TTK PRESTIGE LIMTIED

"TTK Prestige Limited Q1 FY22-23 Earnings Conference Call hosted by ICICI Securities"

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Management: **Mr. K Shankaran – Wholetime Director & Secretary**

Mr. R Saranyan – Chief Financial Officer

Saranyan R.

Good morning. Just take you through what happened in the first quarter and also let you know what's happening post that first quarter. We did exceedingly well in the 1st quarter. Of course, we cannot compare this quarter with the same quarter of last year because there were some impact by the 2nd wave of the COVID last year. But even if you compare to the normal quarter, which is. FY 20 Q1, we still did exceedingly well. We have 38% more on the top line and on the EBITDA we are almost 43% more as well. All the channels were active during this quarter. The share of channel to the total sale was also similar to what it was in the Q4 of the previous year. The first half of the quarter, we continued to have the impact of the increasing in commodity prices, but we started seeing the slowing down of the price increases in the later half. But still, for us to see the benefit of this price decreases, I think that will be only by early Q3 because we still have stocks at the higher prices. Exports are also reasonably well. Unfortunately, from the later part of the quarter, the global recession is impacting the export. When you look at what's happening on the subsidiary side UK subsidiary had their impact because of the global recession. With a fuel price increase in in UK & Europe as well as their own political issues in UK, they did only around three million GBP sales compared to the four million they did in the previous year. But they are doing their best. Of course, the raise in the commodity price, fuel prices, also impacting them but they are doing their best to mitigate some of these costs. Hopefully in the second-half, we think the things should settle down and then they should start doing a better. In the Q2, of course, it's very difficult to see a huge growth in Q2, primarily because we had the best Q2 last year. So the growth this quarter will be nominal.

Shankaran K

Nominal because we had a very big base last year due to pent-up demand due to the first quarter billing fell into second quarter. This we also indicated that in the Chairman's speech during AGM as well as during the earnings call. So the demand situation as compared last year is little docile. As we have been saying that the demand is largely from the value added product then for the entry level products. We are growing in the valued product, while the entry level product is little stagnant or mildly low, which we saw in July. We had also discussed the same in the Chairman's speech at AGM. We expect that September should be good because that is the loading month for the Diwali and the Dusserah. If there are enough days between Dusserah and Diwali it is always good as we will have two good festive month. But this time the first week has Dusserah and then in the last week we got the Diwali so September and first part of October should be the festival driven and as always December is good for us due to New Year. We are looking forward for the best. The consumer sentiment is not as bad because if we look at the money, there is money in the hands of the people, but they're spending in more avenues than just doing at the kitchens or homes. If you see any shop in any place that apparel shop or jewelry shop, the crowd is mind boggling. As we said earlier, we are also carrying little bit of inventory which were accumulated at little extra cost because we had bought aluminum in those times. The reduction in commodity prices is expected to reflect only in our quarter three rather than in Q2. So that is the long and short of what's happening.

Analyst:

Long term, I mean we have alluded to the fact that 5000 Crores of turnover by 26 or 27. Which categories will outgrow others because pressure cooker it's quite penetrated and what will be the key drivers to achieve that number?

Shankaran K

When you say pressure cooker is penetrated, it belies that kind of a hypothesis the way we have grown the pressure from the last 18 to 24 months. There are two aspects here. One is that the pressure cooker habit is penetrating outside urban area. So there is a tracking in there is a tracking in Tier 3 and then R1 and R2 cities. Second, we are coming with Svachh pressure cookers which is design protected and patent is pending for grant and that puts us above all the other. Other brands do not have it and they cannot copy and therefore we are able to drive the replacement demand faster to Svachh platform. We have converted most of our production in to Svachh only, less than 10% is non Svachh which is required for some market, and that is driving the growth. Therefore, 50% of India, if you take the rural, it's not fully penetrated with pressure cookers. When you say pressure cooker, 1 pressure cooker per home is not enough. We require at least three types of pressure cookers. One small for a daily use for family and then for the larger family and then there is one needed when somebody coming in. So at least three sizes are minimum for any household. So that is the going to be drive the penetration. And then the construction industry growth, when new units of building coming up are occupied, we may be shifting our home, I would like to have a new kitchen because I want new product. Therefore I buy something new. These are things that are driving the growth. Therefore we do believe that we'll grow as expected in double digit growth in both volume and value in pressure cookers and in great teens in all of the appliances, etc. That is our hypothesis and there are enough headroom in India even in the existing markets or newer markets that are going to come in. And we are seeing large money going in infrastructure from the government side. You can see the consumable income is going outside the urban areas also. They are buying and if you look at the demographic transition in terms of people working in urban centers going back to their places and they're getting jobs there. So we are not able to get good people to work in big cities like Bombay, Bangalore, Coimbatore, etc. People are not coming back, so they're able to find some kind of an employment in their own area and they are carrying the urban habits. What they are doing in the Bombay household or Chennai household, they want to replicate that in their house and they don't have great rental to spend. Therefore, the consumptions are going to happen in those areas. If you look at it, we are able to see the consumption in a going up in good number, especially in UP and other places that's why you consider competition growing quite well in those areas because he's been very strong there. We are also growing in those areas. So we do believe that all the categories will reflect growth and more so in appliances.

Analyst:

So this is basically a play on premiumization and increase in discretionary spend. and urbanization.

Shankaran K

This is for certain categories we are in. But we also got Judge. We also got entry level popular cookers which is slightly expensive than the regional brand. And I'm not counting unorganized brand and they come and go. Therefore, we do believe that only the inflation trends come down the bottom of the middle pyramid, which is on one of the core they will get more money to spend and we do believe that is going to drive the through the phenomena that only higher income group is spending now. I mean it'll probably percolate down to lower level incomes also the next year. That's what we do firmly believe. There's no real basis for us to predict largely based on, you know, what is happening in the ground and. Trying to be very positive.

Analyst

Logically your appliances could have grown at a rate faster rate than pressure cooker till now. But when I look at your numbers, cooker and cooker actually has grown at a rate faster than appliances.

Shankaran K

Yeah, this is what I'm trying to say. Cooker and cookware are going much faster now than in appliances. Our analogy is that gas stove or a mixture grinder or induction cooktop went through the roof during COVID. During lockdown the people who were working from home, Therefore they have to equip that home. So we had a windful demand for appliances during that period, and that base has gone up.

Analyst

We're growing dramatically look at our 2019-20 figures. I just share numbers like appliances grew at 9% CAGR and cookware by 18%.

Shankaran K

If you take 19-20 as the base and take the inflation out, we have grown in volume and value. So I always say that 19-20 the clear year for us. 18-19 & 19-20 are the two clear years and if we take an average of those two years that is the real base we have to look at because in between there are too many factors that you and I cannot control because we got 75% of the outside factors influencing the business. These are the two normal years 18-19 and 19-20 before COVID ticked in. If you take that from the average of those two years, we have grown faster in those areas.

That also includes a lot of new products that we had launched during this this period that also gave us a good growth. Cookware grew dramatically because when people are locked up at home, they wanted a cookware which they can maintain easily. I want a healthy put less oil, easy to maintain, just warm water and soap and just ready for next use, etc. Therefore cookware went through the roof during that period. During this to periods we have also Split cookware portfolio into regular non stick, with premium coating and we got stainless steel then hard anodized. So people don't want to touch aluminium or nonstick we gave them stainless steel and it did really very well. Therefore we learn and look at new and new households who will buy.

Analyst

How is our cleaning products? And how large it can be?

Shankaran K

We do around 50 Crores annually. 50 crores annually. Our initial expectation was that we said that we do about 300 crores when the company's turnover reach 4000 crores (excluding the 1000 crores via acquisitions) which is about 7 or 8% of our company. We still believe that is achievable by 26-27. The portfolio is going through a lot of churn and because we had good growth in vacuum cleaners and mobs during COVID because people were at home and the base went up. But we do believe it could be at 300 crore turnover by 26-27 including water purifiers and vacuum cleaners and mobs.

Analyst

One so small and given the opportunity, a lot of competition.

Shankaran K

Yeah, lot of competitions. We'll have to actually and the distribution channels are much different as compared to our traditional ones because it is partly your kitchen stores, partly home stores and partly lot of FMCG stores and supermarkets where we have to find our way to get the distribution right in those areas. It is a learning, but what I can say is that that level of turnover, I'm making money on ROCE basis.

Analyst

How the size of competition now that inorganic is happening? CG flighting butterfly and all of that.

Shankaran K

If we look at the players, have remained the same. When I say new competitors coming in is one thing, it tries to take share from the existing people.

Analyst

Muscle power is different. No, see, I mean what is the?

Shankaran K

On muscle power we'll have to see how they're able to exercise in an environment like kitchen. We have to wait and see. Because you cannot avoid consolidation taking place outside your area. What we believe is our mantra has been innovation, innovation, innovation and try to be ahead of competition even if it is one mile away. It's better to be one mile away. So that will be the differentiator. Therefore, our investment in innovation is going to be there and being there in this business in cookware and cookware for several decades and appliances for two decades, we have got that edge of experience and innovation and that is what it is going to see because irrespective, we maintained our market share in difficult time

Analyst

The channels we are very strong. But what about the north?

Shankaran K

North also we're getting. See if you look at I was at 80:20 in 2003 80 South and 20 North, now it is 50:50. Now it is different because we did not have inner lid pressure cooker to penetrate in the past. Once we got into that business and which is closely 25% of my current cooker turnover, I got the households.

Analyst

Coming back to this question on the growth for Cooker, Cookware has been higher for the past two years, so it's pricing also larger factor like that's also contributing to this like kind of screening these numbers

Shankaran K

If you look at that number you were talking about the way we compare only the standalone in 19-20 and the stand alone of the comparable quarters. If you have growth, let us say x%, I would say it's about 70% is volume and 30% is value because it goes with inflation also. Unfortunately, we are in an industry when you have several models and several categories very difficult for you to have a volume - value comparison. And there's a product mix also. For example, the market is shifting towards stainless steel and they're dropping in aluminium. My overall sales in volume & value would have gone up. Nowhere I can compare Apple to Apple when I got ranges from 1.5 liters to 16 liters and 20 liters are the big one and I have value added Svachh and Non Svachh. We're talking about a huge variety therefore the volume value comparison is a little bit difficult for us to explain. Relatively what I can see is to take the last five years with all the in between quarters with rain or no rain, with farmer strike or no farmer strike, covid or no covid, we have grown in volumes. It is not that we are stuck with volumes and only increasing prices, then I have been dead because overhead would have grown faster than that. Therefore, unlike Europe or USA, India still depends on volume growth, whereas they are only dependent only on praising and differentiation trying to take share from one fellow to other person. Here in India we have large headroom; vast majority are not consuming anything.

Analyst

What is the mix of stainless steel and Alu?

Shankaran K

70: 30 - seventy will be aluminum, 30 will be stainless steel.

Analyst

What was the rationale of acquiring Ultrafresh?

Shankaran K

We wanted to be in a space where our mind share of consumer is very important. We look at the last several years, kitchen improvement is becoming a major expenditure in many households, whether there's a new house or they're trying to rebuild their kitchen. The kitchen solutions are becoming very important. Look at Kitchen solutions are very, very fragmented market. There are carpenters and carpenters and there are few big brands. They are selling only components not selling the full kitchen. We also tried way back in 2006, 2007, 2-3 years, we were in modular kitchens where we did not have any manufacturing expertise nor we got a service expertise. So we had outsourced everything, but then found it was not our cup of tea because we were only used to selling in boxes. And to sell one kitchen for 2,00,000 it may take six months for me and having a separate vertical for this we thought we are wasting our managerial build. But it was always in our radar. When Ultrafresh approached it they are in end to end solution. They make the products, they make the design, they have their own people installing them, which means they're in control of everything. Earlier we are in control of nothing except that we're getting the consumer running, getting irritated, not able to do that. So we found that they already have about at that time 80 franchisee stores and throughput not coming through at the same time. The kitchens are quite good as compared to many others. The value ranges from 1,50,000 per kitchen to going up to 5, 10 or even 20,00,000. We found that that this could be an ideal alignment because we can sell our products at their showrooms. Ultrafresh is the brand name for the modular kitchen. We say Ultrafresh powered by Prestige to ensure that the modular kitchens carry the Prestige brand image. In the same place they'll be selling prestige appliances also. I get distribution for my existing products. I get newer households. For example, Chimney is a highly value added product, good margin product, we are unable to go places because we restricted to lower value items and to install that one chimney I'm not a kitchen person. So we could not expand it. Now we can go greater in Chimneys because every kitchen goes with Prestige Chimney. Ultrafresh, is also a good expert in making Chimneys. They have factory that can make chimneys, so therefore we got an outsourcing possibility also from them for chimneys apart from the existing vendors. The investment is 30 Crores for 51% stake. In our estimate this can deliver a turnover of close to 200 - 250 Crores in four to five years time, with the margin of 14%. Currently they're about 20 Crores. Plus maybe another hundred crores that we can sell through their outlets which carries a margin and the ROCE will be high.

Analyst

But what margins do they do?

Shankaran K

They need to get over the break-even point which is around 50-60 Crores. Lowest will be around 10% higher around 15% and average of 10 to 15 depending upon the size of the Kitchen. If they sell more value added, the more margin they make and they have huge varieties right from aluminum kitchen, stainless steel, etc. Once you know the we have become partners in that business and they're getting inquiries for mass kitchens.

Analyst

What is the distribution reach there because as you want to go bigger, your reach will also have to be significantly higher; break even point will also be higher too.

Shankaran K

Currently, they've got about 100 outlets,. So we would like to take it about 300 hundred outlets. So the initial couple of years they'll making losses and that's funded by my investment. So the first couple of years, we'll be only spending on building that infrastructure for the marketing of that. The expansion in the top line and margin will take place in the 30.

Analyst

In the next three to five years, what do you think will can be the growth rate in your appliances business?

Shankaran K.

15% plus.

Analyst

And within that the subcategory, how will they do

Shankaran K

We believe in that induction cooktop will grow. Mixer Grinders will grow, also value added gas stove.

Analyst

Historically, how are they going 15%?

Shankaran K

Double digit. Industry is also in double digit.

Analyst

This growth, which we have seen till now and if we look out, let's say next three to five, you think the channels which contributed to growth in the last five years will contribute to growth in the next five years or you need a tweak.

Shankaran K

We choose the channel where the customer goes. So most importantly, a channel is middleman. It could be my own prestige kitchens, it could be an online, it could be offline, it would be trade, it'll be large supermarket, all those things. If the customer prefers online, I have to be on online, the customer prefers offline I like to be on offline. There is a basic simple philosophy. Now the channel's fight for footfall - online channels or offline. These channels fighting within themselves to get footfall; I'm trying to reach the consumer beyond this wire. These are the two things you have to look at. Is there one time solution for them? There's no one time solution. We'll have to ensure that we put our best foot forward, say I am stronger as a brand. He may be stronger as a platform. Platform cannot be a product brand. A product cannot become a platform brand. I have my domain to stay and you have a domain to stay. I respect you. Your respect me. Keep on getting the pull for me product every channel will come after. That means a brand has to attracts people. So our investment will be certainly in those lines where to maximize our presence with our own branded store. We've got about 670 nos, we would like to take the thousand as soon as possible.

Analyst:

Well then by what time?

Shankaran K

Couple of years.

Analyst

And how much revenues do we get from India?

Shankaran K

That's about 13 to 14 percent of the domestic turnover. If my 700 stores, can contribute to the 13% of my sale 60,000 outlets of general stores contribute to 40%. That's the throughput in these stores.
And the ability to market is much easier and all may SKUs are placed in that place.

We are also trying to operate some of these stores where the rentals are very high company owned company operated and company owned and franchise operated

Analyst:

How about online?

Shankaran K

It will be less than 20 percent, around 18%. It touched the peak of 27% during COVID. Even then, we were not 100% of online.

Analyst:

Each of the exclusive store is how much?

Shankaran K

It will be a small area in a smaller town, they may operate out of 300 square feet, but the minimum size as of now will be, around 700 square feet. Some of them will be 2000 because you got so much of range to display. And we are also giving them digital catalogue to people who don't find a particular model. They can go through that digital catalogue and place an order. And we'll ensure that franchise get set stock and then he's able to sell. And we're also trying to develop an Omni Channel in which the order is picked from anywhere and the nearest franchise you'll be able to service that place. He gets certain Commission for doing that service depending upon who picks the order and then margin sharing is a little bit complex, but there is a formula for that means we don't miss one consumer. And more than 25 warehouses across India and then dedicated online warehouse, which about four or five location in India and we are best placed to service the consumer within 24 hours.

Analyst

Out of 670, how much will be north?

Shankaran K.

It’s about 40% in north and 60% in South.

Analyst

How you are seeing your UK business scaling up because we are seeing massive high inflation and some outlook on export.

Shankaran K

If you look at their overseas, there are two businesses. One is our overseas subsidiary, other is our exports. Our own export to our subsidiary is very less. Export in Prestige brand in licensed market is one, export in Prestive Brand to UK as OE and our supplies to OEM Brands, European Big Brands, which I cannot name them because of confidentiality. There is stress on that. We grew from 40 to 70 and to 100 in last 3 years. How to maintain 100 this year could be challenge, could be a challenge because orders are not coming through, they're under great stress. US, Europe and UK are going through severe inflation of 18% there was a stress on their whole thing. But what they do believe is that sourcing from India is the best as compared to China for whatever reason. And therefore, you know, they feel safer to travel to India than China. But China, I don't know which town they are closing. So they are opening even though it's a secret. Therefore they have very happy traveling to India and trying to this one and they are not shrunk their order book as of now. But they are not increasing it. Ofcourse there will be growth due to rupee inflation.

Analyst:

And sir near term, how do you see a margin trajectory?

Shankaran K

I mean see we have we are going indication then on a 5-year horizon out 15% CAGR depending on whichever category we entered and 15% EBITDA margin plus or minus 1%.

Analyst:

But more volume should drive margin expansion?

Shankaran K

In inflation condition can we predict more? If I get 17% I will be very happy

Analyst:

Because I think you know with volumes you how do you think 15% margin is the company's wish that we will not have more margins than 15%

Shankaran K

I am trying to say that it is not my wish. I am not a monopoly. There's a situation where if there is more margin, we will come in. If you remember in 2009-10 or 10-11, we showed a margin of 16.7% EBITDA everybody started coming in. We got it because of two things. You got a very small base, same number of infrastructure we group dramatically. Then we had a windfall of induction Cooktops for two years because induction based pressure cooker and cookware went through the roof. It touched 17% EBITDA in two quarters consecutively. They said. So if you get in the kitchen, you'll get this margin. How we got it because of volume scale economies. Once we expand our factories, our own operating margins came down. We were operating at a margin of 13 to 13.5% even we came down to 12.5% in one year. Then we caught up to 15 and 16 and 17 last year. And we do believe that in a competitive situation, try to put back money into the market. Keep your market share alive. So if I have a 17% EBITDA for couple of years I may lose market. The whole important is healthy market share with a decent margin. And then ROCE of 40% on book capital employed and I'm not talking about market capital employed. I think that if you operate within that parameter, we will not give room for competition to come in and come at a very low price.

Analyst

Are you trying to kind of theoretically getting margin side then that would close higher than that?

Shankaran K

That depends upon the pricing mechanism in the market for a comparable product and the elasticity of the demand and comparable to a market segment where we are servicing. So it's a very complex metrics that we'll have to look at what we say as a company which have been business as a group which are in business as group almost as hundred years and as Prestige in the last 70 years, we've got certain experience where we are overpriced and shot ourselves when you underpriced and shot ourselves. We learn through lessons we are we have gone through all these cycles and now there is a wisdom in the company either written or unwritten in a set of people that we will take year by year market by market. And as compared to our competition, we have got more than 500 people on the road plus our own 700 stores, multiple of three for each store as employees, we've got 2600 has ear to the ground. We listened to them, they understand what is the sensitivity of the consumer trying to play that ball of innovation like I could have raised it very high, we did not do that because the manufacturing cost did not go up significantly, why unnecessarily fleece for an image. Our idea is to we were actually worried about market share and cookers. Everybody was trying to come there without any for the moment. The differentiation came in. I should not kill myself by trying to increase price when my cost has not gone up. Why should I charge the premium? Now we increase the prices because of aluminum price got increased.

Analyst

How much of your Appliances sales are kind of manufactured by us?

Shankaran K

Very small portion of gas stove is manufactured in house and balance entirely are outsourced within India. We have stopped importing from China.

Analyst

Only gas stoves is what we manufacturing really small, rest all is outsourced. Any thoughts on own manufacturing?

Shankaran K

Basically what we have to see is that whether Manufacturing expertise is required or any confidential is required for any of the particular product. So we are manufacturing, some part of gas stoves because there is some amount of technology involved in it. When no technology is involved and the branding and design is the only area involved we would rather go to a third party. Because he has got his own flexibility. He operates in areas where the wage costs are very low, where they compliance cost also very low, he's operating in smaller towns and we have our own QC team to monitor quality. Well the make or buy is a dynamic decision. We have made a decision that cookers will never be manufactured outside because it's a naturally a hazardous products. In gas stoves though, it's also technically hazardous in, but he never an expertise in manufacturing. I'd rather leave it to somebody who knows how to do it. There is no problem here. Even big brands, you know, they also outsource. Not everybody manufacture every product themselves. So wherever there is a niche product where we, the technology is very important, we manufacture ourselves. Cookware 95% is manufactured by us, just some 5% entry level outsourced from others.

Analyst

But, this trying to have a sense about the mass end of the market. There seem because of inflation in India also stress. How are you reading the situation at the method? See our premium products are doing very well. Q1 one also reflected. These premium segment is there, what about the mass mass segment?

Shankaran K

See if we look at, we bracket out at mass premium, we are a mass product, but premium price catering income levels which are middle and upper and high bottom. If you look at this if you take triangle I'm covering from small portion of top of the lower income pyramid entire middle and entire and there is no imported pressure cooker. People are happy with the Indian brands unlike chimneys and other things where they want imported stuff? That particular pyramid we are not seeing any traction at this point in the last at last 14-15 months. That portion saw a lot of accretion in demand.

Between 2011 to 2015 and 16 because the income level went up because the whole thing depends on how much people get in the middle income group. So more people get in to middle income group there is some disposable income, the person is the same, he's got aspiration for Prestige, not able to afford today. Yes, once you get income bracket, he'll certainly buy it and we are waiting for the same. It happens in two back pockets of when India was really growing dramatically and it is now stagnant or slightly declining but it is to change because if you look at lot of people lost employment during COVID they're still trying to come back to normal. Now everybody's getting some employment or other travel sector is opened up, all flights are full, hotels are full. In that segment many employees never had any income for over couple of years, nobody had any income. Now they got income, but they had to start building their homes. And certainly the upgrading kitchen will be somewhere in there at that some point in time.

Analyst

Even the slow sales, some demand debtors. I mean, are we seeing some slowdown, further slowdown in

Shankaran K

Our collections are very robust, very, robust. But our inventories are little high because what happens is that you have business plan which covers all models of your products whether you manufacture or outsource. So what happens the first couple of months we'll build inventory till September. You build inventory because of the season. What happened today is that if there is a shift in demand from low end product to high end product how do we streamline production? Should I carry inventory of high vaue or of low value item? We actually need to have a prism where you can read the future and do that. There is always be a trial and error in this position, What is the kind of demand pattern in July is not the same in August and it may be not the same in September. So there's an essential element of what you call a guestimate in terms of what should produce and do that. Therefore while our receivables will be under clear control, inventory is a matter of opinion at this point in time. It is judgmental very judgmental because we cannot dump the market in the hope, that somebody retail. Then I'll have major problem. Our collections are robust. We're still an average less than 40 days.

Analyst

So that's a problem for our distributor or retailers actually want to stock. So how do you see this

Shankaran K

Ultimately if you build your forecast from the ground from your representative, from the dealer and run this and see there is no real 100% proof mechanism for supply chain especially in these kind of conditions. This is largely what you feel from the market, from the distributor. Sometimes distributors may be reluctant to store more and what we do is that I don't supply. I'll keep this stock with me, you pay, you take it. I increase my frequency of supply rather than trying to say, take everything in the first week. There may be certain element of logistics cost increase. It may be 0.1% or 0.2% that's good enough and better for me to keep the inventory rather than as receivable.

Analyst

So you say that the current channel inventory in the channel would actually be lower than what is generally the shapes.

Shankaran K

That doesn't matter, what happens is because this is the question everybody asks me Primary sales what is happening. Primary is a fiction. Secondary is the reality, right? So I may win your hearts by loading the primary in Q3 but I will lose your hearts by not selling that in Q4. The whole thing is what is getting pulled out by the consumer. So I would rather clog my warehouse than clogging the dealers warehouse. Because my warehouse is my factory, I don't pay any rent on that.
Rather, we would keep the inventory and our side rather than logging the pipeline.

Analyst

Would you say such extreme caution would also leads to lost sales

Shankaran K

Not at all. If I am able to fill the pipeline as the consumer picks it have no problem.

Analyst

Is the ROCE you are talking about is 14%?

Shankaran K

Its EBITDA of 15% +/- 1 and ROCE of 40%. Fourteen percent ROCE I cannot survive.

Analyst:

It wasn't just wanted to understand this.

Shankaran K

It only operating ROCE and I am keeping treasury out of it which is for the purpose of any business investment.

Analyst:

This high cost raw material inventory will run out in the third quarter? So Q3 will be normal?

Shankaran K

Yes third should be normal

Analyst

And that this CAPEX which category, I mean, CapEx which you have announced Would be under which heads? I mean, which categories?

Shankaran K

It will be largely under pressure cookers, cookware, logistics and Digital as well.

Analyst

These exclusive stores, are the the land is owned or they're mostly rented

Shankaran K

It's largely franchise model. About 2% will be company operated and company owned & franchisee operated. If a franchisee has his own space, his own space or he can rent also depend upon each franchisee. Even if it is own space, we have a notional rent in that area and try to give him a margin where his ROCE will be 25%. On the whole return on ivestement is important to him. So we tried to ensure that, you know, they get that kind of a return on investment in the 1st 24 months itself. That's how we operate and they buy the inventory they invest in inventory, they pay as per our normal terms, they invest in the infrastructure of this.

Analyst

Given our inventory holindg in Q1 versus what are the ruling prices of inventories at the current what would be the cost downward drift that we would see probably from Q3?

Shankaran K

In gross margin level, maybe plus or minus 1% percent, 1.5%.

Analyst

And so what's on the price increases have been taken?

Saranyan R.

In the cooker / cookware we have taken around 6 to 8% average in the last year FY 22.

Analyst:

First quarter have we taken?

Saranyan R.

We have taken at the fag end of March and its impact will be more in Q1 and it is average around 3%
On the appliances, this was roughly around 8 to 12% depending on the products.

Analyst

What is your capex plan for the year?

Shankaran K

It will be around 120 crores within the next two financial. Looking at the average CAGR of 15%, I would put the average Capex around 100 crores every year.

Analyst

And currently you're outsourcing vs self Manufacturing would be around.

Shankaran K

It will be 50:50

Analyst

And it will remain the same?

Shankaran K

It may become 55:45 because if appliance grows more the outsourcing may go up. So it depends on the mix of products.

Analyst

Sir the price which you said end of March this will get reflected in sales 4th Quarter?

Saranyan R.

Q1 because that was taken in March. You'll see the impact only in Q1.

Analyst

That's right. So Q1 is already behind us. So we are now in Q2.

Shankaran K

The price increase which we took in March, became practically effective for the market from April onwards. Dealer would purchase the new stock at new places from April longer. He would have purchased the old stock at the old prices in March.

Analyst

So when will you get reflected for the in the in the market?

Shankaran K

So in the market April, depending upon stock in pipe line in large for example for the retail end happened in May, June look as they would have sold the world stock by April.

Analyst

Have we covered fully for the raw material increase?

Saranyan R.

I won't say fully. We also did some improvement in efficiency. So we will not be in a position to push everything because it depends a market condition. We will not be able to push all the cost to the market.

Analyst

So how much was the down?

Saranyan R.

So we were almost 60, around 60% would have pushed to the market. 30 would have absorbed, but we would have had the other efficiencies in the operation which should have covered just.

Analyst

Let's cull out the raw material part ignore the efficiency part which is gain, but the 30% that was not provided we take an average material cost and let's say now with the downdraft in the industrial, metals, aluminum, etcetera coming down, how much of that 30% would have got bridged.

Saranyan R.

Even now we are still not fully covered yet, not with fully covered.

Analyst

How much would be the still?

Saranyan R.

I don't have the exact number but we are getting closer to that. We still haven't 10 to 15% still not but that will take some time.

If no more questions, Thank you all