

# TTK PRESTIGE LIMITED

## EXTRACTS FROM DIRECTORS' REPORT – FOR THE YEAR 2013-14

Your Directors have pleasure in presenting their Fifty Eighth Annual Report, together with the Audited Accounts of the Company, for the year ended 31<sup>st</sup> March 2014 as follows:

### FINANCIAL RESULTS

	(Rupees in lakhs)	
	2013-14	2012-13
Sales (inclusive of excise duty)	132338	138589
Other income	788	473
Exceptional Income	696	
EBIDTA (before net Exceptional Income)	16810	20845
EBIDTA (Including net Exceptional Income)	17506	20845
Profit/(Loss) before tax	15175	18520
Tax Provision	3996	5211
Net Profit/(Loss) after Tax	11179	13309
Transfer to General Reserve	1200	1500
Proposed Dividend (including tax)	2724	2322
Surplus carried to balance sheet	7255	9487

### REVIEW OF PERFORMANCE:

Your Company is focussed on growth with a fair return on capital employed. Your Company does not follow a standalone margin-led strategy. Therefore the performance has to be understood in the light of the philosophy followed by your Company.

- After a decade of high growth and a CAGR in excess of 25%, your company for the first time witnessed a drop of 4.5% in topline largely due to sudden shifts in government policy, economic slowdown across the country, more trying economic climate in most of the southern markets and deteriorating consumer sentiment across categories in the backdrop of unprecedented inflation in articles of daily consumption. In sum and substance a host of external factors impacted the growth path of your company both in domestic market and export market. .
- More specific to your Company was the high base effect in the previous year due to Induction Stove and its bundled products which declined by 38% solely due to shift in Government Policy on domestic cooking gas cylinder subsidies. In the rest of the category the growth in domestic sale was around 8% which can be considered significant in this economic climate. In fact your Company registered impressive growths in mixer-grinders, gas stoves, and inner-lid pressure cookers and in general in all value added products.
- Not-deterred by general sentiment your company launched an all new brand campaign using India's leading celebrity couple as brand ambassadors and introduced several new and advanced models of various products. This has ensured that your Company's brand salience is kept more prominent and market share was either maintained or improved across product categories and markets.
- The impact on topline also impacted EBIDTA (before exceptional items) and Profit after tax which declined by 19.4% and 16% respectively.
- Your Company did get some boost to profits due to receipt of enhanced compensation and interest aggregating to Rs. 8.10 crores through a court order relating to portions of industrial land of your Company acquired by the Government about 10 years back. Your Company also incurred a sum of Rs.1.14 crores on a VRS scheme in the Hosur factory. The net exceptional income was Rs.6.96 crores

- The operating EBIDTA margin was 12.70% as compared to 15 % in the previous year the drop largely being attributable to under absorption of some overheads owing to drop in sales.
- Earnings per Share stood at Rs.96.78 (Previous Year Rs. 117.35).
- The ratio of Operating EBIDTA/ Operating Capital employed (excluding CWIP) in the Kitchen Segment is 27.62%. This is on a substantially increased asset base due to capitalization of the Gujarat facilities which can be used to optimum potential only in the next few years.
- Your Board of Directors are of the view that the current year performance is commendable in the light of several external factors which are not under the control of the management and that the constant efforts to derisk your Company from being dependent on a few products and markets have made your Company withstand the onslaught of several adverse external factors in one single year.

A detailed analysis is provided under the section 'Management's Discussion and Analysis' forming part of this Director's Report.

## **MANAGEMENTS' DISCUSSION AND ANALYSIS**

### **A. ECONOMY /INDUSTRY SCENARIO**

The macroeconomic environment continued to pose challenges in the Fiscal Year 2013-14 against the backdrop of continued economic slowdown in the domestic economy, high inflation and weak global economic environment. The real GDP growth rate was estimated at less than 4.9% a further drop from the previous fiscal. During the year inflationary trends continued to inhibit consumption. In fact the Private Final Consumption Expenditure (PFCE) grew by a mere 2.2% in 2013-14. This is much lower than the PFCE growth of 8% witnessed till 2011-12.

Major States like Tamil Nadu and Kerala, suffered heavily due to poor monsoon and power deficit which affected every part of the economy in these States. Andhra Pradesh also went through a slow down due to local political factors and policy affecting mining industries. The Non-South regions, which had shown excellent growth during the last year, were also not buoyant during this year due to the base effect relating to the previous year compounded by the economic slowdown spreading to the non-south markets in the second half of 2013-14.

Your Company operates in the kitchen appliances segment with a wide range of product categories. The product categories consist of Pressure Cookers, Non-stick Cookware, Gas Stoves and Domestic Kitchen Electrical Appliances. The market for Pressure Cookers is shared amongst organized national branded players, regional players and unorganized players. Over the years, the share of the unorganized players has been gradually coming down as there has been a shift in the consumer preference to reliable branded players. The market for organized brands is estimated at about 60% of the total market. The share of unorganized players is greater for Non-stick cookware as compared to pressure cookers. For the rest of the product categories, the market structure is fragmented and the share and the role of regional brands and unorganized players continue to be significant.

The appliance category is witnessing entry of quite a few players who have brand strength in non-kitchen appliance business and this will possibly drive the demand towards organized players who can offer innovative products at frequent intervals and further invest in the brand.

### **B. OPPORTUNITIES, THREATS AND COMPANY'S RESPONSE**

Your Company will continue to operate out of its core strengths of brand, innovation, design, manufacturing, distribution, sourcing and service capabilities; the core of vision of 'A Prestige in every Indian Kitchen'; and the core mission of 'Quality products at affordable prices'.

The above stated strengths and vision have helped your Company to broad base its product category, consumer base and geographical coverage. Continuous interaction with the ultimate user of the product has been helping your Company in identifying the pain points and offering solutions in the form of innovative products, concepts and consumer offer of bundled products for a holistic use. This focus helps your Company to create opportunities even in the face of depressed consumer sentiment.

Your Company strongly believes that there is enough head room for growth both in the near-term and the long-term in its core kitchenware and kitchen appliance business. The potential exists in existing product categories, new product categories as well as untapped markets. There is bound to be more additions to middle income demography once the current economic slowdown melts down. While there are more players entering this space, opportunistic entrants without long-term interest or strategy cannot last long but can queer the pitch in the short run.

Your Company believes in continuous brand building and launched a whole new campaign roping in India's leading celebrity couples Mr. Abhishek Bacchhan and Mrs. Aishwarya Rai as brand ambassadors. This campaign has been well received throughout the length breadth of the country. This campaign backed by launch of innovative products has been designed to evince and sustain the consumer interest in your Company's products and this objective has largely been achieved. This brand building strategy has a clear long-term outlook to deal with competition effectively. Instead of trying to cut brand promotion budget to shore up short-term profits, your Company took a long-term view and boldly invested in the all new campaign.

Your Company will be entering the water filter category during the FY 2014-15. A wholly new range of pressure cookers, cookware and appliances are also slated for launch during the current financial year. Notwithstanding the steep drop in Induction Cook top in 2013-14, it has become a staple product category in the company's portfolio and normal growth can be expected in this product category due to innovative offerings and promoting it as a complementary to gas stove in the kitchen if not a substitute.

Your Company will continue to focus on various ways of reaching the consumer through every channel and especially by expanding the Prestige Smart Kitchen network. Your Company plans to expand the network to strength of 1000 in the next three years from the current strength of 536 stores.

Over the last 10 years your Company has built the strong exclusive retail network 'Prestige Smart Kitchen'. On similar lines your Company is in the process of establishing a dedicated Service Network under the name and style "Prestige Service Centre" with modern and customer friendly ambience. Already 177 centres have been opened and further additions will be made across the country. In our continuous journey in the direction of "Best in class" After sales service, we have also established a Call Centre, with a considerable investment. This will enable us to speed up our servicing process, gather information on product problems which will go a long way to improve our quality on a continuous basis.

Your Company sees reasonable opportunity in export markets based on its modern facilities established in Gujarat. Quite a few reputed overseas brands are in touch with us. There is further opportunity in the form of a totally new microwave pressure cookers getting ready for launch. The shareholders will be kept informed of further developments in this regard.

## C. ANALYSIS OF PERFORMANCE:

### 1. Kitchen Appliances:

The products include Pressure Cookers, Non-stick Cookware, Kitchen Electrical Appliances and Gas Stoves. The turnover of these product categories is given in the following table:

(In Rupees Lakhs)

	2013-14			2012-13		
	Domestic	Export	Total	Domestic	Export	Total
Pressure Cookers (including microwave pressure cookers)	44240	5161	49401	44661	6403	51064
Non-stick Cookware	22487	169	22656	24430	55	24485
Kitchen Electric Appliances	39662	80	39742	45541		45541
Gas Stoves	16689		16689	12789		12789
Others	3776	74	3850	4710		4710
<b>Total</b>	<b>126854</b>	<b>5484</b>	<b>132338</b>	<b>132131</b>	<b>6458</b>	<b>138589</b>

- a. Domestic Sales was down by 4% while exports sales decreased by 15%.
- b. The major cause in drop in domestic sales can be attributed to the high base effect of the previous year on account of spurt in sales of bundled Induction Cooktop and related products during the period September 2012 to February 2013 on account of capping of subsidized domestic gas cylinders at 6. The spurt was more in non-south markets. South markets barring Karnataka and Goa have been going through severe economic slow-down since August 2012 due to power shortage, water scarcity, local disturbances, decline in agricultural production etc and it worsened further during FY 2013-14. Thus it may not be appropriate to compare the FY 2013-14 performances with FY 2012-13 which can be considered as an abnormal year. The economic slowdown and consumer apathy which was gripping large parts of southern markets also spread to non-south markets since November 2013.
- c. Pending launch of a new model of microwave pressure cookers, the export business also witnessed a drop.
- d. The Gas stove sales showed an impressive growth of 30.49%.
- e. The drop in kitchen electrical appliances was largely contributed by drop in Induction Cooktop owing to the shift in gas subsidy policy of the Government. The bundling of a part of pressure cooker and cookware with Induction Cooktop gave a boost to the sale of pressure cookers and cookware in the preceding two years. But due to the drop in Induction Cooktop category the bundled concept also affected domestic pressure cooker and cookware volume during the year. However other products like Mixer Grinders established significant growth.
- f. The operating EBIDTA margin for the year was 12.7% as compared to 15% in the previous year. This is mainly due to the drop in sales resulting in under absorption of certain overheads like increased pay-roll expenses and power and fuel expenses relating to new manufacturing facilities being commissioned. Your company by and large passed on increases in input costs including those arising out of exchange fluctuation. Given the fact that the company did not compromise on its brand promotion activities and engaged India's top celebrity couple for endorsing the brand, the EBIDTA margin is quite healthy.
- g. It may be noted that various operating ratios are unique to your Company and are not strictly comparable to other players whose composition of business may not be similar to your Company. Further based on category mix and seasonal brand/sales promotion activities, the margins may vary from quarter to quarter. As a policy your Company passes increase in input costs to the market save for the lag involved due to pipe line inventory and other related factors.

- h. The interest cost during the year was Rs.8.54 crores (PY Rs. 14.26 crores). The Company was able to reduce the borrowing substantially owing to application of free cash flows and proceeds of fresh issue of capital on a preferential basis.
- i. Own manufactured and domestically sourced products contributed to 75 % of the turnover as against 66% in the previous year. The imported products contributed to 25 % of the turnover as against 34 % in the previous year. This composition also influences the margin as well as working capital investments. The shifting of certain imported products to domestic manufacturing has helped the company to save rupee depreciation costs, transaction costs as well as working capital investments. This also helped the company to maintain a healthy EBIDTA margin.
- j. Your Company continues to maintain strict control over working capital. However there was an increase inventories during year mainly due to demand slowdown arising out of general economic circumstances. Your Company continues to raise significant operating free cash flows which enable your Company to fund the various capital expenditure programmes without resorting to high gearing. The Debt: Equity ratio is insignificant.
- k. During the year under report your Company introduced around 68 new SKUs covering Pressure Cookers, Induction Cook Tops, Mixer Grinders, Rice Cookers, Gas Stoves and other small electric appliances.
- l. Your company continues to consolidate and expand Prestige Smart Kitchen retail network. Your company extended its coverage to another 46 towns. The net addition to the number of stores was 103. The number of outlets as at 31.3.2014 was 536. The network now covers 22 States and 275 towns. The spread of the network is also evenly distributed between Metros, Mini-Metros, Tier 1, Tier 2 and Tier 3 cities. About 65% of the Stores are located in South and the balance in Non-South.

## **2. Properties & Investment:**

The shareholders are aware that pursuant to shifting of factory operations to other places, the land at Dooravaninagar Bangalore became surplus and it was decided to develop the same instead of selling it outright. The company has handed over the development to Rajmata Realtors (Salarpuria) for developing an office cum residential complex. The Developers have informed us that the project is progressing satisfactorily and would be completed before the end of current financial year. Your Company's inflows from this activity will consist of one time sale proceeds of residential allocation to which your Company is entitled as well as rentals from lease of office space allocated to your Company. The cash inflows are expected to materialize during calendar year 2015.

## **D.OUTLOOK**

The Indian economy is expected to grow at about 5.5 in 2014-15. This expectation is based on several investment clearances in the recent months. The Private Final Consumption Expenditure is also projected to increase by a little more than 6%. If this expectation materializes it can aid your Company i get back to the growth path. It is also expected that post general elections the new Government will be able to stabilize the economic policy and remove all bottlenecks affecting growth. Your Company is banking on its new brand strategy and new product strategy including tapping some export opportunities to get back to the growth trajectory and any revival in the economy in general and consumer sentiment in particular will add strength to your Company's plans.