



“Creative Peripherals and Distribution Limited Q2 and H1 FY '20 Earnings Conference Call”

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**MANAGEMENT: MR. KETAN PATEL, CHAIRMAN AND MD, CREATIVE PERIPHERALS AND DISTRIBUTIONS LIMITED
MR. ABHIJIT KANVINDE, CFO, CREATIVE PERIPHERALS AND DISTRIBUTIONS LIMITED
MR. VIJAY ADVANI, WHOLE-TIME DIRECTOR, CREATIVE PERIPHERALS AND DISTRIBUTIONS LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Creative Peripherals and Distribution Limited Q2 and H1 FY '20 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on beliefs, 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 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ketan Patel, Chairman and MD, Creative Peripherals and Distributions Limited. Thank you and over to you, Sir.

Ketan Patel: Good Afternoon everyone. Welcome to Creative Peripherals and Distributions Limited earnings conference call for the second quarter and half year ended of the Financial Year 2019-20. 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 – our CFO, Mr. Vijay Advani – Whole-Time Director of our company, and Bridge IR, our Investor Relations team. Since we migrated to the main board, we have received an extension of one month to report our financials. Since we have recently appointed new auditors and moved to the new Ind-AS accounting guideline, we decided to use the extended time given and hence our results have been delayed. Before we get into the business and financial performance of last quarter, I would like to share a brief insight into our company. We are market specialists for experiential brands across India, the Middle East, and South East Asia region. Our company specializes in market entry for global brands and works closely with its clients to achieve optimum market penetration and growth. Our network encompasses all three 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 covers end-to-end solutions from market research and competition analysis to formulating and executing region specific marketing and presales strategies for brands. Currently, we have a strong, long association with over 20 globally renowned brands, which we categorize into four divisions; IT, Lifestyle, Imaging, and Security products. This wide spectrum of products from multiple vendors has helped our company achieve economic top scale and a single sourcing point to our customers. One of the key brands under the IT category is Honeywell, a Fortune 50 company with whom we have deep integration in terms of contract manufacturing and distribution across India and abroad. The Lifestyle segment has been changing rapidly, consumer trends are now moving from utility-oriented to experience-oriented products. Our wide products range encompasses TV, headphones, projectors, personal grooming products etc., and we continue to expand our portfolio in this high-growth segment. In Imaging, we offer a range of cameras, lenses, backpacks, imaging accessories such as tripods etc. This category is growing aggressively as trends in photography change rapidly.

Apart from setting up innovative distribution channels, we train employees and help clients develop content to give a whole package of experience to the end customer. One of the key drivers in this segment is GoPro which has seen significant growth in user adoption across the urban markets in India. In Security, we cater to the growing needs and demand for security products and are expanding in this direction rapidly. We are evolving into a major player in this segment with exclusive agreements with global giants in this segment such as Inview. 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 and GoPro are steps towards this direction. I would now like to take you through some recent developments.

I am happy to share that we entered into distribution agreements with several international brands across subsectors. This includes Cooler Master, which is a US-based market leader in PC casing and cooling solutions, PNY Technologies, a US based specialist in high-performance graphic cards and SSDs, and BaByliss, a Premier global grooming brand with global presence. These associations not only diversify and expand our portfolio, but also enhance and testify the company's recognition among global brands. We are already witnessing strong demand for such products in the Indian market. So 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-2 FY '20. Thank you.

Abhijit Kanvinde:

Thank you, Sir, and 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 Q2 FY '20 financial results. In the quarter ended September 2019, our company achieved net revenue of Rs. 90.28 crores with a year-on-year growth of 14.17%. This is mainly on account of increase in demand of Imaging and IT products, addition of new products and tie-up with niche international brand, Cooler Master. The EBITDA stood at Rs. 3.5 crores in Q2 FY '20, an increase of 23.65% year-on-year, I am happy to share that there has been a growth in EBITDA despite higher employee cost from strengthening of our sales team and increased marketing activities for Creative Connect event. The net profit for the quarter is at 1.79 crores as compared to Rs. 1.18 crores in Q2 FY '19. This represents a growth of over 51% year-on-year. Our EPS for the quarter was Rs. 1.54. Now, I turn to H1 FY '20 results. In the six-months ended September 2019, our company achieved the net revenue of Rs. 195.08 crores, which is a year-on-year growth of 24.61%. This is mainly on account of increase in demand in IT and Imaging products, addition of new products, and tie up with niche international brand, Cooler Master. The EBITDA stood at Rs. 7.8 crores in H1 FY '20, an increase of 40.39% year-on-year on the back of increased contribution from high margin value-added products in Imaging and IT as well as addition of new products. The net profit for the quarter is at Rs. 3.78 crores as compared to 2.17 crores in first half of FY '19, this represents a growth of 74.15% year-on-year. Our EPS for the first half is worth Rs. 3.26. This is all from our side. Now, we can open the floor for questions.

- Moderator:** Thank you. Ladies and Gentlemen, we will now begin with the question and answer session. The first question is from the line of Nayan Gala from Ertiga Wealth. Please go ahead.
- Nayan Gala:** Sir, I have couple of questions, if you can just provide me the product wise or brand wise breakup in terms of top five contributors to the revenue during the first half versus that of last year?
- Ketan Patel:** I will give you the top three Samsung, ViewSonic, and GoPro were the top three brands which contributed. GoPro was the highest which contributed 75 crores followed by Samsung, which contributed 22.5 crores followed by ViewSonic which contributed close to 16.14 crores.
- Nayan Gala:** This was in H1 FY '20, correct?
- Ketan Patel:** Yeah.
- Nayan Gala:** Versus FY '19, what was it in '19?
- Ketan Patel:** I am afraid we do not have it now; we will send it you through Bridge IR.
- Nayan Gala:** Sir, my second question is that from this quarter onwards we have started showing segmental revenues in our results; and in the presentation, I have gone through your presentation as well, so in that it is mentioned that we have four different segments, four different divisions and in the segmental reporting which we have done, it shows only three the last one is clubbed, so how do we take it from now on, will it be three segments or will it be two?
- Abhijit Kanvinde:** As per Ind-AS, any segmental reporting can be done only when the segment increases more than 10% of its total revenue, so what we have done is we have clubbed Lifestyle and Security in one segment called Others, so that is a small segment right now. Once it grows beyond 10%, we will show that fourth segment.
- Nayan Gala:** So when it is higher than 10%, you will show it as a different segment in your reporting?
- Abhijit Kanvinde:** That is right.
- Nayan Gala:** Sir, one more question is that in terms of, in your opening remarks you had mentioned you are signing more three international brands, so what will be the timeframe of this agreement and is it an exclusive agreement in terms of how many years Creative and brand can be associated?
- Ketan Patel:** We actually signed this three brands and all are exclusive with us. All the brands which we whenever tie-up either it has to be exclusive all India or it has to be exclusive for some channel, so the three brands which we tied up were Cooler Master, BaByliss, and PNY and all three are exclusive across India. BaByliss is a personal grooming category; it is a category which is not really exploited very well in India. This category is growing at 24% CAGR with

Philips having almost 85% market share and in this category online dominance by having a 54% market share for this category, so we thought that if we get into the personal grooming categories because the millennial in India now they spend a lot on their personal care and how they look like that would be a good category and to exploit this category, we have excellent relationship with Amazon and Flipkart, so that was our strategy that with this brand, we can going in to that. Second, Gaming is evolving very well in India and also 3-D is evolving very well in India, so the two categories, Cooler Master, it is a gaming company which manufacturers high-end gaming cabinets, high-end coolers, high-end gaming chairs, and gaming is really exceptionally growing well in India and when you get into gaming, the second part is you require a good GPU, that is a graphic card with a graphic processor on-board and the whole world is now moving towards 3-D and 360° video and that is why you require this high-end graphic cards. Strategically, we tied up with these three brands, these are all three are exclusive and we are looking at tremendous growth in the coming year for the three brands.

Nayan Gala: In terms of the BaByliss, so this is the first brand in terms of Creative which is entering into personal grooming?

Ketan Patel: Yes, so the BaByliss, Paris, is number one brand in Europe in personal grooming and it is a subsidiary of Conair. Conair is a giant in US in the small appliances and personal grooming space.

Moderator: Thank you. The next question is from the line of Fatima Shaikh, an Individual Investor. Please go ahead.

Fatima Shaikh: When we met recently you talked about a digital platform, what is the progress on that front, this is my first question? My second question would be, are there any companies in India who have similarity in this domain?

Ketan Patel: Fatima, we as a company believe that everything will become a platform sooner than later, so as you see the rental companies, they went on a platform like Uber and Ola. Similarly, we think distribution also will become a platform to transact, to discover, and share. We have made great progress on the digital platform thing and we will be launching it in the last quarter of this financial year where we are B2B, B2C company and where we allow our customers to transact, discover new products on our site, and then share the same products to their customers, so the online platform we have already given the contract, we are working with a topmost U.S.-based firm and this digital platform should be ready for our customer to use as I said in the last quarter of this financial year.

Abroad, there are many companies who have this digital platform, but if you have to see any synergy in India there are two companies which have this platform. One is IndiaMART, IndiaMART as a platform connects the manufacturer with the customer. IndiaMART'S revenue model is more from subscription and advertisement. Then there is another company

which is Udaan, Udaan is a start-up. Udaan's model is to connect suppliers with one another and Udaan makes its money out of logistics and financing them, so we would be a hybrid model of IndiaMART and Udaan because we have got our 20 brands in the first phase. We will get our 5000 customers whom we have on this platform and this customers will get their customers also in this platform and then the customers would be able to transact electronically on our platform. In the second phase, the inventory of our customers also will be available on the platform for others to buy, so that is our endeavour and I think we got a pretty good software company who is executing this project and it will really help us to lower down the cost because to get new dealers, new customers then we will not have to go and physically meet them often and it will completely automate our process.

Moderator: Thank you. The next question is from the line of Rajan Salvi, an Individual Investor. Please go ahead.

Rajan Salvi: Sir, my first question is during the first half as we have seen in the balance sheet, the long-term borrowing has reduced from the 6 crores to 50 lakhs, but there is subsequent increase in the finance cost so what is it without much change in the short-term borrowing?

Abhijit Kanvinde: Long-term borrowing has increased and there is a change in finance cost due to long-term borrowing because there is processing fees involved in the payment of this borrowing, therefore, there is an increase in finance cost.

Ketan Patel: Rajan, to add to this, it was that we had a term loan which we prepaid to the bank and then we took another term loan, so in this month the processing fees was added because of one term loan getting prematurely closed and a new term loan, so that is the charge for the processing fees, which shows there as finance cost.

Rajan Salvi: Sir, who are the bankers for the same?

Abhijit Kanvinde: Our bankers are HDFC Bank and Axis Bank, they share 50:50% pari-passu charge.

Rajan Salvi: Sir, my second question, can you give me the breakup of the short-term portion of long-term debt?

Abhijit Kanvinde: Rajan, our current borrowing short-term as of September 30th is 25,75,68,000 and I will give a breakup of that where term loan and bill discounting facilities from the bank, which is 25.5 crores, there is a cash credit of 15.32 crores, there is buyers credit of 1 crore.

Rajan Salvi: Sir, my third question is I have seen that there is a positive trend in the cash flow, what has led to this improvement?

- Abhijit Kanvinde:** Sure, it is basically one good thing is, we have good profit for the half, that is one part. Secondly, what has happened is out of our reserve we have retained some borrowings to NBFC, and we started some channel financing work. We got some channel financing done from NBFCs so that has given us, also the advances given to suppliers in the last quarter have been adjusted in the second quarter, so in the second half we have a positive cash flow from operation.
- Rajan Salvi:** Sir, my last question is related to the share application pending allotment, so what is this relating to?
- Abhijit Kanvinde:** In our subsidiary, Secure Connection Hong Kong Limited we have diluted our shares and around 10 crores 60 lakhs is something which we have got due to dilution. We have diluted 17% of our shares there. Now, this money has come but that there is no allotment which has happened, so that is shown as share application pending allotment.
- Moderator:** Thank you. The next question is from the line of Nayan Gala from Ertiga Wealth. Please go ahead.
- Nayan Gala:** Sir, just to add to the previous participant, you had mentioned that we have repaid the term loan and you have applied a new term loan, right, is it correct?
- Abhijit Kanvinde:** Yes.
- Nayan Gala:** So the new term loan has it been approved or it is still in processing?
- Abhijit Kanvinde:** Yes, it has been approved.
- Nayan Gala:** So as on September 30th there has to be some long-term in the balance sheet?
- Abhijit Kanvinde:** No, the term loan has got approved in this quarter, the money was received in this quarter. It was approved that time, but it is received in this quarter.
- Nayan Gala:** Sir, what would be the current cost of debt?
- Abhijit Kanvinde:** Major cost of debt, range is between 10.5% to 11%. Our bankers are giving us the bill discounting and cash credit facility between 10 and 10.25 and there is some term loan borrowing, some NBFC borrowing, so the final cost would come to between 10.5% to 11% on an average basis.
- Nayan Gala:** Sir, just in the previous question I had asked about the brand BaByliss and everything, so in terms of you were saying that BaByliss and this thing, you will go on an online platform?

- Ketan Patel:** We will start with the online platform, but obviously online is just 7% to 8% of the India market. This particular category, online has a 54% market share.
- Nayan Gala:** Okay, that is in India or?
- Ketan Patel:** Yes, this figures I am talking about India, so if we have a 54% market share and we have great connections with both the online companies because we give them seven to eight brands including Honeywell, GoPro, Transcend, Rapoo, so we think that we will be able to make a quicker inroads because to develop a channel, it requires six to seven months' time while in online we will be able to do it faster, but obviously after a while once you have the initial surge, we will have to go to the channel also.
- Nayan Gala:** You will have to develop a new channel or in the existing channel itself?
- Ketan Patel:** We have basically three types of channel; one is the modern retail which are the Reliance and Croma, Ezone of this. All this is the same because these channels sells laptop, these channels sells TV, and these channel sells personal grooming, so that is the same channel, similarly it is with e-commerce that is the same channel, but IT channel does not sell personal grooming, so for that we will have to develop up a new channel for personal grooming which are usually beauty shops and small appliance dealers, so we have recruited top end professional who has been in this field for last 12 years and he will be developing our channel.
- Nayan Gala:** It will take maybe this thing will come into effect maybe next year?
- Ketan Patel:** Yeah, BaByliss, we think that over a couple of years, it can be easily 100 crores category a year, so probably this financial year we should be around, it starts around, we will be close to 6 to 7 crores and the next year it should move to from 7 crores to 100 crores.
- Nayan Gala:** Sir, in this half year we have done around 194 crores of top line and last year we did around 370 odd, so what is the target which we are taking and in terms of that also the PAT levels, what is the target which we are keeping in mind?
- Ketan Patel:** It is very difficult to give guidance for the year-end numbers, but roughly I can share that we are targeting number of top line of around 500 crores plus and on that it will be in the range of maybe 1.9 to 2.25 percentage, so I cannot give you a number, but I can give you a range of percentages of 1.9 to 2.25 as a percentage to my top line on the PAT.
- Nayan Gala:** Sir, so we are targeting around 20% to 25% growth on top line, correct?
- Ketan Patel:** Yeah, because one of the major things will be that our operations for Middle East has started for Honeywell. As you know, we manufacture Honeywell products and we have licenses for

Honeywell products and we are glad to say that Redington is our distributor for Honeywell products in Middle East, so we will get good reach and a good bottom line out of Honeywell.

Nayan Gala: Sir, how is the thing with contract manufacturing going, is it like...?

Ketan Patel: Honeywell helps a lot to us in the contract manufacturing space; they have close to 26 factories which they have audited. As you understand, Honeywell is a Fortune 50 company so they require technical compliance plus social compliance, when I say social compliances that there should be insurance for the workers plus their family members, there should be sexual harassment policy, there should be a fire drill, there are lot of other stuff and minimum working hours, maximum working hours all that, so they have identified 26 companies and more or less we work with these 26 companies to get our products contracts manufactured and once we reach a minimum threshold of production then probably we may think of getting these companies to India in the Make in India program and then we could ask them to contract manufacture for us the same products in India. Currently, the factories which we work with are in Taiwan, China, and one factory in Brazil.

Nayan Gala: From there only, we export it directly to Middle East?

Ketan Patel: So that is why we opened up a subsidiary of Creative in Hong Kong, which is secure connection, so we are taking the products there now. For India, we get the products in India and for Middle East; we directly export it to Middle East. In Middle East, we have the whole of UAE, then Oman, Bahrain, Qatar, and Saudi Arabia. Saudi Arabia, we would start this month because Saudi Arabia has a standard called SASO, so SASO standard took us some time to get it, but now we have got already the certification for SASO standard, so we will start shipping the products to Saudi Arabia also from say end of December or January from Hong Kong.

Nayan Gala: Sir, every time we were like we had some target to reach this 1000 crores of top line and everything, so according to you how many years for us it will take to reach the 1000 crores top line?

Ketan Patel: If God is kind then 2020 and if everything goes moderate, then 2021.

Nayan Gala: Okay, so you are saying in the next couple of years?

Ketan Patel: Yeah, I think next year end we should be nearing it and 2021 for sure.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the Management for their closing comments.



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:

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