



“TTK Prestige Limited 2QFY20 Results Conference Call”

November 08, 2019



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Moderator: Ladies and gentlemen, good day, and welcome to TTK Prestige Limited 2QFY20 Post Results Investor Conference Call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Kanodia from Ambit Capital. Thank you, and over to you.

Ashish Kanodia: Thank you, Zaid. Good afternoon, everyone. Welcome to 2QFY20 Earnings Conference Call of TTK Prestige Limited. Today, we have Mr. T. T. Jagannathan, the Chairman; Mr. Chandru Kalro, the Managing Director; Mr. K. Shankaran, Director, Corporate Affairs; and Mr. V. Sundaresan, Chief Financial Officer. I would now like to hand over the call to the management for opening remarks, post which we can open the floor for Q&A. Thank you, and over to you, sir.

Chandru Kalro: Good afternoon. This is Chandru here, and welcome to the conference. The overall scenario in 2Q had a lot of clouds of slowdown, which I think everybody knows about. And I think under the circumstances, we reported reasonably good topline. Many parts of our business have grown quite well, actually, while the overall is looking only at a single-digit growth. The rural demand continues to be under stress, which is also causing some trouble. There is a lot of heavy discounting that's happening in the market, which we try to stay away from wherever we could, from a long-term perspective. And therefore, you see the performance as it is. Of course, the corporate tax cut has been very nice for the PAT, which you would have noticed. I now hand over the floor to the questions.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: I just wanted to understand the comment that you made about heavy discounting in the market. Is this primarily in the cooker segment, where we see some divergence in the growth rates versus what the other?

Chandru Kalro: Primarily in the pressure cooker segment. You are absolutely right.

Avi Mehta: Okay. So that essentially explains the difference between...

Chandru Kalro: Yes.

Avi Mehta: Sir, the second bit is on the margin side. Now you know EBITDA margins have been fairly healthy now. We have seen a very smart expansion in the second quarter. I'm just trying to kind of understand, given this performance that we have seen, how should I look at the full year



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numbers? Because earlier you had said, we would kind of look to maintain some similar to FY '19. Do you see a possibility of expansion from there as of now?

Chandru Kalro: We're still saying that we will be close to FY '19. That's where we should be by the end of the year, FY '19 EBITDA margin.

Avi Mehta: And sir, why the input costs are also benign, and you have alluded to demand picking up in the Prestige. So I'm just trying to understand why?

Chandru Kalro: So you've seen what the first half of the year is in terms of EBITDA margins. Largely, if you look at the 2 halves, they're very similar in the way they began. And the commodity prices have been roughly stable, right through these 2 quarters and we are hoping that it continues to be stable.

Avi Mehta: I mean because last year, it was not the same, so that's why I was asking. Last year, second half margins were relatively superior than the first half. So I was just trying to kind of take from there.

Chandru Kalro: The growth rate in the Q3 of last year was 22%, if you recall, which actually expanded the EBITDA margin given the leverage benefit that we got because of that growth.

Management: Also, we took a price increase in the second quarter last year.

Avi Mehta: Okay. So that essentially answers what could be on the reasons why you don't want to, okay sir. And lastly, sir, the tax rate. I mean if you could give us a guidance on what is the tax rate that we should assume for the entire year?

Management: We have opted for 25% tax.

Avi Mehta: So the full year would be 25.17, right, sir?

Management: Yes,

Avi Mehta: And sir, sorry, one last bit, just to understand this pickup that you alluded in the festive period that you are witnessing. Could you give us a sense on which segment is this pickup? Is it across the board? And what does it mean given that? Did you highlight it?

Management: It's doing extremely well in appliances. Our mixer grinders have done very well, our gas stoves have done quite well, small appliances have done very well. Cookware has done very well in the last 2 months. So those are the markets. And we said that it's not that the trade is completely gung-ho about the sentiment. There is a sentiment that we had to fight. Luckily for us, there was



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some streaming of the online platforms that actually improves sentiment closer to Diwali which helps the trade business a bit. But overall, sentiment is still not there as it should be.

Management: We have some new launches in this quarter, with which we believe that the pressure cooker and cookware segments to grow smartly.

Avi Mehta: And the discounting continues in the cooker side or has that also come off, sir?

Management: The discount is something we use very tactically and very prudently. On competition, that continues, absolutely.

Avi Mehta: So you're countering it by new launches, is how you are seeing it?

Chandru Kalro: Yes.

Moderator: Thank you. Next question is from the line of Chirag K from Value Quest. Please go ahead.

Chirag K: Sir, my first question is on the channel. So rural as a channel as well as modern trade as a channel, we have faced lot of headwinds in Q1, and we have seen actually negligible sales in Q1. So how are the trends there for Q2 and H2 going ahead?

Management: In terms of rural, the demand is still wavered. It's not exactly very positive, but it's improving. The second quarter was far better than the first quarter. And in terms of the modern format, I think the business, we, as a company, have gone and expanded our relationships in the modern formats and made up what we have lost with our existing customers with others mostly. So in that sense, that business is coming back. We have avoided a situation where there is a disproportionate discounting .

Chirag K: So in H2, do we expect significant recovery in both this channel vis-à-vis H1 or the trends will be muted on this? On a full year basis, I'm just trying to understand whether it will grow in this channel or will it see significant decline?

Management: We expect to grow in the modern format. We expect to be flat on the rural.

Chirag K: Okay. Sir, secondly, if you can help us understand this breakup of appliances. Growth rates would also be helpful in gas stove, mixer grinder and kitchen appliances for first half?

Chandru Kalro: We would not give the breakup at this point in time in the middle of the year. There is competitive interest in there. But what we can say is that every single appliance, we have grown by more than 10%. Double-digit growth we've seen across appliances.

Chirag K: And sir, you said there is lot of competitive intensity in cooker segment. But when I look at your peers numbers, they have grown at a double-digit pace and also improved their margins. So the



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kind of disconnect in what you are saying, and we are seeing in the reported numbers of your peers? So if you can help us understand.

Chandru Kalro: So basically, some of our peers, the peer you are referring to, does not have a very high South focus market. Kerala, as you know, even this year, has not been great because of the furious monsoons and heavy floods. so, Onam was not great, which does not impact our peers. And some of the Northern markets probably have grown faster for them, and they must have expanded their channel base.

Chirag K: So it is more to do with region than overall discounting, is it fair assumption?

Chandru Kalro: Yes.

Management: There are regional as well as rural. Our base in rural was very high last year. This year the rural has been lower than last year. That is the main differentiating factor. Secondly, when it comes to modern formats, we are very choosy now. We have to ensure that our quality of sale is very important. There's no point in dumping entry level stock at deep discount and don't get our payments at all. We want to have a clean receivable position in our company.

Chirag K: Right. Sir in terms of revised trade policy, you mentioned Q1. So this quarter, I've seen your receivables have actually gone up. So if you can just help us understand what exactly?

Management: That's exactly what we were talking about. Because of that affected the sale to some big customers And so the sale has been affected because of nonpayment of dues.

Chirag K: . So receivables has actually gone up in this quarter. And last quarter, you have mentioned you're restricting your sales because of receivables. So...

Management: There are 2 different markets, one we talked about, certain trade segments where we have gotten into revised trade policy that is working very well. When it comes to other format of stores, we have ensured there is supply only where the payments are correctly receivable. Second, if you look at the current quarter, on July-August sales, we have not much to talk about it. The revival started only in September. There receivables of September look higher because they will get collected only in October-November. September billing was better than the July-August billing.

Chirag K: Okay. And just lastly on gross margin front. Is it to do with product mix? We are seeing limited expansion or say flat margin Y-o-Y?

Management: Product mix.

Management: No, if there is anything wrong....



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- Chirag K:** No. It is not wrong. I'm just trying to understand it is to do with product mix changes happening in our sales composition...
- Management:** Margin is very good.
- Chirag K:** Okay. And A&P has been maintained, sir, for first half?
- Management:** Yes.
- Moderator:** Thank you very much. Next question is from the line of Nirav Vasa from Anand Rathi Stock Brokers. Please go ahead.
- Nirav Vasa:** Would it possible for you to share the broad revenue mix that we have between Northern states and Southern part of India?
- Management:** It is equally divided, as usual 50-50 now.
- Nirav Vasa:** So it is 50-50. And sir, are we seeing any major benefits coming out of Ujjwala scheme because I read in some of your media articles that our company is one of the major beneficiary of Ujjwala scheme. But what kind of growth you are seeing specifically coming out from that particular scheme?
- Chandru Kalro:** The Ujjwala scheme is definitely going to give us benefit as the period goes on. But given the rural stress that we are seeing, it is not fully coming on to the board right now. But I'm sure that the market would become very positive as we go along.
- Nirav Vasa:** Sir, what I'm able to understand which is based on our broad business strategy, and please correct me if I'm wrong, we are gradually moving towards premiumization across each and every product category in which we are there?
- Chandru Kalro:** Yes.
- Nirav Vasa:** So like in maybe next 2 to 3 years' point of time, are we going to actually exit the mass market or the initial level entry market across each product segment and focus only on premiumization? Or how is our broad strategy panning out?
- Chandru Kalro:** Obviously, we are moving towards premiumization because newer products have got better technologies and will cost more. People have to pay more. But that does not in any way mean that we are exiting the mass market.
- Moderator:** Thank you. Next question is from the line of Amarjeet Maurya from Angel Broking. Please go ahead.



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Amarjeet Maurya: Just wanted to ask you one thing. Cookware and appliance segment, what is the current market share? And what is the strategy to increase further market share in future? And also, just wanted to understand touch point in the cooker, cookware and appliance segments? And how you'll increase in the future?

Chandru Kalro: In cookware market share we are by far the leader. In terms of value, we are almost 35% to 40% of the market. And in volume terms also, we are 4x the size of the nearest competitor in cookware. Appliances, there are several categories, and we are leaders today in value-added gas stoves. We are leaders in industrial cooktop, we are leaders in kettle. We are leaders in rice cooker. We are not yet the #1 player in mixers, but we are almost #3 player today in mixer grinders. So that is as far as the market shares are concerned. In terms of distribution, it is a constant expansion that we aim at. We have implemented newer and newer methods of tracking secondary sales. We have just now put in a secondary sale tracking software with all our distributors to track secondaries and also track distribution expansion.

Amarjeet Maurya: So there is any further opportunity to increase your distribution network?

Chandru Kalro: There is always opportunity, and we are always looking at that.

Amarjeet Maurya: And sir, I just read on your press release, like you wanted to increase more SKUs in coming quarters. So in which category you're looking for that?

Chandru Kalro: Pressure cookers, like our Chairman has said, we are launching some new SKUs, which are very exciting and path breaking. We are launching new appliances as well in the next coming 2 quarters.

Moderator: Thank you. The next question is from the line of Anuj Sehgal from Manas Capital. Please go ahead.

Anuj Sehgal: Can you let me know what percentage of your sales do you get from Prestige-exclusive stores? And what has been the same-store sales growth for these stores over the last, say, 2, 3 years and this year, year-to-date?

Management: We get about 15% of our topline from Prestige-exclusive store. And the growth in the sales of Prestige-exclusive stores mirrors the sale of the company. If the company grows at 10%, they also grow at 10%.

Anuj Sehgal: But do you track the same-store sales? Or that is the cumulative growth of those stores?

Management: Of course, we track the same-store sales. We are tracking per square foot sale.

Anuj Sehgal: And the same-store sales is in line with the growth of the overall company?



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- Management:** Yes.
- Moderator:** Thank you very much. Next question is from the line of Manish Poddar from Nippon India. Please go ahead.
- Manish Poddar:** Sir, can you please give some clarity this discounting, which you're mentioning. Is it either by channel or is it by certain specific players?
- Chandru Kalro:** Certain specific players.
- Manish Poddar:** Okay. And this is largely in South of India, you're saying?
- Chandru Kalro:** Yes. In the South of India, yes.
- Manish Poddar:** Okay. And have we taken any fresh price increases now?
- Chandru Kalro:** No.
- Manish Poddar:** I am just trying to understand, let's say, given the season was also preponed and I think they're still not buoyant, the second half in terms of absolute number, would it look similar to the first half in terms of revenues?
- Management:** Similar, if not, it will be slightly better because it has got some new launches planned for the second half.
- Manish Poddar:** In the first quarter, you had said that you had rollout of new software. So now from the company level, you're able to pass out discounts properly and you can track secondary sales. Is that a fair assumption now?
- Management:** Largely, yes. It's still work-in-progress, not 100%, but largely, yes.
- Manish Poddar:** Can you just provide, your expansion in the state of Uttar Pradesh, in terms of reach or...
- Management:** That is competitive information, that details we cannot share
- Management:** Every geography we are focusing on, which geography we are focusing on, is a matter of confidentiality for us.
- Moderator:** Thank you very much. The next question is from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta:** Sir, just wanted to understand the capacity addition that we were planning, which was supposed to come on stream in Gujarat and Coimbatore. Has that become operational?



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- Chandru Kalro:** Yes, from October 2019.
- Avi Mehta:** So sir, would there be a related inflation or expenses that would come in and which could also weigh on other expenses? Is that what we should kind of assume? Or how did that...
- Chandru Kalro:** No. It will all have additional production.
- Avi Mehta:** So while there will be cost, there will be also related kind of sale that is how I should assume kind of. The second bit sir is I know it is a volatile kind of demand environment is what you're highlighting. But is it possible to give us any guidance on how do you see growth rates for FY '20? Or any comment. I mean I completely appreciate if you're not willing to give a quantitative number.
- Chandru Kalro:** We do not want to hazard a guess.
- Management:** We believe we should be in the upper single digit.
- Moderator:** Thank you. Next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Can you talk a little bit about how the rural has done? Pardon me if I'm repeating the question, but I just wanted to get an update on the rural in terms of the demand scenario. Have you seen any deceleration or things are just the way they were earlier this year?
- Management:** Actually, the rural demand has not disappeared in spite of rural stress. It has slowed down partly due to inadequate availability of refinance to NBFC/ Microfinance firms and logistic issues. NBFC/Micro finance firms are in the process of reorganizing themselves to comply with applicable regulations. Finance & logistic issues need to be sorted out to further penetrate these markets.
- Achal Lohade:** Right. Given the issue with the NBFC sector, in terms of any impact for us and whether that impact is now sorted out? And are we looking at better days for rural?
- Chandru Kalro:** See, it depends upon the rural credit expansion, that has to first start. There is some demand recovery. Much depends upon rural credit expansion/refinancing of NBFCs and sorting out of logistic issues for deeper penetration.
- Achal Lohade:** And second, it was with respect to exports. Can you help us understand the way forward with respect to export to countries, products, and what kind of growth one should look at?



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- Management:** Well, export, actually first half was disappointing because some of the orders that we expected have been postponed to the third and fourth quarter. So that is one of the reasons why exports in the first half were disappointing. And the geographies, Japan, Europe, U.S., Far East, Middle East, Bangladesh.
- Moderator:** Thank you. Next question is from the line of Nirav Vasa from Anand Rathi Stock Brokers. Please go ahead.
- Nirav Vasa:** Sir just wanted to check one thing. After the commissioning of the recent CAPEX, what would actually be your total installed capacity across each product category?
- Management:** Pressure cooker should be around 9 million. Cookware should be around 15 million. And some appliances, rice cookers and induction cooktops about 1 million pieces.
- Chandru Kalro:** Appliances will be around 1 million pieces.
- Moderator:** Thank you. Next question is from the line of Amarjeet Maurya from Angel Broking. Please go ahead.
- Amarjeet Maurya:** I mean have you identified any product category, where you can see growth opportunities, like you can capture almost 200 to 300 crore growth in next 2 years?
- Chandru Kalro:** No. We're working on it.
- Management:** We are working on newer categories. It is too premature for us to say anything about it now.
- Amarjeet Maurya:** You don't have food processor. So do you think that in future, like you're in appliances segments, so go for a food processor and capture to the market?
- Chandru Kalro:** We already have food processor. The range is forever expanding. We have juicers, we have mixer grinders, we have wet grinders. So there is a new product pipeline that is constantly being built.
- Moderator:** Thank you. The next question is from the line of Kunal Shah from IIFL. Please go ahead.
- Kunal Shah:** My question is with respect to inorganic acquisition that you had alluded to last year. So is there any update on that front?
- Management:** We're still working on it. We're in the process of examining 2 or 3 opportunities. When it fructifies, we'll let you know.
- Kunal Shah:** Okay. And sir, my second question is, what would be the CAPEX in FY '20 and '21, if you can share that?



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- Management:** Maintenance CAPEX.
- Kunal Shah:** Okay. And can you give some quantum if possible?
- M. Chandru Kalro:** 20 crores, maybe.
- Kunal Shah:** Okay, 20 crores. And sir, finally, in the tax rate this quarter, there will be a one-off because of deferred tax revaluation, right, because of new tax rated option? So what is the quantum of that one-off?
- Management:** About 13 crores.
- Moderator:** Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria:** Sir, my question is, you said that it's getting very difficult to transport cookers into rural areas. Would you just mind throwing light on the new laws like is it related to the GST that we are not able to transfer cookers the same way we used to do before?
- Chandru Kalro:** No. NBFCs facilitated inventory holding and delivery through independent logistic entities at various rural locations to various buyers. These have been undergoing changes and have impact on cost of deliveries. Solutions are being worked out to minimize the cost of delivery.
- Digant Haria:** Okay, sir, these NBFCs are mostly the micro finance company, right?
- Chandru Kalro:** Yes.
- Digant Haria:** What was our peak sales through them? And has that become zero? So maybe once we develop a new strategy to reach rural areas, we can again have good growth in that segment.
- Chandru Kalro:** Our peak sales was about 116 crores. This year, we will be less than that. But will try to bridge the gap.
- Moderator:** Thank you. The next question is from the line of Anuj Sehgal from Manas Capital. Please go ahead.
- Anuj Sehgal:** Is it possible to share what was the growth across your different channels, online, modern trade, general trade? And also, just to get a sense, you mentioned in your press release that online sales were very strong. So was that the only channel that grew strongly? And then lastly, can you also share the number of point of sales that you have across the country?



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- Chandru Kalro:** So the online sales mirror the overall online sales growth that you saw. And I think a lot of that information is in the public domain. Our traditional channels have also grown, but lesser than the online, obviously. Our whole franchise network has grown and as Chairman said it mirrors the company's growth. The modern format has also grown. So almost all our channels have grown. In terms of point of sales, we are one of the most well-distributed kitchen appliances across the country. The research report gives us over 60,000 points of sales across the country.
- Moderator:** Thank you. Next question is from the line of Srinivas Seshadri from Mirabilis. Please go ahead.
- Srinivas Seshadri:** Sir, I wanted to understand how the Cleaning Solutions division has done in the first half, both in terms of revenues as well as how the distribution part has, kind of, expanded?
- Chandru Kalro:** Well, it is making very healthy progress. We've had close to 50% growth over last year in the Cleaning Solutions. And I think we are on the right track there.
- Srinivas Seshadri:** Okay. And how much of the potential network has been exploited as yet in terms of the distribution?
- Chandru Kalro:** Difficult to answer that. There is enough room for growing that network as we are speaking. So that is going to be work in progress for the next 2-3 years because there's a lot of market to be covered. We are doing exceedingly well in that area.
- Srinivas Seshadri:** And sir, just a clarification on the discounting, which you have been talking about. So if I got it right, this is in the cooker segment, specifically in South India?
- Chandru Kalro:** Correct.
- Srinivas Seshadri:** And this is across channels, not just modern format?
- Chandru Kalro:** Correct.
- Srinivas Seshadri:** Okay. And sir, the discounting is more driven by the regional player or, say, a national player? I mean, what is...
- Chandru Kalro:** Regional player.
- Srinivas Seshadri:** Okay. So South players are only driving this process?
- Chandru Kalro:** Largely.
- Moderator:** Thank you. Next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.



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- Digant Haria:** Sorry, just a follow-up on the previous question about rural sales, which I asked. So what are the popular SKUs of peak sales, was it across all categories? And where those SKUs priced much lower than the ones which we usually sell in cities?
- Chandru Kalro:** We would not like to tell you which SKUs, but we can tell you that we are not necessarily selling the lower priced SKUs.. What SKUs we sell, what categories we sell, I don't think I want to say at this point in time. But we are not selling the cheaper product in rural India. Rural aspirations have grown more than what we expected. It's 116 crores that the rural added to our sales in FY19.. And we are planning to actually touch similar numbers this year also; we expect that the second half is likely to be better than the first half..
- Moderator:** Thank you. Next question is from Chirag K from Value Quest. Please go ahead.
- Chirag K:** Sir, just a bit on rural sales. So how we are doing rural sales now? What is the new mechanism?
- Management:** Some firms of have dropped this business. That is the problem. We are in the process of expanding rural intermediary network.
- Chirag K:** Okay. And we are adding new, as we said?
- Chandru Kalro:** Yes, we are adding new.
- Moderator:** Thank you. Next question is from Chirag K from Value Quest. Please go ahead.
- Chirag K:** Okay. And just on modern trade side. In Q1, we lost one of our biggest customers. So have we again started business with the same or?
- Chandru Kalro:** We didn't lose sales. We reduced business with him. But that has become much better in Q2.
- Chirag K:** Okay. So it is improving again?
- Chandru Kalro:** Yes.
- Moderator:** Thank you very much. As there are no further questions, I now hand the conference over to the management team for closing remarks. Over to you.
- Chandru Kalro:** Yes. So as we said, we are looking forward to a good second half because we have got some very exciting launches planned. The market, hopefully, should improve. The demand situation doesn't seem to be vastly fantastic, but there was monsoon, are looking positive. And hopefully, the second half would be slightly better than the first half and that's what we are looking forward to. And all our product pipelines are being done as per plan. So that's what we have.



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Moderator: Thank you very much members of management. Ladies and gentlemen, on behalf of Ambit Capital, that concludes today's conference call. Thank you all for joining us, and you may now disconnect your lines.