



“TTK Prestige Limited  
2QFY23 Earnings Conference Call”

**November 4, 2022**



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                                 **LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to the TTK Prestige 2QFY23 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 '\*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Yash Jain from Ambit Capital. Thank you, and over to you, sir.

**Yash Jain:** Thank you, Ranjan. Good afternoon, everyone. On behalf of Ambit Capital, I welcome you all to the 2QFY23 Earnings Conference Call of TTK Prestige Limited. From the management side today, we have with us Mr. T. T. Jagannathan, Chairman; Mr. Chandru Kalro, Managing Director; Mr. K. Shankaran, Whole Time Director; and Mr. R. Saranyan, Chief Financial Officer for TTK Prestige Limited.

Now I hand over the call to the management for their opening remarks, and then we will open the floor for questions and answers. Thank you, and over to you, sir.

**Chandru Kalro:** Good afternoon. This is Chandru Kalro here and thank you for coming to the call. As you remember, in the last conference call, when we told you all that 2Q was on a very high base given this pre-COVID, post-COVID, etc., issues of last year. And we had said that we are confident that we will come close to those figures and which we have. We have achieved our objectives for the quarter.

We've had a reasonably good season as we've spoken. The growth has to be looked at from a half-year perspective rather than a quarter perspective because there was a pre-COVID and COVID last year. I mean, COVID and post-COVID last year and this year, there is on that large base. So, I think we've done what we set out ourselves to do out for the half. We had a 20% growth in top line. We've either matched or outstripped our competitors. And our margins are in line with our stated objectives on the margin. So overall, the quarter has been reasonably good, and we look forward to a reasonable second half. Over to you all for setting the questions. Hello?

**Moderator:** The first question comes from the line of Sameer Gupta from India Infoline. Please go ahead.

**Sameer Gupta:** Two from my side. So, first of all, when I look at the sequential gross margin movement, I see a 230 bps contraction. Now aluminum steel, both prices have seen only correction in the last 6 to 8 months. And only thing here, which I can think of is there have been price drops that are being taken? Or it is a mix, so maybe higher mix of appliances. Any other reason or is there a reason completely different from this why margin has contracted sequentially? And how we should look at it going forward? That is the first question, sir.

**Chandru Kalro:** Okay. The answer to that is very simple. The inventories of raw material and other inventories, which we were carrying have progressively averaging upwards because carried inventory costs were high. So, the quarter began with some higher cost inventory as opposed to the first quarter. And based on our buying arrangements with our suppliers, this quarter, our buying was at a higher price than in Q1. And we continue to carry some inventory at the high cost as we go into the Q3 also. However, if you look at this quarter with respect to Q2 of last quarter, our material costs have remained almost similar to the Q2 of last year. So that is how you must look at it. And most of the companies have had this issue because they had an opening inventory and closing inventory, and that is just going to normalize as we go along after a single quarter from now.

**Sameer Gupta:** We got it, sir. Great, sir. That's helpful. Secondly, just wanted a bookkeeping question, the CapEx guidance for this year and going forward and how much you have done in the first half?

- Chandru Kalro:** So, we have given the Capex guidance of between INR50 crore and INR75 crore. And I think in the first half, we've done around INR30-odd crore and will complete the balance in the second half.
- Moderator:** Next question comes from the line of Lokesh Maru from Nippon India AMC. Please go ahead.
- Lokesh Maru:** I just wanted a basic understanding on 3 elements. So, I just wanted a basic understanding on how much would have been the RM price inflation compared to a normal base quarter of 2QFY20? And number two, how much would have been the price hike would have taken since then? And number 3 is the implied volume growth.
- Chandru Kalro:** So, the raw material prices that have gone from FY20 to today would be in the retail of at least 18% to 20% if I'm right. I don't have that number readily available. And we have almost taken matching price increases. We left out the final lot of price increases because we are seeing the prices coming down. As you remember, we took the last price increase in the last quarter of last year. There are no more price increases planned. And we have seen raw material prices come down, and we believe that we would stay at the present level or and within a slow band of this what they are today. And we are seeing, our ratio of raw material costs got to go in line with the previous year by the end of this year.
- Lokesh Maru:** Sure, sir. So that would more or less mean that volumes have grown flat or something like that, right, compared to last few years?
- Chandru Kalro:** That's our perspective. From a first half perspective, there have been double-digit increases in volume growth because as you can see, our turnover growth has been 20%. So there has been a volume growth in the first half. And for the second half also, we are looking at growth. But as you know, given the inflationary situation as it is, volume growth hasn't been very robust as in the past. We are hoping that as things become better, volume growth will come back to where they used to be, depending on which category you're talking about. But there has been volume growth even this year from a half perspective.
- Lokesh Maru:** Understood. Sir, last question from my side, like you have already mentioned in the PPT on predatory pricing on online channels and by smaller players. So, going forward, as the RM cost basically softens, like what is the strategy as such? Do we plan to pass it on to the customer? Or do you plan to retain that benefit of on gross margin front?
- Chandru Kalro:** We mean predatory pricing is unsustainable and such pricing is only made to get entry into a channel or to commoditize the particular category. Now that is a game we don't want to play. We are a branded player. We are the brand leader in the business, and we will continue to do that and continue to grow through our innovation. That is our strategy. We do not want to get into a price war or commoditization. And therefore, when it comes to that, we would rather stay away rather than get into such a game.
- Moderator:** Next question comes from the line of Resha Mehta from GreenEdge. Please go ahead.
- Resha Mehta:** I have 2 questions. So, first is on the growth and demand, okay? So, while I do understand the difficult macro backdrop that we have, right? But if I just compare the first half 3-year top line CAGR for us has been around 11%, 12% versus for our peer, it's in the range of 19%, 20%, right? And I'm saying the 3-year CAGR because that takes into account the COVID-related disturbances, et cetera, right? So, is this big divergence in the 3-year HI CAGR because in South, we have seen a more pronounced subdued demand? Or is it because of the competitive pressures in South have increased? Or if you could just comment on a little bit more granular commentary on the demand in rural, urban, South, non-South that would help.
- Chandru Kalro:** Okay. I don't know who you define as the peers first.

- Resha Mehta:** I was talking about Hawkins.
- Chandru Kalro:** You see Hawkins is only pots and pans, which is a pressure cooker and cookware business, right? So, their base has been small. We have also grown more been in that area. For example, if you look at the presentation, which we have given you for this quarter. And if you look at our pressure cooker growth, which is there in our presentation, you will see that we have grown for the first half, we've grown by 30% on pressure cooker.. So, who are you comparing us with, please?
- Resha Mehta:** I was talking about the divergence in the 3 year H1 numbers.
- Chandru Kalro:** ? I would request you to look at annual numbers please and not look at the half because different companies have different strategies and different ways to look at various quarters during the year. If you look at our annual numbers, we are not diverging from them.
- Resha Mehta:** Right. Maybe I can take this offline. But if you could just comment on that, was there a difference in demand that you saw across rural, urban, South, non-South. Or was there a slowdown particularly across?
- Chandru Kalro:** No, the trend that we are seeing is very different, since the inflation has affected the lower middle class. Thus, the business there has not grown as much as the upper end of the market. So, the entry-level products have not done well. That is true for us and it is true for our peers also. If you look at the value added segment in each of our categories, they have grown substantially during this year and during the previous 2 years. This year, particularly the entry level segment has suffered. You will see this in many other categories, which are proxy categories to us, for example, in 2-wheelers, et cetera, et cetera. So that is the only comment that I would like to make. In terms of the relative performance to our competitors, I don't think there is a divergence.
- Resha Mehta:** Right. And how would you say that our portfolio is how much of that would be entry level versus what we categorize as premium?
- Chandru Kalro:** It varies from category to category. You see in Hawkins, the company which you mentioned, there are only 2 categories. We have at least 18 categories with us to deal with. So, each category has dealt with separately. Now in the last 1 or 2 years, as you know, our entire pressure cooker portfolio has moved to Svachh. And within Svachh we have recently launched the 3 types of pressure cooker, we have launched the deep pan pressure cooker. The entire stainless steel range has moved to Svachh. All of this has meant that we have been the thought leaders in the category, and we are doing extremely well in the value-added segment. The entry level segment is certainly not buoyant for obvious reasons, as I said.
- Resha Mehta:** Right. Right. And the second question is on Ultrafresh. So how big is the modular kitchen opportunity in India? And how big can Ultrafresh become for us? And what are the expansion plans there? And would our offerings be like, let's say, for example, this space, it offers modular kitchens on EMIs and some 10-year warranty, 1-year service warranty? So how far Ultrafresh can grow? And what is the opportunity size here?
- Chandru Kalro:** They are very good questions. Ultrafresh is a very large opportunity. The modular kitchen business in India is very large. 10,000 crore, the real estate business is growing, and therefore, this business will also grow, and we see that in the next 3 years. Both in Tier 1 and Tier 2, Tier 3 towns, the modular kitchen business is likely to grow. Ultrafresh, when we have invested in it, is a very small turnover, but we have very substantial growth plan all the way up to 200 crore in the next 3, 4 years. And the idea is that we use our strength and the strengths are very distinct from any competitor. This is the only player in the industry which has an end-to-end offering in terms of design, manufacturing, installation and wholesale service, and we are using technology like virtual reality, et cetera, to have various presentations with the customer to actually score over them.

Also, if you look at the last 6 months, we have added close to 50 new studios, which means that our retail presence in the ground is going as per plan. We have grown by almost 96% over last year quarter for the same quarter in Ultrafresh, and that's the kind of growth ranges that we are looking at as we are going along. So Ultrafresh is a major opportunity, and we are also manufacturing, unlike most other players, which are outsourcing many things. So, the advantages of this brand are many. Coming to the warranty, we are offering, I think, a lifetime warranty and a free service right through, which is again a very big plus to them. I'm not exactly sure what is the terms of that, but it's backed up by a very strong company-owned service network, which is not outsourced as well.

- Resha Mehta:** Right. And what would be the average ticket size of the modular kitchen that Ultrafresh sells? And would the studios be confined to South or are they pan-India?
- Chandru Kalro:** No. In fact, they are relatively stronger in the East and the North, and the South is just being recently added, and the West has also started. Now the synergistic thing in this is that we have 655 to 670 outlets, which can become a funnel for their kitchens. And their 100-odd studios can become good outlets for our appliances within them. So, our presence in Tier 2, Tier 3 is quite good as compared to most other brands.
- Resha Mehta:** And the average ticket sales?
- Chandru Kalro:** Coming to the average size, ticket size, is between INR1.5 lakh and INR2 lakh.
- Resha Mehta:** Got it. And so, these will be customizable?
- Chandru Kalro:** Yes, yes. Completely, completely. These are not standard offerings. This is customized to customer needs.
- Moderator:** Next question comes from the line of Digant Haria from GreenEdge Wealth. Please go ahead.
- Digant Haria:** Sir, my question was just on the second half, that the second half base was also quite high. Are we expecting any positive growth for the second half?
- Chandru Kalro:** Well, we don't give guidance, but there is no reason we shouldn't continue to grow for the second half as a whole.
- Digant Haria:** Okay, sir. And the same trend should continue, right? The more premium products should probably do better than the entry level. You don't see any change in that particular trend as well, right?
- Chandru Kalro:** Not in the second half, no. That is true. The same trend will continue.
- Moderator:** Next question comes from the line of Indrajit Agarwal from CLSA. Please go ahead.
- Indrajit Agarwal:** Sir, any progress on the inorganic opportunities that we were scouting for over the past couple of quarters?
- Chandru Kalro:** There are several opportunities available we are evaluating. Nothing to report at this stage.
- Indrajit Agarwal:** Sure. And just to refresh our memory, your INR5,000 crore revenue target, that estimate, INR3,500 crore organic domestic, INR500 crore export and INR1,000 crore inorganic? Is that correct?
- Chandru Kalro:** Correct. Correct.
- Moderator:** Next question comes from the line of Aakash Fadia from YES Securities. Please go ahead.

- Aakash Fadia:** Sir, now under this geopolitical crisis going around the world, so how do you expect the export to trend now from here on?
- Chandru Kalro:** We are still very bullish on exports. I mean there are certain developed markets where there are certainly hiccups. But given that we are constantly talking to newer customers, I think, which are likely to fructify in the next couple of quarters, we are still quite bullish on exports. And the geopolitical situation against China is quite prominent. Most of them are looking at the China Plus One and we are one of the key players people would like to associate with when they come to India as a market, and that is happening. So, we are quite bullish in the long run. Quarter here or quarter there, I don't think we should worry about, but the overall trends are very positive.
- Moderator:** Next question comes from the line of Indrajit Agarwal from CLSA. Please go ahead.
- Indrajit Agarwal:** Just to check on the export market, how much would be white labeling and how much would be under the brand? And what is the strategy over there going forward? Do we focus more on the brand or white label?
- Chandru Kalro:** Well, it is currently between 50% and 60% branded exports under license and the balance is white label. The white label is likely to grow faster than the branded exports.
- Moderator:** Next question comes from the line of Bhavin Vithlani from SBI Mutual Funds. Please go ahead.
- Bhavin Vithlani:** But could you help us with the outlook for cookware? As a segment, this was one of the fast-growing segments. A couple of years, we have seen a bit of momentum slowing. So, what's your view? What's the reason you will attribute to this?
- Chandru Kalro:** We don't look at it as a momentum slowing. You see last year, during this period, because of COVID, there was a huge share of wallet moving here. People were locked up in the houses. People bought more cookware. This time, that share of wallet has gone to the luggage industry and the entertainment and the malls and et cetera, et cetera. So, if you look at a trend line of 4 or 5 years in the cookware business, you are seeing a positive growth. And we as a company has now managed in the last 2, 3 years to cover so many subsegments within cookware. For example, we were largely nonstick cookware earlier. Within nonstick cookware itself, now we have added anodized and stainless steel cookware. We've got cast iron cookware. We've got cast iron cookware, tri-ply cookware, stainless steel cookware. So, we've added so many subsegments, and we are looking at adding value to this category. And we are seeing this growing. So, this outline of last year in the Q2 should not worry us.
- Bhavin Vithlani:** Okay. The second question is on the appliances. If you could give us a color on a couple of categories, especially the gas stoves and the mixer, how has been the growth in the first half? And what's the kind of growth that you are actually seeing for the current year?
- Chandru Kalro:** See, in the gas stove, as you're aware, we have launched Svachh gas stoves last year, and that was met with an excellent response as we speak. And in the first half of this year, the premium segment within the gas stove category of Svachh, of the Schott glass gas stoves, of the Edge gas stoves, of the hob tops, et cetera, they have done very well. So as a proportion, they have gone to almost 50% of the total proportion. As I said, the entry level is struggling, the entry level is having problems, and therefore, that proportion has come down. As we go along, the gas stove market is a stable market. It neither grows too fast nor falls too fast. And given that we have very innovative products coming out in the pipeline, we are very positive about this.
- Bhavin Vithlani:** Sure. And mixer grinder as a category?

- Chandru Kalro:** Yes, in mixer grinders, same kind of story. We have added so many models in the 750 and 1,000 watts in the premium end. And the same thing has happened with the mixer grinders also.
- Bhavin Vithlani:** Sure. I mean if one looks at first half, what's been the growth in these 2 categories, gas stoves and mixer grinder?
- Chandru Kalro:** So, gas stove and mixer grinder, both have had double-digit growth in that sense.
- Bhavin Vithlani:** Sure. Could you also help us about the online, which was growing significantly during the COVID times? What is the share now? And what is the kind of growth outlook that we are seeing on the online platform? And were there any disruptions which according to your view, are temporary? And are you seeing those corrected?
- Chandru Kalro:** The online, we always said that there was a spike when there was a lockdown and people have gone back offline with a vengeance. I think this you have read in every newspaper for several categories as we speak. And that has happened in our category. We also predicted it well in advance. Now we have said that it will be between 16% and 20% for us, depending on the season, and that is where it is going. There is no difference there.
- The online per se as a platform has not grown because they are looking at a very large base of last year because they were having a very large base due to the lockdowns of last year. And because they were not growing this year, there was a substantial amount of discounting that many people resorted to, which we decided that we were not going to be part of. That is the situation on the online business. Going forward, obviously, we expect online to continue to grow in a stable way. And we believe that our policy of maintaining equity between other channels is going to continue also. So, we will take a very balanced view on this.
- Bhavin Vithlani:** Sure. The last question from my side is, you are looking to enter into the premium category of hobs and chimneys. And for us, there was a small acquisition also that we had seen. So, if you could just give us an outlook, what's our strategy about the kind of growth we are seeing. And the Prestige exclusive outlet that we have, what's the kind of remap we are doing so that we are able to kind of leverage these channels for us?
- Chandru Kalro:** So, some of these categories, which you mentioned, we've got a lot of products on the anvil which are in the design stage. I can't discuss that right now. We've also got a very aggressive retail strategy. I think we've said last time to you that we have gone beyond just franchising. We've gone into company-owned outlets as well. And that we are using very strategically in most of the major cities where franchising may not be viable. So, we've got stores now coming up in various towns in a larger format as opposed to a franchise outlet, and that's really helping with our retail. In fact, the first half, our retail stores have grown faster than any other channel of ours.
- Bhavin Vithlani:** Any number that you would like to put across for that?
- Chandru Kalro:** I won't like to disclose that number because it is sensitive.
- Moderator:** Next question comes from the line of Pranjal Garg from ICICI Securities. Please go ahead.
- Pranjal Garg:** My question is regarding the exports business. I wanted to understand the exports business of the company as you are registering good growth in there. Can you highlight the major markets the company is serving? And what is your outlook for the business?
- Chandru Kalro:** So, we are serving the various parts of the globe, really, but primarily, we are looking at growth coming out of Europe and the U.S. And that's where our new customers are going to come in from. There has been a little bit of a delay in some of the things because of what's happening in those markets. But I think once these things stabilize, these will be our growth areas as we go along. We, however, supply

to almost all continents in the world, except South America, I think. Other than that, we supply everywhere else.

**Pranjal Garg:** And sir, where do you see the business scaling next 4 to 5 years for export purposes?

**Chandru Kalro:** We have said that we want to come in the INR500 crore mark as we go along. In our INR5,000 crore business, we have said we would scale up exports to INR500 crore, and we stand committed to that, I would say.

**Pranjal Garg:** And the last question is, is the business having the same margins as the domestic or is there a differential?

**Chandru Kalro:** Certainly not. The business in exports is a lower-margin business because all the growth is coming in the white label area. But the volumes are tighter, and also it helps us expand capacities and utilize our capacities much better.

**Moderator:** Next question comes from the line of Aditi Fadet from Nipes. Please go ahead.

**Aditi Fadet:** Sir, I wanted to understand the company's spend in advertisement and promotional expenses as a percentage of sales. So, if you can share the number for the last quarter and if you have any plans of further investing into engagement of, as such, the posting, I mean if the company has any further plans of investing into the standard advertisement expenses.

**Chandru Kalro:** So basically, our advertising and promotion expenditure has been in the band of 6% to 6.5%. I mean that is something that we've constantly invested in our good times and not so good times, and that strategy continues. And I don't think there is a need to go beyond that because we have the scale today of a high amount of money available. Yes, so there's no other plans other than that. We are available on digital, on conventional media throughout the country. And across the year also, we are available.

**Moderator:** Next question comes from the line of Rajit, an individual investor. Please go ahead.

**Rajit:** I just had one question. You had mentioned about the growth in retail stores. I mean I can understand if you don't want to share the exact numbers, but is it possible for you to understand the growth in terms of percentage over the last 6 months? And what is the growth that you foresee in the next 6 months?

**Chandru Kalro:** So, the growth in our retail stores is more than double the growth in the rest of the FPOs. Okay. I don't want, as I said, to give you a specific number there. And clearly, our strategy of going on exclusive retail is working. We are seeing that going forward with our other initiatives around this retail, I think this cannot just grow in the retail exclusive channel but help us get a better share in the multi-brand outlet level also because typically, we have seen when the retail does well, the multi-brand outlets also fall in line.

**Rajit:** Right, sir. So overall, I mean there is substantial growth in our reach, including our exclusive stores and the overall channel reach across the country?

**Chandru Kalro:** Yes. We have around 350-odd towns where we have our outlets. We have around 650-odd outlets, 655, I think. And our idea is to take that up to add 100 stores every year. That's what we have. Of course, this also comes where some stores churn out because they are not doing well or somebody wants to get out of the business, so that also happens. So, there's a net addition that never matches that number. But I think our new store addition has been in the range of 50 to 75 stores a year, and we are trying to plan to increase that effort further to take it to closer to 100 stores a year for the next 3 years. That is why the company-owned store strategy is also coming, so that we are not just dependent on franchisees.

**Moderator:** Next question comes from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.



- Rahul Ranade:** Just 1 question on the entry-level segment that you said there is sluggishness coming in because of the macro environment also. And I presume all the online competition also will be largely in the entry segment. So just wanted to understand what is our thought process if we don't want to participate in this kind of predatory pricing environment? How do we look at market shares in those entry-level products there?
- Chandru Kalro:** No, there will be up and downs initially. See, point is that if you go and sit in that kind of market, you're aiming commoditization, which is not our strategy. The idea is to continue to innovate, continue to make sure that the value equation is positive and get the customer back. Now many of these products, we have actually seen. If you are going to get a product that cheap, you're not going to get a product that is going to be as good as what a branded product would give. And I think sooner rather than later, even though customers will realize that they have not bought the right kind of product and they'll come back. Replacement cycles are shorter. And we believe that if we wait this out, they will come back. And we focus on our strength, which is innovation, quality, distribution, service, et cetera, et cetera.
- Rahul Ranade:** Sure. But in the interim, from a macro standpoint, things get tougher, then obviously, there is that angle of people continuing to down-trade, right, into the more entry-level kind of products. So, would there be any plan for us? Like I know we have kind of a brand for a Judge, which is also at that entry level kind of a tactical kind of a brand, would be seeing something on those lines?
- Chandru Kalro:** Absolutely right. You hit the nail on the head. We are having Judge as a tactical brand. And we are happy to tell you that we have opened our first exclusive Judge store during this quarter. We have a retail strategy for Judge. We are having a full-fledged strategy, which we are working out so that we can fight in these price points, not with Prestige but with Judge.
- Moderator:** As there are no further questions, we have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.
- Chandru Kalro:** Well, thank you for the session of questions. And again, to reiterate, we are going largely to the plan that we had set out. Our margins are in line with the band that we have set out, and we are looking forward to a good second half. We continue to have a few trend lines of the problems of the high-cost inventory, which I think will be over by the end of this quarter. And after that, we get to more normalized margins. We hope to end the year in a good way. Thank you again and see you soon sometime.
- Moderator:** Thank you. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us. You may now disconnect your lines.