



**“TTK Prestige Limited Q4 FY15 Post-Results
Conference Call”**

May 27, 2015



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Moderator: Ladies and gentlemen, good day and welcome to the TTK Prestige Limited Q4 FY-'15 Post-Results Conference Call hosted by Ambit Capital Private Limited. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rakshit Ranjan of Ambit Capital. Thank you and over to you sir.

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

Management: Good evening. I am Management here. Just to give you a very short brief, actually what we wanted to achieve in the Q4 we have achieved. We wanted to achieve a growth which we have got and what we wanted to achieve a cash positive in the company by handling the inventory we carried from the third quarter which has been carried out. We are now carrying a cash surplus of more than Rs20 crores. The next thing is that though we had a growth, there appears to be a cosmetic change in the margin which is not reflective of real performance; the company's fundamentals are very strong. If you take into account the abnormalities which we have given in the gist, our annual margins are stable at double-digit level and may be maintained.

One more thing what we have done is that we have been talking about online trade and other things. Q4 saw a lot of orderliness in the online trade, the discounting drop, and as a company we took a very positive step of dealing with these players directly, ensure that we reach wherever the consumer reaches and now we have put in place a lot of agreements with... we cannot name the people with many of these channels and which is giving us a good growth because we are there where the consumers are reaching, and similarly, where the consumers are directly going, PSKs are doing extremely well. From January onwards, we changed our way of our media advertising. So this has given a lot of fillip to our PSK and compared to last few quarters in Q4 we have started seeing same-store growth in PSK' it augurs well for the branded category like us. Now we are open for any questions.



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Moderator: Thank you. Ladies and gentlemen we will now begin with the question-and-answer session. The first question is from the line of Ruchi Vora from CLSA. Please go ahead.

Ruchi Vora: My first question is on your product portfolio, just wanted some colour on how has the competitive intensity been in the market across segments and what is the product strategy if you could touch upon each segments in terms of the outlook, pricing, etc.,?

Management: Just to tell you all in this quarter, the good news is that the Appliances which were slightly sluggish for the first three quarters the actual volumes this quarter for the Appliances have gone up and we are starting to register smart growth in these categories. On the competitive front, we have found that actually the landscape is actually getting friendlier to us because competition has not been able to keep pace with the kind of new product introductions that we have been doing in the market and the fourth quarter has been no exception. We have launched many new innovative products which will augur well for the coming months as we go along, and the company's strategy of continuously refreshing all its core category constantly with newer and innovative offerings is paying off which is something that the competition definitely is not able to keep pace, which is why we are probably gaining share almost quarter-on-quarter in all our core categories.

Ruchi Vora: Could you also touch upon what is your market share in each of these categories, if you have the data available?

Management: I will tell you there is no data available which we can quote at this point in time except that we have bits and pieces from here and there. Most of the reports are going to come at the consumer level which is expected in the next one month and we can probably share it with you the next time we are here. Safely we can tell you that in our core categories - Pressure Cookers, Cookware, Gas Stoves, Mixer Grinders, Induction Cooktops and Rice Cookers. In all of these we would probably have a 1% or 1.5% point gain in the marketplace. The other thing is if you look at our Pressure Cookers and Cookware the good news is that the model mix is improving which means that our value-added products are improving in numbers faster than the normal products. In the Gas Stoves, for example, we have launched high-end offerings, which have met with a very good response. So we are actually improving share. We will probably be in a better position to share this with you once the data is ready.

Ruchi Vora: Last question is really to understand your margin profile a bit better; obviously, your volumes have been quite muted as compared to let us say last five years. Just wanted



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to understand what is the level of EBITDA margins we should build in for the next 1 or 2 years and also is there any headroom to take price increase to pass on the overheads which are currently depressing the margins? So what is our strategy going to be in terms of the profitability going forward?

Management:

the margins for the year as a whole was 11% and unless there is a rapid growth in top-line we will not be able to see margin improvement because overheads are absorbed on a growing sales volume, this is point #1. We have already taken price increase. As we have been explaining in our directors' report every year, we cannot pass on underutilized capacity related expenses to the market; then we will be overpricing, and competition will be heavy on us. What we do is we pass on the input pricing which is very crucial which is common to every other manufacturer. We pass it on to the consumer as early as possible. We cannot pass on unabsorbed overheads to the market by price increases which will be killing the company in the long run.

Ruchi Vora:

But our Ebitda margin has been like about 9.2% on an adjusted basis. So just wanted to get some sense, is that the level we should be building in for the next few quarters, or we should probably look at the full-year average of 11% EBITDA?

Management:

Full-year average is indicative of what is likely to happen. If we are able to grow higher than GDP, the margin will improve depending upon our ability to absorb overheads.

Moderator:

Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade:

Could you please talk a little bit about the growth outlook because the last three quarters we have seen the growth rate? Actually, the guidance has been cut quarter-after-quarter; we started initially with 25%, cut down to 9-10% in the third quarter. So just wanted to understand how are you looking at FY16, how are you budgeting?

Management:

In this market scenario it is difficult to predict anything. All I can say is if you look at the last year while we did not achieve our growth objectives, we grew more than all our competitors; we gained market share; we could only do so much in the current economic conditions

Achal Lohade:

Are you looking at some improvement... if you could talk a little bit about the states also...?



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Management: While we do not want to quote a number on what we are growing, if you look at indicators which is what Mr. Management said about our own stores and the retail stores and where we are seeing a reasonable turnaround, if we might use that word, and we have started to look at same-store growth which we have not seen for the last few quarters. So I think the growth is coming slowly. And how fast it will pick up is the matter that I do not think any of us can put a guess on.

Achal Lohade: In terms of the key states if you could talk about how Tamil Nadu is doing or Andhra is doing because historically we have seen the states also getting impacted because of various reasons, so any particular comments you could make?

Management: There also the good news is that for us Tamil Nadu has started to be on the ascendant again, the reason because of economic factors as well as the fact that as competition landscape is actually reducing in its relevance we are gaining market share in those markets, so we are actually growing faster. So the south actually is looking good now which was not so for some time and the west is also looking good for us. The north has been on the ascendant for the last few years consistently, and that continues to be so. And the other thing is wherever we are having direct contact with the consumer we are clearly seeing good market share; for example, whether it is in the online phase, whether it is in our own exclusive stores, so the brand salience is now speaking its language in a market which is so tough.

Achal Lohade: You said in the press release the overhead absorption the stock movement is Rs4.46 crores, can you please elaborate a little bit what exactly do you mean by overhead absorption – is it already reflected in the number or is it reflected in the other expenses which we have to adjust in the gross margins?

Management: This is basically an explanation on a quarter-to-quarter basis. If you average the third quarter and fourth quarter you will find everything is fine. So what happens is one quarter's closing stock becomes the opening stock of the next quarter. As we carry more manufacturing stocks at the end of any particular quarter which has been too abnormal in this year there is higher absorption of over-heads in closing stock value which means contributions are little higher in Q3 and it comes down in the Q4; this is basically accounting adjustment which is abnormal this year as compared to any other quarter.

If you look at the margin health, it is based on the yearly average, and at any point in time what I would advise anybody analysing the balance sheet is to take a four-moving quarter margin to smoothen out the quarterly fluctuation. Quarter-to-quarter



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we have impacts on account of closing stock, opening stock, composition of sales, product mix or channel mix. So this normally gets evened out over a period of 6 months therefore if anytime we want to compare the health of the company with, please take at least the 6-month average that will be much better, otherwise it is quite difficult for us to give an accounting explanation quarter-to-quarter.

Achal Lohade: Effectively, in simple words, the opening inventory was at a higher cost for the fourth quarter, and so if I take the second half it will be evened out?

Management: Yes.

Achal Lohade: If you could talk about the margin contraction in the segments like Cookers used to be 12% kind of margins, and Appliances used to be around 10%. How would that be for FY15 broadly given the margin contraction we are seeing?

Management: I will give you a little bit of explanation to you because the way we look at the EBITDA margins prior to 2012 is very different from '13 and '14 because we added capacities in Pressure Cookers and Cookware. So until we start getting reasonable utilisation of this capacity in '15-'16 we will not be able to give you a number on what exactly EBITDA margin in Cookware and what is in Appliance .. Churning is taking place in the product configuration and product mix in all the categories and also in our production mix., we have got 4-5 factories for manufacturing, each factory has got different kind of overhead. Depending upon which factory we use, the overhead gets distributed or not distributed, and therefore I will not be able to give you any number at this point in time. What I am continuing to say is that we had a healthy 11% EBITDA margin in 2014-15. This benchmark we have to look at till we get an accelerated growth in the top-line beyond 10%, till that time we will not be able to give any particular guiding number on category-based margins.

Moderator: Thank you. The next question is from the line of Sonali Salgaonkar from Axis Capital. Please go ahead.

Sonali Salgaonkar: My first question is I understand that you do not want to give a volume or EBITDA guidance at this point in time. But would it be fair to assume that over the next 2 years we could see revenue growth of about 14-15% growth year-on-year?

Management: We are hoping that we will get at least that.

Management: Fundamentally, if economy grows at 7.5-8% then we will be able to grow better.



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- Sonali Salgaonkar:** And with that the margins should maybe increase with this kind of growth from...?
- Management:** Margins will increase.
- Sonali Salgaonkar:** From 11% say to about 13%, would that be a fair assumption with the absorption of fixed overheads?
- Management:** If the volume growth is 15% our EBITDA should go up by about 1%.
- Sonali Salgaonkar:** Would you give an approximate market share in south and non-south?
- Management:** What is happening is you must understand that we are in multiple categories but in a single domain, the multiple categories are what we have shared the domain is kitchen. Now each of these there is no single agency that is covering the entire thing. The other thing is today in the market the channel churn that has happened in the last 12-15 months and the consumer churn that has happened towards channels has meant that the existing retail data that you get is incomplete. So there are disparate sources from which we have to collate this which I said that as we get the data we will be in a position to share with you the next time if we find that data to be credible.
- Sonali Salgaonkar:** Approximately how much percentage of your revenue on an aggregate level this year would be contributed from Non-South markets?
- Management:** 58% in south and 42% from non-south but basically this has to be taken with a pinch of salt because online trade is quite active in north and they can supply somebody in Kanyakumari and we would not know where the consumer is.
- Sonali Salgaonkar:** My third question is regarding the eTailing channel you mention in your press release eTailing impact on channel was somewhat moderated as compared to the previous quarters. So, would it be fair to assume that going onwards we could see a convergence in the price differential between the pricing on the eTailing platform versus brick and mortar?
- Management:** Yes absolutely and what we are looking at is to first stabilize pricing which is kind of happening now. The second thing is how do we leverage this as grow this as an opportunity rather than continue to see it as a problem and I think we have done enough during this quarter to make sure that we are in probably the best position to leverage this.



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- Sonali Salgaonkar:** Would we assume the same maintenance CAPEX of Rs30 crores for the next 2 years?
- Management:** Yes, about that.
- Sonali Salgaonkar:** I missed the initial comments regarding the lower margin this quarter adjusted for one-off. Could you please throw some light on that?
- Management:** If you want to compare Y-o-Y between last quarter and last year, there are three items that are different, last year there was a one-off income of Rs.8 crores as opposed to this year it will be Rs.59 lakh, so there is about Rs.7.5 crores there. The second thing is this year we had to include CSR as expenditure, last year there was no CSR, that is about Rs.3.4crores, and lastly as Mr.Shankaran was saying because of the large stock that we carried from the last quarter, the P&L was affected by Rs.4.5 crores. The effective differential after these adjustments is only Rs2 crores..
- Sonali Salgaonkar:** The last point is that because of the large stock absorption what was the impact on the P&L?
- Management:** Rs.4.5 crores.
- Sonali Salgaonkar:** So these are kind of one-off, they were not sustainable?
- Management:** Yes.
- Moderator:** Thank you. The next question is from the line of Arnav Mitra from Credit Suisse. Please go ahead.
- Arnav Mitra:** Just coming back to the margin question, even if I adjust for that Rs.4.46 crores, there seems to be a raw mat cost increase of around 200 basis points although you said that mix has improved and things like that. So, why would it have gone up even if I adjust for that?
- Management:** We explained that already that we have large unutilised capacity that we have built expecting a market growth, when we start utilising that capacity this year, the margins will improve.
- Arnav Mitra:** No, I was talking more about the gross margin which seems to have dropped 200 basis points even if I adjust for the Rs.4.46 crores?



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Management: There are two reasons; one is when you look at the raw material ratio there, it is inclusive of the overhead absorption that we are speaking of continuously, that 2% is showing because partly because of that. The second thing is there is a model mix in traditional products which are Pressure Cookers and Cookware, they have actually improved as I said, but in some categories typically if you take an Induction Cooktop, the model mix is more towards the cheaper side. The thing is what we have tried to do is keep the category alive and kicking and also start growing, now we are seeing healthy growth in Induction Cooktops as we are talking which probably no other competitor is talking about these days and margin and the proportion of those categories would also have an impact on the overall raw material that you are seeing.

Management: 2% is contributed by the higher proportion of Appliance in sales. Compared to previous quarter this quarter we had more Appliances sales than the Cooker and Cookware sales. The Cooker and Cookware yield more margins than Appliance at a material cost level because for Cooker and Cookware we take only material cost whereas in Appliances we purchase it with the conversion cost also included. That is why I have been telling every analyst that please take at least two quarters average, so that you will get a much better picture than trying to judge on the basis of one standalone quarter.

Arnav Mitra: On the CSR expense, although this has come in this year, but going ahead, this will now be a recurring item every year in the fourth quarter?

Management: It would not be in the fourth quarter of every year. Last year we identified the projects by end December. Once we identified the projects, we spent the entire money in the last quarter. Now we have the projects identified for the next one year. We will be releasing money every quarter evenly and therefore we would not have a hit in one quarter., we will spend about Rs.3.3 crores this year also but will be spread over all the quarters equally, and you would not have this distortion in comparison.

Arnav Mitra: Secondly, on this eCommerce thing, you had seen destocking in your physical brick and mortar channel. Is it getting to a situation where you could see a restocking at some stage or that is still a little far away?

Management: No, I do not think they probably reached a play point from where it will be stable from here; I do not think there will be any major movement either way.



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- Arnav Mitra:** Thirdly, on the exports, we have seen a flattish number. So based on whatever you have seen in terms of the pipeline, do you think next year we should see a significant improvement in exports based on whatever you had discussions till now?
- MANAGEMENT:** I do not know what significant means but we are certainly looking at an increase in exports.
- Arnav Mitra:** What I meant is that we were looking at a substantial jump because there was a capacity there?
- Management:** If you look at the last one year we have been talking about Microwave Pressure Cooker taking off in Japan, if you look at every single economy other than India and China are not growing, so therefore the demand for many products are slowing down in most of the foreign countries. In spite of it we believe that we will be able to do some OE supply from our new facility in Gujarat. But till we make the first supplies and acceptance of it we will have to keep our fingers crossed.
- Arnav Mitra:** On tax rate, what should be build in for FY16?
- CFO:** About 31% on book profits
- Moderator:** Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.
- Ravi Swaminathan:** This is regarding the Cooker sales. What could be the proportion of Inner Lid Cookers out of overall Cookers and what would be the kind of growth that we would have seen in this segment?
- Management:** We would not want to give that out because that is competition sensitive
- Management:** Very sensitive in nature given the product category.
- Management:** But its growing in significance is all we can tell you.
- Ravi Swaminathan:** If Inner Lid is growing at a significant pace, are we looking at Outer Lid seeing a degrowth, ...?
- Management:** No, because largely the markets are quite clearly defined and the good news is again that in this quarter almost every market has grown without exception. So it is not that one is at the cost of the other.



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Ravi Swaminathan: Does Inner Lid Cooker carry the same kind of margins like Outer Lid because we would be taking on Hawkins and other players in the North, right?

Management: Same margin.

Ravi Swaminathan: No, we are a very strong player in Outer Lid in the South...?

Management: We still maintain the same margin; we believe our brand is very strong all over India.

Management: Our MRP is equal to higher than the highest competitor, I cannot name, but basically we do not see any major change.

Ravi Swaminathan: Regarding the Induction Cooktop market, has the entire market itself stopped degrowing and we had mentioned that we are growing in that. Are we growing in that ...?

Management: But not a value growth, people are downtrading the model mix. So while the volume growth has been significant over last year actually there is decline in value terms.

Ravi Swaminathan: So the market itself would have degrown, we would have also seen some kind of degrowth?

Management: Let me also clarify that while the market is almost consolidated and it is not going down once it is not growing still, we have grown in a non-growing market category but like Chairman said the model mix is going downward in price points, and therefore while we have had a volume growth, we have not had a value growth.

But to put it correctly we are not discounting, which are cheaper, value engineered, because unit-to-unit as a competition we give better features for a slightly higher premium price, therefore the margin on these products in percentages is healthy but absolute values may be lower.

Ravi Swaminathan: Regarding the Mixer Grinder product, it is a predominantly South product, right, due to the freebie distribution by the TN government, are we still seeing some kind of degrowth in that segment or how our products are shaping up?

Management: Yes, that category at least is growing, thanks to all this, and in the 4th quarter they have restarted distribution of these free products in Tamil Nadu. We have a significant presence in the other southern markets of Karnataka, Andhra and Kerala,



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we are seeing very good growth, and in fact Mixer Grinders for us has grown quite significantly in the fourth quarter.

Ravi Swaminathan: What about our new products your Water Purifier, Hair Dryers and Slow Juicer? Slow Juicer I saw your prices in the website going down from Rs.16,000 per piece to Rs.12,000 per piece. What is the rationale behind cutting prices and what will be the volume of sales that we would have done during this quarter, are we seeing traction in these products?

Management: These are lifestyle products and these are products that we develop under the health theme, so talk about Hair Dryer or a Slow Juicer but these are not going to be volume drivers, they are more image drivers and they are more lifestyle drivers. For us products on those six categories which we continuously introduce which I speak about, for example, last quarter we launched a new category called Hob-Tops which is India's First Convertible Gas Stove which met with great success, you can see it on the website, and then we launched new 5 Layer Coated Cookware which is called the Granite. All of these products actually are helping us gain share and also drive imagery. And coming to your question of why at Rs.16000 one day and Rs.12000 one day, promotions are a matter of habit with us and in this industry, so you will see those prices fluctuating, safe to assume we will also make money while we give those prices.

Ravi Swaminathan: Any other new product completely different category we are planning to go into...?

Management: We cannot talk about it at this point in time.

Management: Very sensitive competitive information we really cannot talk about.

Management: , we are introducing a lot of new products in the existing categories, to ensure that we get a larger market share.

Ravi Swaminathan: What is the PSK growth revenue during this quarter?

Management: Grown by close to 25% in that channel.

Management: In the last quarter around 20% of the domestic trade sales was from PSK

Ravi Swaminathan: It has grown at 25% and 20% of the sales would have come from PSK?

Management: Yes; thereabouts



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- Ravi Swaminathan:** Why such a difference between our overall growth and PSK growth growing at...?
- Management:** Because as we have been saying right through this year, there is a huge churn in channel, the online channel is just about settling down. The trade sentiment is yet to settle down. That can only happen after there is a reasonable amount of stability all over. So that is causing its own kind of turbulence.
- Sankaran:** Remember that substantially destocking increase, so while retail would have been good primary was poor.
- Moderator:** Thank you. The next question is from the line of Lakshmi Narayanan from Catamaran. Please go ahead.
- Lakshmi Narayanan:** Just want to understand your channel wise sales and then what has been the growth in these channels which as explained is your presentation which is Mom & Pop Stores and PSK and all the institutional sales, right, and then also eCommerce. How much is our eCommerce, not via retailers, from our side directly on eCommerce, what is that?
- Management:** I am afraid that information is very sensitive and in fact competitors are also listening to this press conference, so I cannot tell you that.
- Management:** , there is a lot of churn in the channels .At this time if we give out channel wise information I will be handing over the company to competition. please bear with us until the channells stabilise so that we can come back with the numbers.
- Lakshmi Narayanan:** There is a point mention in the investor release on eCommerce, eTailing and how there were impact, right? So if you can just quantify that, what I am trying to understand is in terms of inventory days at the retail what was it in March 2014, what was that on December 2014 and what is it that now because you said there has been some churn and there is a kind of betterment towards...?
- Management:** If you want a sense of it from April it came down in December, it kind of came down a little more as of March, and we believe that it is going to be stable from here as far as the Mom & Pop Stores are concerned. As far as the modern format stores are concerned they largely are governed by actual retail and they work on replenishment models so there is not up or down there. And your question on online, online is our fastest growing space, there is no doubt about it, having said that its difficult to quantify online because it is a mix of what we sell directly to those websites or those sellers online and also what the Mom & Pop Stores go and sell in the marketplace of online. It is little confusing at this point in time on all these fronts.



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- Management:** We cut down inventory at our end, which we have managed dramatically between December and March.
- Management:** For us in the fourth quarter we brought down inventory significantly by about Rs.60-odd-crores which was by design, and we actually set the target and achieved that target, so that we are looking lighter than what we were in December.
- Lakshmi Narayanan:** Your website says that to buy online, you need to go to StarCJ.com, is StarCJ.com is your exclusive online partner?
- Management:** We have several online partners, you can buy directly from our own website, you can get EMIs from our own websites, we are also present as sellers on different websites, we are also present on StarCJ. Our basic philosophy as we have been constantly saying is we want to be wherever the consumer is.
- Lakshmi Narayanan:** The reason I am asking this question is that only StarCJ is listed on your website, that is the reason behind the question?
- Management:** It is a question of updation so maybe that is why it is. You can go on to the Snapdeal, you can go on to any other website, you will find us there.
- Moderator:** Thank you. The next question is from the line of Kalpesh Gothi from Wallfort Financial. Please go ahead.
- Kalpesh Gothi:** What is the current capacity utilisation of each product category?
- Management:** We manufacture Pressure Cookers, Cookware and Induction Cooktops Because the demand is sluggish, utilising about 50% to 60% of our capacity at this point of time.
- Kalpesh Gothi:** Are we planning to take a price hike in the near future?
- Management:** We just did in April.
- Kalpesh Gothi:** By how much percentage?
- Management:** I think by 4%.
- Kalpesh Gothi:** Across all the product categories?
- Management:** No, across where there was an input price increase.



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- Management:** Basically Pressure Cookers and Cookware.
- Kalpesh Gothi:** Can you more tell about which geographies where we see the improvement in demand like Andhra Pradesh?
- Management:** Across many markets there is improvement as compared to immediate past.
- Kalpesh Gothi:** For the first quarter of FY16?
- Management:** In fact the first quarter of FY-'16 is looking better than last quarter of FY-'15.
- Moderator:** Thank you. The next question is from the line of Ali Asgar Shakir from Elara Capital. Please go ahead.
- Ali Asgar Shakir:** Just first of all wanted to get an update on the new product launch we did sometime last year around the same time – Water Purifier. How has been the response, what kind of numbers we may have done in this year and what kind of growth outlook we see in that particular category?
- Management:** We launched a single product last year in Water Purifier. The entire intent was to feel our way in this market. Now we know that this is a large category growing every year. What we have is really a test market situation now and we are now aggressively developing new products as we speak. And we will have a hue of new products in this area in different segments. So you must treat last year more as a test market.
- Ali Asgar Shakir:** Now what kind of launches we are likely to do and what kind of growth numbers...?
- Management:** We like to do some launches but we would rather keep it to ourselves for now.
- Management:** Unfortunately, we cannot tell you, it is all very confidential information.
- Ali Asgar Shakir:** Was this last year a pan-India launch of this one product or it was in specific geographies only and how about this year?
- Management:** It was in large parts of the country, not pan India, we had identified markets, we have done distribution, we found that the brand definitely extends into the category, what we also found that we needed a range and not a single product, which is what we are now developing based on those learnings.
- Ali Asgar Shakir:** Any kind of numbers that you could share this year that we can probably do from that category because the market is huge in that category...?



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Management: This is a test marketing, this is a future product we have got to believe, so anything to do with water-filter we will have to talk only in '16-'17 not before that because we are going through a lot of in-house research and things. So we would rather keep quite at this point in moment. This will be a category to look forward from 2-years hence, not today. We believe there is a lot of opportunity there but we want to be at the right time with the right kind of range.

Ali Asgar Shakir: Is there any CAPEX expected towards that or we are outsourcing that entirely, how is it working?

Management: There is a CAPEX in the form of product development within, which is not significant.

Achal Lohade: Just wanted to check, now that we do not have any debt on our books and we have only maintenance CAPEX of Rs.30 crores. Whatever the incremental profits we have, how do we plan to utilise – would we probably be looking for any kind of acquisitions or any expansions or we can probably expect some dividend payments to move up from here?

Management: We are always on the lookout for new avenues, but if nothing happens we can look forward to dividends.

Management: This year increased our payout as compared to last year.

Moderator: Thank you. The next question is from the line of Niket Shah from Motilal Oswal. Please go ahead.

Niket Shah: Just had a couple of questions: Is it possible for you to give us a brief sense about how many days channel inventory would be there at the dealer level, very broad cut sense as compared to what it used to be in the past?

Management: Again, we would only guess, because we are in several product categories, several different kinds of retailers in several different states.

Niket Shah: Just to get a sense of how much destocking would have actually gone through, just a very broad number?

Management: We do not want to put a number to this but as I said earlier the market stock in December was lower than what it was in April of '14 and in March it is probably



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slightly lower than what it was in December, we are not looking at any further de-stocking, if any significant we expect it to be stable from here.

Niket Shah: On the eCommerce part of the business model, I presume you would be now directly selling to Flipkart and Snapdeal and a lot of the other eCommerce channels and you would be managing the entire page, if I can put it that way as far as selling of your products is concerned and you would be selling across all the assortments and all the SKUs that you have now. would the selling price be the same when you sell to an online channel or through an online channel as compared to you selling to a distributor or a dealer?

Management: That is the effort.

Niket Shah: But there will not be any differential in pricing to start with?

Management: No, the price that we get might be different, but the price that the consumer pays, may be range bound.

Niket Shah: No, for example, Rs.1500 Pressure Cooker, you would be selling to Flipkart at say Rs.1700, you would be selling to a trade also at Rs.1700?

Management: These are some economics involved in it. There is a transaction cost for every channel. IF The transaction cost is with TTK Prestige we will retain more margin, if transaction cost is with the channel, channel gets more margin, it is a question of who is incurring cost on reaching the consumer. So therefore, this is clearly a matter of transaction cost on each channel and how each channel cost us is a matter of secret we will not reveal.

Niket Shah: I will ask the question other way around; selling through the eCommerce channel will be margin accretive or will be at a lower margin than what you sell in the trade channel?

Management: Our attempt is to first use this effort to actually stabilise prices which is what we have been doing. In the bargain we do not expect any loss of margin hopefully. Does it actually end up improving it, but only time will tell.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.



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Achal Lohade: Could you please talk about south and non-south revenue for the quarter as well as full year or in terms of percentage?

Management: It is in the ratio of about 58% south and 42% non-south.

Management: It keeps moving a (+/-1)% every quarter.

Achal Lohade: You exclude the exports out of this, right, while calculating this?

Management: Yes.

Achal Lohade: If you could talk a little bit about the number of dealers we have, distributors we have and how it has grown and how do we plan to take it forward? The reason I am asking because if I look at non-south, the growth has been pretty flattish actually for the last few quarters. I am trying to understand if low-hanging fruit is already done with and now the incremental growth would it be more difficult than what it was earlier?

Management: The growth is a function of the economy itself, that is point #1. Point #2, as far as we are concerned, we told you that there has been some level of destocking in the market which is actually coloring this year a little more than what it would be and not really a reflection of our retail on our share in the market.

Management: Where I think I can tell you in terms of direction is that our distribution has improved, it is probably the best in the industry and we probably cover every kind of channel the way no other company does and that has been an effort by design, not by accident.

Achal Lohade: In terms of the number of dealers, distributors if you could talk and would there be further scope in growing that particular number or going deeper in the semi-urban or rural markets?

Management: Just to give a clear picture, it is not the increase in number of dealers that automatically lead to the proportionate increase in sales. There is a distribution channel of mom and pop stores that exists across India and they are of three types selling totally non-branded products, mix of branded and non-branded products, only branded products; we are present in all the counters which sells the branded products.. We do not go and create mom & pop stores. If there is any gap we try to bridge it with a PSK. Therefore, how many dealers we have is not relevant to our company because we are already all India company. It may be relevant to a start up who wants to expand across India.



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Achal Lohade: In terms of the same-store sales growth you said there is some improvement that you have seen especially the PSK our exclusive stores, we have seen a 25% growth?

Management: For the fourth quarter.

Achal Lohade: For the full year roughly if you have that number?

Management: The full year is flat or a little here and there; because if you look at before the last four quarters same-store sales has been coming down, due to several things like brand salience and other expense. We reach PSK customers much better where we are able to see much better sales growth in PSK. It is a continuous effort being dynamic and we cannot put this one way or the other.

Management: As far your question for the year it was flat.

Achal Lohade: In terms of the growth if I have to see from a region point of view, would you be able to talk about any particular region what can drive growth going forward like what we have seen in the past non-South used to drive particularly markets like UP, Bihar, etc.,?

Management: The growth for the company from specific regions, for example, if there is a particular state started growing better than other states, we will grow better; like if you take Gujarat, it has started growing better than other states in this year and we are growing better in Gujarat; thus it depends upon the economic growth of each of the state. Now, Tamil Nadu has come out of rags as compared to the past, we are growing in Tamil Nadu. So it really depends upon not only all India GDP growth, but state GDP growth. Therefore, it is quite difficult for us to put any number to it, but what I can assure is that wherever state growth is there we will go and reach there.

Management: Also, in the last quarter we have seen that all zones are in the positive and almost roughly in the same level of positive. So it has not been too much of a swing between one area or the other. And our product development itself what we are trying to do is make ourselves relevant for each state and we are actually building products for every region in this country.

Achal Lohade: If you could give us the number of the revenue from Gas Stoves for the year?

Management: Rs.40 crores for the quarter.

Management: It is about Rs.175 crores for the year.



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- Achal Lohade:** That means a growth of just 5% and Other Appliances remain flat, is that right understanding, because I guess Rs.573 crores is total appliances, if I remove Rs.175 crores it is about Rs.400 crores and last year same time we had about Rs.397 crores in FY14?
- Management:** The Other Appliances are flat if you put together everything and the reason is what we just told you is that on Induction Cooktops while we had a volume increase the value actually has gone down.
- Achal Lohade:** Would you be able to put up a number for what is the revenue from Induction Cooktop and Mixer, Grinder?
- Management:** For the year, Gas Stoves is Rs.175 crores, Mixer is Rs.100 crores, balance you can just subtract from Rs.573 crores, you will get it.
- Achal Lohade:** What was it last year for Mixer Grinders?
- Management:** Mixer Grinders was Rs.95 crores, Induction Cooktops of Rs.158 crores last year, this year Rs.145 crores.
- Moderator:** Thank you. The next question is from the line of Naveen Trivedi from Trust Group. Please go ahead.
- Naveen Trivedi:** My question is more for the broader understanding of the categories and how we are basically placed in the rising economy. Historically, we have seen that your sales growth multiply to GDP was more than 3x in the good GDP and the slow GDP it was like 1.5x while in the last two years this multiplier has gone down to 0.25x. So in that perspective, do you think that this current environment is impacting you more than historical?
- Management:** The government changed the base. If you do not change the base this year INDIA would have grown by 5.4% while, we have grown by 8%, that means we have 1.5x of GDP
- Management:** We used to be 3x when we added more categories
- Naveen Trivedi:** Do you think that we are still in the same mode and GDP again picks up to let us say high single digit, our multiplier can again come back to 3x?



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Management: As Mr. Shankaran said the year which you are speaking of 3x, we were adding many new categories at that point in time. Now, remember, we are able to give you this kind of a growth which is closer to 1.75x of the old calculation on GDP based on the existing categories, which probably no other company in the industry is doing is what is...

Management: To put it correctly, our base on each of the product categories has gone up as compared to what was in 2005, which means our base is constantly going up. We cannot keep on growing at 3x. So we will have to take the first case; stable economy is more important, forget the number, if stable economy is there, we will be able to get close to 2x.

Naveen Trivedi: When I am saying these numbers, I am also taking the overseas data only and my question is not pertaining only to a specific number, was trying to understand are we seeing also the base, that we have reached to a certain base where having high growth is not getting difficult or maybe let us say unbranded products in the last two years has gained more share in the overall pie?

Management: That is wrong; it is not the unbranded products. I am selling only one pressure cooker if I go to 10 pieces it is 900% growth, but if I am selling million Pressure Cookers, it is difficult to go to 10 million.

Naveen Trivedi: Because in the current environment, although I am just trying to understand more from the stable management view is that the large number of appliances when I see in the last 3-4 quarters numbers in the same current environment, we have seen that there is a huge growth in these categories.

Management: The way we are looking at this is we are in a position to grow better than our peer group in the current economic situation. We have not reached saturation, but we certainly cannot grow at the rate of 50% and 45% like we used to when we were launching newer and newer categories. Remember, Induction as a category, was something that it bloomed in this country. Now, we are looking at newer and newer revenues, the things that we cannot discuss with you today, we are in a position to actually create a growth environment, which we are constantly doing through our aggressive launch of new products and if there is growth in the economy we probably we will be in the best position to get the best leverage out of that.



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Naveen Trivedi: And the view that there will be more new launches. Do you think that the A&P percentage will be much higher in the next two years, can you give some guidance on that?

Management: We have a proportion which is a policy and we have been consistent about it in good years, great years and bad years. So that is something that we are very consistent and brand building has been very consistently done across these years. So we are still the highest spender in the category, we will continue to be the highest spender in the category. We also are people who build categories, unlike others who make categories. So that kind of effort will continue. You are not going to see a higher expenditure in terms of percentages, but you are going to see a consistently in that approach.

Naveen Trivedi: On the PSK number, I think last quarter we closed down PSKs. What is the reason for that and going ahead what are the targets that we look on the PSKs?

Management: As far as we are concerned, this is a continuous process, where non-performing stores are constantly culled out because either the location is wrong, the franchisee could be wrong or for whatever reasons that was there. That is a policy, that is the performance review that happens constantly and that is something that is being done. As we are speaking, we are going to revise that channel and make sure that channel becomes growing because that is our flagship channel as you would know. That is something that we will push and we are now looking at more growth of the same-store as a key metric rather than number of stores for this year so that we consolidate and make the channel performance.

Naveen Trivedi: Any target for PSK number? I think last time you were saying 1,000 PSKs in the next 3-years.

Management: Our focus is more on performance of the existing stores rather than new store acquisition.

Management: We talked about one year back, there was no eCommerce at that point, and now eCommerce is there, which is a branded channel, so it will compete with channel PSK. So we will have to ensure that existing PSKs become very-very strong, there is no point adding more PSKs and then try stress new entrepreneurs. But where there is no reach we will put the PSK there, it will be area-by-area and need based expansion.



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Moderator: Thank you. The next question is from the line of Kartik Gada from Val-Q Investment Advisory. Please go ahead.

Kartik Gada: One question on EBITDA. So in one of the earlier questions you explain that there were a couple of one-off, and of that one is the other income of Rs.8 crores last year which was Rs.59 lakhs this year. So what is the nature of other income – is it coming the top line because you mention in other income I am just a bit confused?

Management: That is an exceptional income, last year we received compensation for the land acquired by the government some ten years back, which was one-off income, this year there is about Rs.59 lakhs on account of vacating one distribution line.. So, these are one-off and are not going to recur. I am not going to get land acquired every year and get compensation for that.

Kartik Gada: But my doubt is whether this comes in other income line item which is below the EBITDA or in the sales line item?

Management: It is an exceptional item. Can you please see the published data and SEBI format? Not other income. There is one other income which is very low, which is a regular income like interest end and discount end If you look at after finance cost, there is other activities then there is exceptional item before Profit & Loss, Item #8.

Management: So it is an exceptional item that will not recur.

Kartik Gada: But then it should not be impacting the EBITDA, right?

Management: It is of a sense that you will have to look at the operating EBITDA which you will have to either add that other income into this year or subtract it from the previous year to actually get a fix of what is the operating performance of the company.

Management: We are trying to get a comparability of the numbers, if you compare the post tax and the number to be compared, you compare EBITDA number to be compared. It is not very high, it is very marginal. In any case, I have been telling that please look at the year as a whole or two quarters as a whole to arrive at a number so that you will get a very clear picture of where the company is heading for. To give you that there is nothing abnormally wrong with the company in the quarter, it is just a statement of accounts, which was not comparable exactly with the last quarter of the last year. Therefore, if you want to compare take the whole year or last two quarters and compare it, so that you have a meaningful comparison.



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Kartik Gada: There has been a lot of discussion on the eCommerce channel and probably one of the earlier questions was on the price differentiation on the eTail channel versus the dealer channel. So you mentioned that prices are stabilising now. So is the assumption right that our realisation per unit of say a Pressure Cooker is lower in the eTail channel?

Management: The problem on pricing with the e-Tail channel was because of the unnatural discounting by the eTail channel, it has got nothing to do with the price that I realised. There were discounts that were given by the eCommerce channel with a view to encourage shopping online, because they got all this money which they burn through these discounts. That is coming to a logical stability now because they do not want to burn any more money, people have got used to buying online and those prices are seeing a sanity level prevailing now. So that is what we were speaking about. The moment price stability arrives, where sentiment will improve, the trade confidence will come back, which we are saying is coming back. The economy not improving, is why the sentiment has not completely gone up. That is what we are trying to say.

Kartik Gada: So would the assumption then be right that whether it is eTailing channel or the dealer channel, the sales growth because this channel should not be impacted for?

Management: It will be because the trade as we have told you earlier because they did not have confidence then our primary sales would come down even if there was retail, is it not? That is what we are trying to tell you.

Moderator: Thank you. The next question is from the line of Rajasa K from Jefferies. Please go ahead.

Rajasa K: My question mainly pertains to how I should understand the cost structure as well as the balance sheet structure in light of higher in-house production. Now, the way I understood is once you have higher in-house production your reported raw material cost become lower while you have higher cost in the fixed overheads and that is something that kind of we saw starting second half of FY14 right up to first half of FY15 whereas in the second half of FY15 that is December '14 and this quarter, what we have seen is we have higher overheads as well as higher raw material cost. Now the only explanation that I can think of is the product mix deterioration in Appliances. Is there anything else that I am missing there?



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- Management:** I would not use the word ‘deterioration’ but as the Appliances sales increases, raw material cost ratio goes up. But absolute incremental contributions will be healthy.
- Rajasa K:** But the fact is even in Appliances, all your Induction Cooktops this year would have been produced in-house?
- Management:** No, not all of it, but more in-house, yes.
- Rajasa K:** If I look at even your product mix, the salience of Appliance revenue has actually come down right from first quarter of FY14, it has been coming down?
- Management:** Last quarter of FY15 it actually improved. Appliance sale grew better as compared to the traditional goods .
- .
- Rajasa K:** My question basically is the second half of FY15 the raw material percentage, assuming everything else stays the same in terms of product mix, is that the new level of raw material cost that one should look at?
- Management:** It once again depends on the product-mix every quarter,. What we feel is that we can maintain the EBITDA levels if we are able to grow at least 8-9% in a year. Beyond that I am unable to give you element-by-element what will be the ratio to sales.
- Rajasa K:** A similar question as far as working capital is concerned, once you have higher in-house production and now that your capacity has come online, you have higher gross block, but your working capital should ideally come down, is that understanding right?
- Management:** Working capital ratios for manufacturing and sourcing turnover will vary. What we are trying to work on is net working capital turnaround between 5x and 6x..
- Rajasa K:** At the moment, you are at about 85-86 days of sales, taking only the inventory, receivables and payables, you are saying it should come down to 60 days of sales on a sustainable basis?
- Management:** Yes, from 85 days that should come to 60 days, that will answer your question.
- Moderator:** Thank you. Ladies and Gentlemen, due to time constraint that was the last question. I would now like to hand over the floor back to Mr. Rakshit Ranjan for his closing comments. Over to you sir.



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Rakshit Ranjan: Thank you. On behalf of Ambit, I thank all the participants and the management for being on the call. Sir, do you want to make any closing comments?

Shankaran: While we have a positive outlook we are keeping our fingers crossed for the economy to grow. We have laid a very strong foundation in every single respect to take advantage of growth in the economy.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Ambit Capital Private Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.