

## TTK PRESTIGE LIMITED

(EXTRACTS FROM DIRECTOR'S REPORT OF FY 2020- 21 TO BE SHARED WITH ANALYSTS)

### FINANCIAL RESULTS (STAND ALONE)

(Rs. in Crores)

		<b>2020-21</b>	<b>2019-20</b>
1	Sales (Net of discounts)	<b>2033.05</b>	1936.79
2	Other Income	<b>27.53</b>	24.61
3	EBITDA (before Exceptional Items)	<b>342.17</b>	285.14
4	Profit Before Tax and Exceptional Items	<b>301.18</b>	248.21
5	Exceptional Items	<b>11.90</b>	-
6	Profit Before Tax	<b>313.08</b>	248.21
7	Tax Provision	<b>77.94</b>	49.70
8	Profit After Tax	<b>235.14</b>	198.51
9	Other Comprehensive Income (Net of Tax )	<b>(0.21)</b>	(1.51)
10	Total Comprehensive Income	<b>234.93</b>	197.00
11	Transfer to General Reserve	<b>23.00</b>	20.00
12	Surplus carried to Balance Sheet	<b>211.93</b>	177.00

### REVIEW OF PERFORMANCE/HIGHLIGHTS

- The unprecedented Covid 19 pandemic seriously impacted the general economy since March 2020 followed by total lockdown for major part of Q1 of FY 21. Your Company could commence sales and production in a limited way towards the end of May 2020. Your Company drew up business contingency plans covering all the functions of the company during the lockdown period and bounced back from August 2020 onwards both in production and sales. The business contingency plans focussed on digitalization of sales process, innovative marketing strategies and careful optimisation of supplies to various channels as and when each channel became operational. As a result, the average domestic monthly sales peaked to Rs.200 crores during the 9 months ended 31.3.21 notwithstanding some limitations faced by the Company in supply chain both in the internal facilities and the facilities of external vendors during Q2 and Q3.
- During the lockdown period your Company continued to pay all its employees including contract employees without any pay-cuts and also fulfilled all its obligations to the suppliers in full and on time. The idle overheads that were borne by your Company during this period was of the order of Rs.20 crores.
- Release of pent-up demand and the need to upgrade home and kitchen as working from home became the norm contributed to the recovery of domestic kitchen and home appliance business ever since July 2020. Till July 2020 online was the mainstay and thereafter general trade, modern trade etc., rural opened up one after the other during Q2 and Q3.
- Rural demand showed encouraging revival signs since Q3 aided by good monsoon and revival of refinance to micro-finance and NBFCs.
- Export business continued to be robust though affected by logistics issues at the fag in the last quarter of the year.

- The exceptional item for the year refers to the reversal of provision for export obligation of the acquired business made in the previous years, as the same stands fulfilled.
- During the year, the Company took a decision to stop import of products from China effective October 2020 and developed most of those products with manufacturers in India. This decision had some impact on the sales during the year due to non-availability of some of the key products pending indigenisation. Capacity constraints during Q2 did result in loss of some sale opportunities. Your company has taken several steps to augment capacity, maximise existing utilisation of machine and also improve efficiencies.
- Your company broadened its customer base by increasing dealer coverage especially in the non-south markets during the year through unique dealer programs attracting new dealers.
- Your company launched various innovative products in all categories during the year including a new category of casseroles.
- In March 2021 some parts of the Country were affected by the second wave of Covid-19 but this did not materially impact the Company's performance during the month.
- Against the backdrop of the turbulence period, your Company showed an improved performance during the year with an all-time high Net Sales of Rs 2033 Crores, a growth of 5% from Rs 1937 Crores of the previous year. If the real operating period of July 2020 to March 21 is considered, the Year on Year growth for the ten month period is in excess of 20%.
- In spite of various constraints discussed above, the Company delivered an all-time high EBITDA (before exceptional items) of Rs. 342 Crores with a growth of 20% (PY 285 Crores) and Profit before tax at Rs 313 Crores with a growth of 26% (PY Rs 248 Crores). The depreciation charge was higher at Rs 37.9 crores (PY Rs 34.6 Crores) due to investment in fixed assets.
- Operating EBITDA margin significantly improved to 16.8% (PY 14.7%).
- The Net Profit after Tax was higher at Rs 235.14 Crores (PY Rs 198.51 Crores).
- The standalone EPS was Rs 169.64 (PY Rs 143.21) a growth of 18.5%.
- As stated in the past years, your company does not follow a stand-alone margin led policy but is focussed on growth with a fair long-term return on capital employed. Operating ROCE stood at 38.2% (PY 31.6%).
- The Company is debt-free and carried a comfortable free cash of around Rs 530 Crores (including short term Liquid investments) as on 31st March 2021.
- The consolidated turnover and profit before tax of the Company and the UK subsidiaries amounted to Rs.2187 Crores (PY Rs.2073 Crores) and Rs.323 Crores (PY Rs.234 Crores) respectively.

Your Board of Directors consider the performance as commendable given the tough external environment. Your Company continues to maintain its leadership share in value terms across major product categories.

In the previous year considering the uncertainty caused by COVID-19, your Directors considered it prudent to recommend a lesser rate of dividend at Rs 20 per share. Later in November 2020 considering the improvement in the business environment your Directors paid an interim dividend of Rs 20 per share for FY21. Now considering the annual performance during the year your Directors are happy to recommend a final dividend of Rs 30 per share for FY21 totalling to Rs.50 per share for FY21 including the interim dividend already paid.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### A. ECONOMY / INDUSTRY SCENARIO

The domestic economy was severely impacted during the Q1 FY 21 due to the lockdown announced by the Central and later by various State Governments to manage the spread of Covid-19 pandemic. The global economy also witnessed erosion in GDP thus impacting the growth prospects of every industry during that period. Encouraging signs were seen only from Q2 and it improved during Q3 of FY 21 due to relaxation of Covid-19 related restrictions and festive momentum aided by the economic package released by the Central Government. Improvement in the economic activities was witnessed during Q3 except for travel & hospitality. Even though the supply chain constraints eased during Q3, after-effect of the impact in Q1 and Q2 on supply chain continued in some measure both in Q3 and Q4. Rural demand showed good revival sign during Q3 aided by good monsoon and implementation of State funded infrastructural projects. Large format channels started functioning with limited restrictions during Q3. E-Commerce continued to be the active channel during the year even though the other channels caught-up with the relaxation in the lockdown restrictions. Export business continued to be robust though affected by logistics issues towards the fag end of Q3 and it continued in Q4 of FY 21. All commodity prices witnessed steep increases from mid Q3 driving up the prices for almost all the products.

Your Company predominantly operates in the Kitchen Appliances segment with a wide range of product categories. The product categories broadly consist of Pressure Cookers, Cookware, Gas Stoves and Domestic Kitchen Electrical Appliances. Your Company entered the Cleaning solutions segment from FY 17-18. The market for all these segments consists of organized national brands, regional brands as well as unorganized players. Except for Pressure Cookers, Cookware and Induction Cooktops, the market for the rest of the key product lines is fragmented and is shared by several players. Over the last five years or so many players both big and small have been entering as well as exiting the appliance categories and the churn is still going on. While the uncertainty caused by the Covid-19 pandemic existed among the people throughout the year, the domestic kitchen and home appliance demand has been encouraging from Q2 of FY 21 as people were working from home most of the time. With E-Commerce becoming an active channel it increased the competition in the market as even regional and small players could reach out to pan India through this channel. Supply chain constraints of large players during first half of FY 21 provided the opportunity for regional brands and smaller players to fulfil the demand that outstripped supply.

Even in these turbulent conditions your Company maintained its leadership position in key categories like Pressure Cookers, Cookware, Value added Gas Stoves, Induction Cook top, Kettles, etc and is steadily improving its market share in the Mixer Grinder segment. The company also entered in to Casserole segment during this year. Indigenisation of some small appliances hitherto imported from China has progressed well but the absence of some SKUs did have some impact on Q3 & Q4 growth. Manufacturing operations stabilized during the quarter; though it partially struggled to meet the demand driven by the festive season due to lower stocks on hand at the beginning of the second quarter .

Your Company will continue to focus on proactive innovation and product differentiation coupled with innovative distribution and digitalization of sales and marketing processes to stay ahead in the marketplace.

## B. ANALYSIS OF PERFORMANCE:

### 1. Kitchen & Home Appliances:

The products include Pressure Cookers, Cookware, Kitchen Electrical Appliances, Gas Stoves, and Home Appliances. The turnover of these product categories is given in the following table:

	2020-21			2019-20		
	Domestic	Export	Total	Domestic	Export	Total
Pressure Cookers(including Microwave Pressure Cookers)	562.57	38.02	600.59	573.78	22.41	596.19
Cookware	302.48	29.71	332.19	274.16	17.53	291.69
Gas Stoves	267.52	1.08	268.60	260.82	0.65	261.47
Mixer Grinder	219.08	1.49	220.57	232.47	0.63	233.10
Other Kitchen/ Home Appliances	471.82	0.20	472.02	446.58	-	446.58
Cleaning Solutions	50.08	-	50.08	34.00	-	34.00
Others	88.16	0.84	89.00	73.09	0.67	73.76
<b>Total</b>	<b>1961.71</b>	<b>71.34</b>	<b>2033.05</b>	<b>1894.90</b>	<b>41.89</b>	<b>1936.79</b>

- As mentioned earlier, the sales were adversely affected during the Q1 of FY 21 due to the lockdown restrictions owing to Covid-19 pandemic, which started recovering from Q2 though some of the channels were still not active even during this period. However, E-Comm channels contributed largely during this period. As the customers were working from home most of the time during this year this enabled an increased demand for the domestic kitchen and home appliances segment.
- Your Company also cautiously managed its trade policy with general trade as well as modern format stores in order to improve working capital efficiencies and information flow.
- The new category of Cleaning Solutions has progressed satisfactorily yielding significant growth facilitated by 'work from home' concept gaining ground due to the pandemic.
- Notwithstanding the severe Covid-19 impact in the first quarter of the year wherein the company incurred an idle cost of around Rs 20 Crores, the sales and costs, various operating ratios were maintained at healthy/improved levels ensuring EBITDA margin (before exceptional items) at 16.8% as against 14.7% in the previous year. Your Company did take timely price increases to accommodate the increase in input material costs.
- Operating ROCE stood at 38.2% (PY 31.6%) on expanded manufacturing asset base which could not be optimally utilised during the year. Your Company continued to be debt free and carried a sizeable free cash balance at the year end.
- Your Company has over the last few years substantially reduced its dependence on imports which has a positive impact on working capital efficiencies.
- Operating working capital efficiencies improved during the year notwithstanding the policy to offer friendlier terms to vendors to ensure operational liquidity to them.

- h. During the year under report your Company introduced around 127 new SKUs covering Pressure Cookers, Induction Cook tops, Mixer Grinders, Rice Cookers, Gas Stoves and other Small Electric/Non-Electric Appliances and Cleaning Solutions. Company also entered into Casserole segment during the year. All these introductions received good response.
- i. Judge brand as a tactical brand is progressing well and contributed around Rs 23 Crores to Sales (PY Rs 21 crores)
- j. Prestige Xclusive network was consolidated and rationalized where necessary and new outlets were added. The number of outlets as at 31.3.2021 was 620 (PY 588). The network now covers 28 States and 363 Towns. The spread of the network is also evenly distributed between Metros, Mini- Metros, Tier 1, Tier 2 and Tier 3 cities.
- k. Service network was significantly expanded to 464 centres (PY - 441 centres).

### C. OVERSEAS SUBSIDIARY & CONSOLIDATED RESULTS:

The operating subsidiary Horwood Homewares Limited (HHL) achieved a sale of £15.5 million (PY £15 million) a growth of 3.3% against the backdrop of Brexit and COVID-19 pandemic impact. Operating EBITDA was £1.6 million (PY £0.7 million) a commendable increase of 128%. The subsidiary introduced new products and expanded its presence in the online channels during the year which helped it perform better than most of its peers and also achieve a significant profitability over the previous year. The new category SMIDGE range which was introduced during FY 2019-20 also did well during the year.

During the previous year HHL had acquired Ecosoul life business through its new 51% subsidiary Horwood Life Limited, UK. In early Dec 2020, HHL divested its 51% stake in Horwood Life Limited, UK in the light of long-term uncertainty over supply chain constraints.

### COVID-19'S IMPACT ON OPERATIONS, OUT LOOK & OPPORTUNITIES:

#### 1. Current Standpoint:

- a. The FY 21 ended in a positive note even though the second wave of Covid-19 pandemic started hitting some parts of the country from mid / late March 2021.
- b. From the 2<sup>nd</sup> week of April 2021, one by one the State Governments have started announcing lockdowns to control the spread of second wave of Covid-19 pandemic. There was no major impact to the sales in April and all the factories were also working without any major impacts following the Covid-19 protocols announced by the respective State Governments.
- c. But by early May 2021 almost all States Governments have imposed lockdown of varying degrees to control the spread of second wave of Covid-19. This does have impact on the planned sales for May 21.
- d. The factories at Karjan and Roorkee continue to function normally following local Covid-19 protocols, while the factories in Hosur and Coimbatore had to be closed from 2<sup>nd</sup> week of May 2021 due to the lockdown announced by the local government. Kharadi factory continues to be in lock-out.
- e. Corporate and commercial offices which were functioning with 50% strength and remaining 50% working from home until April 2021 have moved 100% working from home from May 2021.
- f. In the States affected by lockdown sales are being made via online channels. Supplies are being managed through the operating factories and warehouses.
- g. Company continues to pay all its employees including contract workmen without any pay cuts and discharged all its statutory obligations and payments to all vendors within due dates as it did during April / May 2020 lockdown.
- h. From the experience of the previous lock down the company has been adequately geared up to ensure the lockdowns do not severely affect the operations that are possible during this period as well as post lockdown period.
- i. Over the past several years your Company has been prudent in application of its free cash and built sufficient cash reserves to meet exigencies as well as for business expansion. This continues to help your Company to tide over the current difficult business climate caused by the second wave of Covid-19. As of the date of this report your Company carries free cash of around Rs 530 Crores.

- j. At the start of FY 21-22 adequate inventory was available at the trade level as well as at the company level to meet the end consumer demand during the lockdown and immediately after that.
- k. Your Company has already improved its IT strength and continued its engagement with all its stakeholders digitally and revamped its layout in all manufacturing locations to yield better productivity and at the same time conforming to "social distancing" in workstations.
- l. Following the lockdown last year your Company had educated and supported the general trade channels and PXL network and oriented them to online booking of orders and home delivery so that not a single opportunity to sell is missed. In the same way, service network was also geared up to attend to all the pending service requests that accumulated in sizable numbers during the relevant lockdown period. Your Company is confident these initiatives will help the Company to bounce back to normalcy once the situation improves and the lockdown restriction eases.
- m. Your Company has also trained the sales force and also invested in adequate IT functionalities to deal with the trade partners digitally without the need to undertake the risk of travelling.
- n. Export sales continues to be robust during this time.
- o. Your Company has put in place a host of healthcare measures to take care of its employees during this pandemic situation as detailed in the section 'Developments in Human Resources'
- p. As you are aware your Company has, over the last few years, been actively pursuing 'Make In India' policy for appliances portfolio by fortifying local vendors thus reducing the dependence on imports from China. In continuation of this strategy the Company decided to put a hard stop on all imports from China effective October 2020 and developed vendors locally for most of those SKUs. Though it had its own challenges of supply chain issues in Q3 and Q4 the Company is successful in completing this process by early April 2021.

## **2. Outlook & Opportunities:**

- a. Given the unrelenting spread of the second wave of pandemic and the large-scale impact on the lives of the people, the near-term outlook for the Indian economy is uncertain impacting the growth prospects. The second wave is spreading in rural areas which was not the case during the first wave. This is a cause for concern as it can impact the rural demand which was looking up till March 2021.
- b. The Union Budget for FY 22 has laid emphasis on investment in several projects especially in the non-urban areas. If these are implemented even amidst the second wave, the outlook can be rendered positive.
- c. As your Company is in the home and kitchen appliance domain, the stress caused by lockdown in domestic kitchens, the need for improving kitchens and replacing appliances is likely to support the demand for such products. While demand arising out of gifting during marriage and other occasions was minimal due to restrictions on gatherings, the replacement demand at homes have increased which was witnessed during FY 21. Further the reluctance to eat outside or order foods from outside is expected to continue and this will increase the dependence on domestic kitchens. Further working from home is expected to continue for some more time across industries and on long term in some of the industries like IT and IT related industry and this can give rise to demand for a host of home appliances. All these factors can enable sustaining business at levels that can generate decent profits in the coming years.
- d. Your Company has already put in place steps for improvement of efficiencies and management of critical costs to deliver decent profits even if growth may be impaired.
- e. Your company is comparatively better placed owing to its brand salience, exclusive retail network across India besides strong presence in every other channel that reaches the end consumer. Your company is debt-free, and all its manufacturing and sourcing outfits are in operational conditions with adequate human resource and thus can increase supplies to the market at short notice. This was also experienced during FY 21 in similar situation.

- f. From the macroeconomic point of view, impact of this second wave on the economy is largely dependent on the containment measures. The localised nature of restrictions means that the actual impact is likely to be much less severe relative to April-June 2020 when a strict nationwide lockdown was imposed. However, since the second wave is in the early stage it will be very difficult to predict the impact immediately.
- g. Overall the private consumption cannot improve till complete restoration of the travel, tourism and hospitality sectors and preparedness of public at large to travel for business and pleasure. The extent of vaccination of the population and its time duration will also play a major role in this process. Even if the pandemic subsides in the near future, the resurgence of these sectors may take a longer time.
- h. During FY 21 we have seen increased tendency among global brands to shift a significant portion of sourcing outside China and India has been looked upon as one of the key alternative. Your Company's export customers have increased their sourcing from the Company during FY 21 and we expect this to further strengthen during FY22.

#### **Impact on Medium & Long-Term Strategy:**

- a. As the members are aware your Company has adopted an expansive Vision – To Delight Home Makers with Innovation and To Make Company's products available at Every Home.
- b. Based on this vision your Company had developed strategies to increase its product base and customer base across India both rural and urban so as to double the turnover in about 5 years.
- c. Covid-19 pandemic has become a speed breaker and it may take couple of years more to reach this milestone. The investment on innovation and search for inorganic opportunities are always on. The blueprint that has been prepared is still relevant and we have made some tweaking in tune with the changed conditions.
- d. Shareholders are aware that your Company operates out of its core strengths of brand, innovation, design, manufacturing, distribution, sourcing, and service capabilities and more importantly 'Customer Engagement' and will continue its efforts to further fortify these strengths. For instance, your Company is already geared to launch over 100 new SKUs in the market during FY 21-22 and the same will be timed keeping a watch on progressive relaxation of lockdown and consumer sentiments.
- e. In the medium and long-term, your Company expects to maintain a healthy EBITDA margin and Return on Capital Employed subject to Covid pandemic subsiding in early FY 22 itself.

#### **CAPITAL EXPENDITURE PLANS**

Your Company has spent about Rs 49 crores in FY 20-21 including automation and establishing additional lines. The capex for FY 22 is estimated at around Rs.70 crores including normal capex, logistics and capacity augmentation.

#### **HUMAN RESOURCES**

Keeping in mind the physical and mental well-being of the employees caused by the pandemic, your Company has organized healthcare infrastructure, both physical and digital, at various work places. Free vaccination for all employees including contract workmen and their dependents has been organized. Financial and rehabilitation support for affected employees are being provided and also extended to the dependents of the employees who have unfortunately succumbed to the infection.

During the lockdown in the first quarter of FY21 your Company continued to pay the salaries to all the employees including the contract workmen without any deduction and also on time. Notwithstanding the second wave of pandemic causing widespread lockdown, your Company has released increments to all employees for FY22 effective from 1<sup>st</sup> April 2021 as also the performance linked variable pay.

The industrial relations across all the manufacturing units has been by and large cordial except in Kharadi Unit which is under lock-out since Nov 2020 due to illegal sit-down strike by the workers. The management is making their best efforts to restore the normalcy in Kharadi factory through Company has got adequate alternate capacities in other Factories. The financial impact is not expected to be material. Long term settlement was concluded during the year for Coimbatore Unit.

### **FUTURISTIC STATEMENTS**

This report may contain certain statements, which are futuristic in nature. Such statements represent the intentions of the Management and the efforts being put in by them to realize certain goals. The success in realizing these goals depends on various factors both internal and external. Therefore, the investors are requested to make their own independent judgments by considering all relevant factors before taking any investment decision.