be drop shipped to this customer.

There are very few players in this B2B digital platform space, that would be one part, and how would it impact our balance sheet is that if you understand distribution, distribution business is all about cash flow. How efficiently you manage your cash flow. I mean your cash flow gets affected by the inventory what you have and the credit what you give. The more you have turns of your inventory, the better is this model.

The digital platform will help us in 2 ways. One is that it will help us that.... we would be able to do catalogue sales. By catalogue sales I mean the inventory of our distributor can also be uploaded on the platform and our other customers can buy them. So, it will decrease our inventory. That's one part. Also, the acquisition cost to get newer customers will go down considerably as well. Also, the servicing cost of existing customers will go down extremely as well.

We have currently 5000 customers of ours. Once we launch this digital platform, we think that another 7000 to 10,000 customers we will be able to add in a year's time with the same number of people what we have in the company. So, these new customers will not be mainly credit customers because they will be customers smaller who would prefer to buy in cash. So, it will also help us to conserve cash. So, net-net, the digital platform will help our customers to get more buyers and service them efficiently, and on our side, it will help us to reduce cost practically. That's about the digital platform.

Nitin Dayal:

It means it will increase our customer base, right?

Ketan Patel:

Yes, with no increase in cost.

- Nitin Dayal:** Sir, my next question is about the Other Income. We can see on a quarter-on-quarter basis, the Other Income is actually in Q4 FY19 is 1.79 crores which has reduced to 0.18 crores in current quarter.
- Abhijit Kanvinde:** You are referring to the consol account?
- Nitin Dayal:** Yeah, referring to the consol.
- Abhijit Kanvinde:** Okay. That's right. You want to know the reason?
- Nitin Dayal:** Yeah.
- Abhijit Kanvinde:** We have implemented Ind-AS in this current financial year and we have changed our accounting policy for recognizing foreign exchange loss and gain on our COGS. Earlier we used to take it to Other Income. Now we are taking it to our COGS as per new Ind-AS guidelines. Therefore, my Other Income is lower than the last quarter of FY20 as compared to earlier quarter where we were following the other method. That's the reason.
- Nitin Dayal:** Sir, one more question. Can you give me a segmental breakup?
- Abhijit Kanvinde:** We have uploaded the segmental revenues and profitability on our website. The segmental revenue for consol are: Imaging, the revenues have been 196.08 crores; in IT, it has been 192.27 crores; and in other segment, i.e., lifestyle and security, the revenue has been 69.36 crores.
- Moderator:** The next question is a follow-up question from the line of Nayan Gala from Family Office. Please go ahead.
- Nayan Gala:** Sir, I just wanted to know revenue of products like Cooler Master, BaByliss, PNY as these were the latest to be added in our portfolio. If you can just guide us.
- Ketan Patel:** Cooler Master we started in the month of September. So, we had 6 months of sales for Cooler Master and the revenue stood at 23.6 crores for Cooler Master in the 6 months' period what we did. BaByliss is a personal grooming brand from Paris and the products are manufactured in Italy. We got actually 2-1/2 months of sales in BaByliss and the sales were 1 crore+ for that. PNY also the same story. It came to us in the month of September only and the sales stood at 11.2 crores.
- Nayan Gala:** Sir, these were the targets which we had set? We exceeded the targets, or we are low on the targets for these particular products?
- Vijay Advani:** On the Cooler Master, we are very much on the targets, probably (+5%). BaByliss, no, we have not been able to achieve the targets because frankly speaking we missed the Diwali. So, we were

not able to achieve the targets that we wanted to. But PNY, yes, we almost achieved 150% of the targets what we had planned for.

Nayan Gala: That's a very good sign. Sir, just wanted to understand the recent thing which is happening in Ladakh. People are saying to boycott Chinese products. Does that impact us as well? What are your insights on this?

Ketan Patel: Two things. First, the anti-Chinese sentiments are really there and a lot of people in India now don't want to buy Chinese products. But the expectation of the customer is that the Indian products should be equivalent to Chinese products and if not cheaper, at least at the same price, which at the period of now seems difficult for a while. We have been speaking to a lot of brands. For example, GoPro. GoPro is a brand from US. Cooler Master again is a brand from US. For US, they get their products manufactured in Mexico after the US embargo on Chinese products but for Asia, the product used to come from China. Most of the companies are looking at changing their pathways and these companies are quite capable to get their factories shifted to a different location and get started in 3 to 4 months' time. So, I think Taiwan could be a bigger gainer in terms of that and the products – for example Cooler Master and ViewSonic. ViewSonic is also a company incorporated in US but headquartered in Taiwan. So, that could happen. One of our key brands is Samsung. Samsung's all products are either made in Korea or made in India. So, that will not get affected. But yes, if this anti-Chinese sentiment keeps on growing, that would be the case. We have identified a couple of factories in India. We have started discussions with them in getting some products assembled in India.

Nayan Gala: That was my next question. You have been in talks with all global brands. Do these brands plan to manufacture in India as well? And as Creative, do we see as we are manufacturing for Honeywell, do we see any plans in that way?

Ketan Patel: We will have to see 2 things. The sentiments which are there should not be only on paper. In spirit also, the sentiment of getting global companies to India for manufacturing products should be there and a lot of states are actually doing that. For Honeywell, we got 3 factories identified for our passive products and we started contract manufacturing passive products through these factories and then the same means we are going to do this. So, the long-term plan for BaByliss was also similar that BaByliss and then when the scale increases, you start getting it manufactured in India and then from India you look at SARC and the Middle East and the African markets from here. Once we reach some economies of scale, definitely we should go. As a company, we don't plan up to set up any manufacturing. It will always be a contract manufacturing thing because manufacturing skill sets we still don't have.

Nayan Gala: You were talking about medical products as well. What kind of products are we targeting? Do we have some players in there with whom we are talking to?

Ketan Patel: Today if you understand post COVID, everybody understands N95 mask, everybody understands oximeter, everybody understands a thermometer, everybody understands attendance system which can do thermal imaging, and personal hygiene products, personal sterilization products, and a lot of emphasis is there on hygiene. So, we have looked at a lot of products in this field. We have looked at a lot of companies which are there. The distribution segment is separate because these are all pharma distributors, these are all medical stores, and of course online Amazon, Flipkart, and power retail like Reliance and Croma with whom we have existing relationship is there, that's the products which will slowly start building up and then as that becomes a norm, then air purifiers and air quality monitoring and robotic vacuum cleaners, dishwashers, all that will be coming.

For example, there is a unique product. A lot of people who want to write on paper and how do you.... You are having a virtual meeting and you still want to write on the paper and the other person wants to see, there are a lot of document cameras which come which you hang it on the top and what you write on the paper, the other person can see that. There are a lot of innovative products. The team is really working on it. As of now, we think that we should have some good success with those products.

Nayan Gala: Sir, one last question on the financial side. What will be your target for the cash flow?

Abhijit Kanvinde: I will tell you about conservation of cash flow measures which we have taken in this quarter. Firstly, we are operating cash flow positive. You would have seen our cash flows. However, what we have done is, we have firstly given importance to conservation of cash after the COVID situation. Secondly, we have focused on our debtors collection. What thirdly we have done is a lot of cost reduction exercises. There have been instances where we have negotiated and renegotiated our rentals and fixed cost. Somewhere we have requested our creditors and vendors for the delay in payment. And we have completely monitored the cash flow on a practically daily basis with some fixed amount as conservation of cash so that we are not out of cash for the next couple of months. These are the exercises we have done for cash flow management.

Moderator: There is a followup question from the line of Nitin Dayal as an individual investor. Please go ahead.

Nitin Dayal: Sir, my question is related to the balance sheet side. As we can see, the long-term borrowing and the short-term borrowing which have reduced, but despite the interest expense has been increased. What are the reasons for this and what are the sources of the loan repayment?

Abhijit Kanvinde: I will answer the second question first. The source of loan repayment has always been our internal accrual. We normally don't borrow more to repay. The second thing is interest or the financial cost has got 2-3 components. One major component is always interest but the second component is bank processing fees and the third component is LC charges and BG charges. There are some charges for non-fund based funding also. So, your total finance cost consists of

fund-based interest and other financial charges. Normally, though you see the fund-based borrowing being decreased, there are always non-fund based charges and the processing charges which increase your financial cost. This is the reason. This time it is increased because of processing fees and non-fund based charges.

Nitin Dayal: Sir, my second question is on the advances from the customer which have been increased. Has there any policy for taking such advances been changed?

Abhijit Kanvinde: There is no policy for taking advances but advances from customers have been increased due to a couple of customers have paid us for some invoicing in advance. There is no policy but it varies from year to year.

Ketan Patel: For example, when a product like GoPro – GoPro's Hero 8 got launched. So, the customer would like to pay advance and when the inventory is in short supply they want to book their orders. That's the case a lot of time when the customers paid the advance.

Moderator: As there are no further questions from the participants, I now hand the conference over to Mr. Ketan Patel for closing comments. Over to you, sir.

Ketan Patel: I thank the entire team of Creative for their untiring efforts, hard work, sincerity, and dedication. Also, I appreciate all of you for participating in our conference call. Please do get in touch with our investor relations team for any other further questions. Thank you so much.

Moderator: Ladies and gentlemen, on behalf of Creative Peripherals and Distribution Limited, that concludes today's conference. Thank you for joining us and you may now disconnect your lines.