



“TTK Prestige Limited Q4 FY19 Earnings Conference Call”

May 29, 2019



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MODERATOR: **MR. SAGAR DHAWAN, AMBIT CAPITAL**



*TTK Prestige Limited
May 29, 2019*

Moderator: Ladies and gentlemen, good day and welcome to the TTK Prestige Limited Q4 FY19 Earnings 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 an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sagar Dhawan from Ambit Capital. Thank you, and over to you, sir.

Sagar Dhawan: Thank you, Inba. Good afternoon, ladies and gentlemen. I would like to welcome you all to the call. Firstly, I would like to thank the management for taking the time out to address our queries and today from the senior management team of TTK Prestige, we have Mr. Jagannathan – the Chairman; Mr. Chandru – the Managing Director; Mr. Shankaran – the Director Corporate Affairs; and Mr. Sundaresan, who is the CFO. So with this, I would like to hand over the call to the management for any opening remarks.

Chandru Kalro: Good afternoon, ladies and gentlemen and thank you for being there.. This is Chandru here. We have had a reasonably good quarter and I think we ended the year also pretty well. In fact, the good news is that the last quarter was very good for our offline channels, even though there was some disturbance from the online site because of the new government policy and I think we relatively ended the year quite well. I must say that the rural demand was a little tepid during this quarter, which I think will pick up as we go along. Now I leave the floor open for any questions.

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

Avi Mehta: Just wanted to understand, starting with your comment right now about rural demand being tepid, you have indicated a positive outlook on FY20 demand, has there been a pickup on the ground in 1Q till date, which is supporting this expectation?

Chandru Kalro: Yes.

Avi Mehta: Any numbers you could share on how the growth rates have behaved now?

Chandru Kalro: Well, we are going on adding newer and newer geographies to the rural channels that we are covering and therefore, we are expecting reasonable growth going forward on this area.

Avi Mehta: The second bit, sir, was if you could give any details on the inorganic growth plans for FY20?

Chandru Kalro: We don't have anything concrete to report yet.



*TTK Prestige Limited
May 29, 2019*

- Shankaran:** Whenever we are ready to report to the stock exchange, we will report to the market also.
- Avi Mehta:** Sir, in the media interview, Mr. Jagannathan pointed towards something in 2Q, is that something that is inorganic in nature? Or what is the plan there, sir anything there?
- Chandru Kalro:** Well, we are on the lookout as we have always told you and as soon as there is something concrete, we will come back to you.
- Avi Mehta:** Sir, lastly, if I just from an understanding on the input cost situation, how is that and whether we need any price increases?
- Chandru Kalro:** No, the material costs are very benign. Right now, there is no requirement for any price increase.
- Moderator:** Thank you. Our next question is from the line of Shreemant Dudhoria of Unifi Capital. Please go ahead.
- Shreemant Dudhoria:** So firstly, can you highlight about the discounting trends across segments?
- Chandru Kalro:** What do you mean by that? Discounting trends?
- Shreemant Dudhoria:** Discount, the percentage of discount that we are giving across our various product categories?
- Chandru Kalro:** We wouldn't like to give you all the details there, but we can tell you that the discounts are stable between last year and this year.
- Shreemant Dudhoria:** And you had highlighted about certain pockets in the press release that has been degrowth. If you could give a more detail about that, which pockets are actually facing degrowth and how is the situation now?
- Shankaran:** It is Kerala, we expect to improve by June.
- Shreemant Dudhoria:** And in financial year 2019, what was your contribution to the topline from the rural markets? And what has been the growth rate over FY18?
- Chandru Kalro:** The growth rate has been in excess of 100% and the contribution directly attributable to rural channels is in the region of about 7% to 8%.
- Moderator:** Thank you. Our next question is from the line of Avi Mehta of IIFL. Please go ahead.
- Avi Mehta:** Sir, just on the fourth quarter, we have seen some marginal weakness in the gross margin. What exactly was the reason for that? Was it mix only?



*TTK Prestige Limited
May 29, 2019*

- Chandru Kalro:** Yes, purely mix.
- Avi Mehta:** That is purely mix?
- Chandru Kalro:** Yes.
- Avi Mehta:** And sir, the other expenses, the moderation that we have seen, what was the reason for that as well, sir?
- Chandru Kalro:** It is to do with the new Ind-AS 115 standards where we report revenues netting of expenditure that is directly attributable to sales and therefore, the other expenses are looking lower. There is nothing structurally that has changed.
- Avi Mehta:** Sir, but last quarter also had the same and you know we have seen a very sharp moderation from the growth rates from the last quarter. That is why I was asking, sir?
- Chandru Kalro:** The previous standard did not apply.
- Avi Mehta:** No, sir. I mean, in the third quarter also the same situation was the case in terms of standards and the growth in our expenses was 12.5% and in the fourth quarter also the same standard is applicable, but the growth rate is -1%. So...?
- Shankaran:** Being unaudited figures, there will always be some ups and downs in provisioning in first 3 quarters. Fourth quarter results are audited results, being the balancing figure between Annual Audited Numbers and 9 months unaudited numbers. so you will always see some difference in the percentage; it is better to look at cumulative numbers. That will be much better than to view quarter-to-quarter.
- Avi Mehta:** Sir, the EBITDA in this quarter was almost about 64 crores if I remove the other income and in the base of EBITDA if I adjust for the 45 crores one-off that you had is about 62 crores, so the growth is only about 3%, right? In EBITDA?
- V. Sundaresan:** What numbers are you looking at, please, Avi?
- Avi Mehta:** Well. Sir, the reported numbers that you had last year was about 58 crores, right?
- V. Sundaresan:** numbers as you mentioned.
- Chandru Kalro:** Let us look at profit before exceptional items, which is at 56.76 crores last year. You add to that the other two, which is depreciation and 56.76 crores plus.
- Avi Mehta:** Correct, sir plus that 4 crores to 5 crores as one-off, you said that in the employee cost?



*TTK Prestige Limited
May 29, 2019*

- V. Sundaresan:** Yes.
- Avi Mehta:** Sir, you had highlighted in 4Q FY18 that there is a 4 cores, 5 crores one-off in the employee cost in 4Q FY18, so I adjusted that.
- V. Sundaresan:** Last year?
- Avi Mehta:** Last year.
- V. Sundaresan:** Provision extra know, he is referring to that.
- Avi Mehta:** Yes, sir, correct. So I was essentially looking at the growth rate that you see in EBITDA. I essentially was trying to understand how should we look at the performance going forward. I was trying to kind of adjust it to see the ongoing performance on EBITDA growth because the sales will not be the right number to look at.
- V. Sundaresan:** And probably you can wait for the Q1 results, first we can measure it properly.
- Avi Mehta:** No, sir. I understand, but I was just trying to get a sense on how should we look at, would EBITDA margins?
- Chandru Kalro:** The sales that you will see are apples-to-apples that you will compare, on the same basis that you see for last year and this year, so you are looking at a topline growth of about 8%, 11% and the EBITDA growth is 14%. So what is your problem? I mean the PBT growth?
- Avi Mehta:** Let me rephrase the question. If I look at the sales growth at 7%, what would be the adjusted number if I were to do a like-to-like comparison, if that is the case?
- Chandru Kalro:** The like-to-like sales growth is 7%?
- Avi Mehta:** Like-to-like sales growth is 7%?
- Chandru Kalro:** Yes.
- Avi Mehta:** And from a margin point of view, we should see margins kind of remaining at the current level of about 14% and 15%, would that be a fair expectation to take? Or are there any levers to drive it upwards?
- Chandru Kalro:** Yes, absolutely, right.
- Avi Mehta:** Sir, levers to drive it upwards is the right sir, sorry, I didn't understand that part.
- Chandru Kalro:** No, if you are asking me, is the margin stable? Yes, there, it is stable.



*TTK Prestige Limited
May 29, 2019*

Avi Mehta: So this trajectory that we see in EBITDA margin would be the trajectory that we see going forward.

Chandru Kalro: Yes.

Avi Mehta: As I understood from the earlier comment that the 7% growth that we saw in the fourth quarter may not be the right trajectory because we have seen a pickup in 1Q from these levels, 1Q?.

Chandru Kalro: Yes.

Avi Mehta: The pickup that we see, sir, is the annual number the right number to look at is what the last question then will be?

Chandru Kalro: It is a more realistic number, yes.

Moderator: Thank you. We have the next question from the line of Chirag Lodaya of Valuequest. Please go ahead.

Chirag Lodaya: Sir, my first question is on your sales growth. If I look at your sales breakup, so cooker sales we have seen significant slowdown in this quarter, first 3 quarters growth was pretty high, so how one should look at it for this quarter as well as going ahead?

Chandru Kalro: So as I said in the beginning, the online channels were muted because of certain policy matters that have come in because of the new foreign direct investment policy and so those channels which were high-growth channels in the first 9 months were not growing at the same rates in the last quarter and therefore, you are seeing this. It is a temporary phenomenon. As we go along, it will all stabilize and we see high single-digit growth in cookers as we have seen. It is a very mature category as you know.

V. Sundaresan: Cooker growth if you see it is 11% for the year and the overall growth was 17% for the year. So in particular, in proportion, last quarter growth was 7%, cooker growth was 5%.

Chirag Lodaya: Correct.

Chandru Kalro: Yes.

Chirag Lodaya: No, I am just trying to understand, first 3 quarters we were growing at on an average 14%, 15%?

V. Sundaresan: You have seen that online sales did not grow in the last quarter because of new government regulation.

Chirag Lodaya: So cooker was a significant part, online, that is what you are saying?



*TTK Prestige Limited
May 29, 2019*

- V. Sundaresan:** It had a significant portion.
- Chandru Kalro:** And also the rural that we started in the previous year in a big way had a high base of cookers in the Q4 of last year.
- Chirag Lodaya:** Sir, on a 2-year-CAGR basis, if I look at your cooker growth, it is just 3% for the quarter, whereas in previous 3 quarters, you were growing at about 20%.
- Chandru Kalro:** Which is what I am trying to tell you, my friend that the last quarter of last year was when the rural sales actually picked up. That is when we had the big jump. You are now looking at it from that base and because this year the rural demand was a little tepid in this quarter because of extraneous factors, which we are expecting to stabilize we are not seeing any problem in the cooker growth continuing as it was for the first 9 months of this year.
- Chirag Lodaya:** Sir, a little bit more on appliances side would be helpful and in terms of growth in mixer vis-à-vis Gas Stove for the year?
- Chandru Kalro:** Well, the mixer grinders, we have grown exceedingly well and Gas Stove also, we have grown in double digits.
- Chirag Lodaya:** And sir, on gross margins, how one should look at? For the quarter, there has been sharp decline in gross margin Y-o-Y, so going ahead, how one should look at this number?
- V. Sundaresan:** If you take the annualized gross margin that is more stable.
- Chirag Lodaya:** And just last thing on Cleaning Solution, what was the number for full year?
- V. Sundaresan:** Close to 30 crores.
- Moderator:** Thank you. Our next question is from the line of Ravi Swaminathan of Spark Capital. Please go ahead.
- Ravi Swaminathan:** Can you do the breakup of online PSK retail level sales?
- Chandru Kalro:** We wouldn't like to disclose that Mr. Ravi.
- V. Sundaresan:** That is sensitive information.
- Ravi Swaminathan:** South, non-South proportion, how it was?
- .Shankaran** South :Non-South is about 50-50. Plus or minus 2% quarter-to-quarter
- Ravi Swaminathan:** And, sir, PSK, we have close to 539?



*TTK Prestige Limited
May 29, 2019*

- Chandru Kalro:** 569.
- Ravi Swaminathan:** 569, so how many will be expanded next year? And what is the way forward there?
- Chandru Kalro:** We are looking at adding between 75 and 100 stores every year.
- Ravi Swaminathan:** And sir, cooker, so if you see past 2 years, so basically it was single-digit growth, but this year it was pretty decent growth of around 11% for the full year. Is it because so basically, GST is helping us in terms of conversion from unorganised to organized?
- Chandru Kalro:** There are host of factors that are helping this growth. One is the fact that we constantly explore new channels. Secondly, I think the Ujjwala scheme at some point in time will help the cooker category because all those homes will now start buying pressure cookers and also, thirdly, I think we are also seeing the people are replacing cooker faster these days than before.
- Ravi Swaminathan:** And the realization also is increasing, sir. I mean, per cooker sale.
- Chandru Kalro:** Yes, the model mix has improved because of our new product introductions and significant addition to the stainless steel cooker category.
- Ravi Swaminathan:** And is it like inner-lid cooker is growing at a faster pace than outer-lid?
- Chandru Kalro:** They are roughly at a similar pace.
- Ravi Swaminathan:** For the past 3 to 4 years, inner-lid has been growing at a much faster pace than the outer-lid, are we kind of saturated at the non-south level?
- Chandru Kalro:** It is far from saturation. There is no question of that happening in the near future.
- Ravi Swaminathan:** And in terms of performance of Stellar if you can tell how much revenue you would have done? And has it performed to our expectation?
- Chandru Kalro:** You are talking about Judge or Stellar?
- Ravi Swaminathan:** Judge.
- Chandru Kalro:** Judge is receiving a reasonable traction. As we told you, it is a fighter or a tactical brand, which we would like to use only if necessary and I think that is where it is, but we are getting reasonable traction and we are achieving our objectives on that brand.
- Ravi Swaminathan:** And from a brand pool, is it on par with TTK? Or we need to do more advertisements for Judge?



*TTK Prestige Limited
May 29, 2019*

- Chandru Kalro:** Judge is not an advertised brand.
- Chandru Kalro:** And it is a TTK product and that is being on par with TTK.
- Ravi Swaminathan:** So basically, we might be labelling it as Judge brand instead of TTK brand. TTK is a phenomenal thing?
- V. Sundaresan:** No, we call it, the Judge brand manufactured by TTK Prestige.
- Moderator:** Thank you. We will take our next question from the line of Shreemant Dudhoria of Unifi Capital. Please go ahead.
- Shreemant Dudhoria:** Sir, on Horwood, you had highlighted in the press release that you have made some soft investments and have got into new product category. Can you please describe a little more on investments and the new product category?
- Chandru Kalro:** So you know the situation in England and Horwood has done tremendous amount of good work in terms of enhancing the number of channels that they address and also the product categories and they have done a lot of expansion into a new area and made soft investments on ground to make sure that the future looks very good for them and I think we are on a good platform as we speak.
- Shreemant Dudhoria:** So when you say soft investment as in increasing the network or something like that?
- Chandru Kalro:** Increasing network, increasing marketing, BTL-supported counters and all those kind of things and also addressing newer channels. They have also made significant investments to go online for the online business.
- Shreemantn Dudhoria:** And on the new product category?
- Chandru Kalro:** They are launching a new product category, which is in the area of replacing single-use plastic. So these are very highly new compostable products that they are launching, which is the flavour of the season in Europe and those kinds of markets and they have launched an entirely new brand called Smidge, which they are looking to take all over the place, U.K. and beyond as well.
- Shreemant Dudhoria:** And this would be more of a traded-product category?
- Chandru Kalro:** All of Horwood business is traded. They have no manufacturing.
- Shreemant Dudhoria:** What is the expectation? What is the market size for this product category? And what are our plans? How much it could contribute to the topline of Horwood?



*TTK Prestige Limited
May 29, 2019*

Chandru Kalro: Very difficult to answer that question because these are sunrise categories and it is ever expanding and they have got several subcategories within that. It is safe to say that this will open up new doors for them and also address markets which they were not addressing. It is likely to be in the area of the region of about 10% to 20% of their total business going forward in the next couple of years.

Moderator: Thank you. We will take our next question from the line of Achal Lohade of JM Financial. Please go ahead.

Achal Lohade: Sir, pardon me if I am repeating the question with respect to the capacity, so what is the utilization now? And when is the new capacity is going to come in? What kind of utilization are we looking at the new capacity?

Jagannathan: Achal, our capacity is something that we can increase every year to meet demand, we utilize normally about 70%, 80% of our capacity, if we want more we will add more.

Achal Lohade: Understood. Where are we in terms of our capacity addition? We have indicated that we are going to add capacity on the cooker as well as cookware front?

Chandru Kalro: Yes, so there is a new line of stainless steel pressure cookers that we have added at Coimbatore. There is a new line for stainless steel cooker which we have added in our Gujarat factory, we have enhanced capacity of nonstick cookware and hard-anodized cookware and we have added a new line of inner-lid cookers in our Gujarat factory.

Achal Lohade: We have already added?

Chandru Kalro: And all of these that lines in Coimbatore and once lined in Gujarat, will be commissioned from July or August onwards, the rest are all ready.

Achal Lohade: Secondly, in terms of the new product, given that you have already launched now Cleaning Solutions, is there any plan to get into new product categories? And if so, what kind of contribution are we looking from these new product categories from, let us say, 3-year perspective, can you substantially add to our revenues? Or you think there is still some more time to go for that?

Chandru Kalro: So there is, of course, having a potential to add substantially to our turnovers. We are looking at water in a big way. We are looking at several new products in the cleaning area itself. We have added several products in the last 12 months. The idea is to keep building. It is not just products, it is width of distribution, which is happening. We are seeing that this would be about 7% to 8% of our business in the next 2 to 3 years.



*TTK Prestige Limited
May 29, 2019*

Achal Lohade: And in terms of the growth for the categories like cooker, cookware and appliances, can you help us with the broader sense in terms of the number for FY19?

Shankaran: We can't give guidance at this point in time.

Chandru Kalro: You are talking FY19?

Achal Lohade: FY19, cooker, cookware and appliances, broadly the growth and what I am trying to figure out is what kind of market share have we gained across these categories?

Chandru Kalro: It is fair to say that we have added market share in all our core categories that we are discussing. When I am saying core categories, we are talking about pressure cookers, cookware, Gas Stoves, mixer grinder, induction cooktops and rice cookers. We have added market share across geographies in these categories.

Achal Lohade: That is obviously not at all debatable but I was just curious to know like sir mentioned about cooker being a mid-single-digit kind of a growth category, what kind of growth, is it fair to say appliances is high-teens growth or the low-teens kind of a number?

Chandru Kalro: There are 2 ways to look at this. See, for us cooker is a mature category and we are also a long-term player, now playing in this category for a long time. Appliances, we are adding geographies and adding newer, becoming more and more deeper in those categories, so our growth in appliances is likely to be higher than cookers.

Moderator: Thank you. Our next question is from the line of Kunal Shah of IIFL. Please go ahead.

Kunal Shah: My first question is if you can share the CAPEX that you are likely to spend in FY20?

Chandru Kalro: We are looking at about 100 crores.

Kunal Shah: And second thing you highlighted there was disruption due to this new e-commerce policy, so just to confirm, there are dispatches from your side and sales have now stabilized, right? I mean that disruption is behind us?

Chandru Kalro: Yes.

Moderator: Thank you. Our next question is from the line of Prashant Kutty of Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Just a clarification over here. So do we only have any seasonality as far as cooker is concerned because Q2, Q3 tend to be really very high and Q4 has a very sharp drop? Did you feel that phenomenon in the last 2 years specifically, anything to highlight over here?



*TTK Prestige Limited
May 29, 2019*

- Chandru Kalro:** No, it is historic that Q2 and Q3 are higher quarters for us as compared to Q1 and Q4. It is historical.
- Prashant Kutty:** But just that the extent of moderation in Q4 which happened, it was more profound towards the last few years.
- Shankaran:** As mentioned Q4 online sales was lower because of new government regulation and that is the only reason.
- Prashant Kutty:** And sir, you said that the South and non-South is 50%, 50% each in terms of revenues. In terms of profitability, sir, they would be pretty much similar in terms of generating similar amount of profits?
- Chandru Kalro:** Yes, it is the same across the board, the discounting policies are the same.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the floor back to management of TTK Prestige for closing comments. Over to you, sir.
- Chandru Kalro:** We are looking at the years going forward positively. We are sure that if the monsoon is good, I think we will have a great year going ahead. We are well positioned in terms of new products and new categories to achieve good growth in the coming year as well and we hope to continue doing the good work that we have been doing.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.