

## EXTRACTS OF BOARD'S REPORT

### (Including Managements' Discussion and Analysis Report)

Your Directors have pleasure in presenting their Sixty First Annual Report, together with the Audited Accounts of the Company, for the year ended 31<sup>st</sup> March, 2017 as follows:

#### FINANCIAL RESULTS (STAND ALONE)

(Rs. in crores)

	2016-17	2015-16
Sales (inclusive of excise duty)	1683.06	1558.82
Other income	6.74	10.37
Exceptional Income/(expense)	1.77	(3.74)
EBIDTA (before Exceptional Income)	201.65	193.27
EBIDTA (Including Exceptional Income)	203.42	189.53
Profit/(Loss) before tax	172.99	166.80
Tax Provision	29.99	51.17
Net Profit/(Loss) after Tax	<b>143.00</b>	<b>115.63</b>
Other Comprehensive Income (Net of Tax )	-0.43	-0.79
Total comprehensive Income	142.57	114.84
Transfer to General Reserve	15.00	12.00
Dividend paid /Proposed Dividend (including tax)*	0.00	37.83
Surplus carried to balance sheet	<b>127.57</b>	<b>65.01</b>

\* Please see para (g) under Review of Performance

#### REVIEW OF PERFORMANCE:

- a. Each quarter of FY 16-17 witnessed different sets of external factors having a bearing on the overall economy including Your Company. The first quarter reeled under severe drought conditions across the domestic market due to deficient monsoon in the preceding couple of years. Owing to the arrival of bountiful monsoon during the second quarter, certain buoyancy was seen till October 2016, the beginning of the 3<sup>rd</sup> quarter. A few key geographies like Tamil Nadu, Kerala and parts of Karnataka continued to suffer under severe drought conditions. The demonetization initiative in November 2016 sucked the liquidity in the market leading to sharp decline in consumption both in November and December. This adverse impact continued in the fourth quarter also, except for players who adopted different strategies to attract consumers and to tap the release of pent up demand of the previous quarter. Your Company tailored its strategies in each of these situations and could deliver a domestic growth of around 8%. The YoY growth for the fourth quarter alone was 22% reflecting the resilience of Your Company and its Brands. The overall growth was around 8% including exports.

- b. As compared to FY 15-16 the commodity prices hardened during FY 16-17; comparatively the capacity utilization was also moderate hampering full absorption of overheads. In addition some overheads arising out of absorption of the Kitchen Appliance Division under a Scheme of Demerger with Triveni Bialletti Industries P Limited (TBI) were accounted for. Notwithstanding all these factors the EBIDTA registered a moderate growth and EBIDTA margin was maintained at about 12%.
- c. As stated in the past years, your company does not follow a stand-alone margin led policy but is focused on growth with a fair long-term return on capital employed. In spite of substantial additions to manufacturing asset base in recent years the operating ROCE was maintained at a healthy 27%.
- d. The net profit after tax for the year was Rs.143.00 Crores. The net tax charge was lower as compared to previous year on account of reversal of excess provisions/MAT credit arising out of the retrospective appointed date of 1.4.2012 provided under the Scheme of Arrangement with TBI. Hence the stand alone EPS was Rs 122.81(PY Rs 99.33)
- e. Your Company continued to be debt-free as at the end of 31st March, 2017 and was carrying significant net free cash after investing Rs. 97 Crores in the UK subsidiary.
- f. As shareholders are aware Your Company acquired through its UK subsidiary the business of Horwood Homewares Limited effective from April 2016. On a consolidated basis taking into account the performance of UK Subsidiaries, the Sales was Rs. 1837.01 crores EBIDTA was Rs.221.60 Crores and EPS Rs.133.23.
- g. Your Board had already paid an interim dividend of Rs.15/- per share for the FY 16-17; a final dividend of Rs.12 is now recommended by your Board.

To sum up, your Board of Directors is of the view that the current year performance is commendable in the background of various external factors described earlier as well as continuing dismal global economic conditions. The market share of the key product categories was maintained across geographies. The e-commerce channel contribution to total sales is on the increase and is less disruptive.

A detailed analysis is provided under the section 'Management's Discussion and Analysis' forming part of this Director's Report

## **MANAGEMENTS' DISCUSSION AND ANALYSIS**

### **A. ECONOMY /INDUSTRY SCENARIO**

The overall domestic economic scenario was somewhat chequered. Government's initiatives to unearth black money, though beneficial for the economy in the long-run, impacted liquidity in the short-run dampening the Private Final Consumption Expenditure. Despite a good monsoon benefiting major parts of India the trickle down to consumption was moderate. As mentioned earlier certain geographies in the southern states continue to suffer from severe drought conditions. The global picture was also not encouraging.

Specific initiatives of the Government such as providing gas connections to BPL families, direct cash benefit transfer etc., and the rural and infrastructure thrust envisaged under the Union Budget for 2017-18 coupled with a normal monsoon can drive up the GDP growth in FY 2017-18. The proposed implementation of GST from 1<sup>st</sup> July 2017 is expected to augur well for the organized players in the long-run.

Your Company predominantly operates in the kitchen appliances segment with a wide range of product categories. The product categories consist of Pressure Cookers, Cookware, Gas Stoves and Domestic Kitchen Electrical Appliances. The market for Pressure Cookers is shared amongst organized national branded players, regional players and unorganized players. Over the years, the share of the unorganized players has been gradually coming down as there has been a shift in the consumer preference to reliable branded products. The market for organized brands is estimated at about 60% of the total market. The share of unorganized players is greater for cookware as compared to pressure cookers. For the rest of the product categories, the market structure is fragmented and the share and the role of regional brands and unorganized players continue to be significant.

As mentioned in the last year's Annual Report your company is entering categories adjacent to Kitchen thus expanding the business to cover select home appliances and requisites keeping in view the 'mind share' of your Company's core customer, the home maker, and building around the

trust and goodwill your Company and its brands enjoy with its core customer base. This extended segment would henceforth include Cleaning Solutions, Irons, Lanterns, Water filters etc., Each of the product-line within the Home portfolio has competition both from organized and unorganized players. Your company's focus is to bring in upgraded differentiated products at several price points to get a sizable addition to the overall turnover of the Company to start with and establish a decent market share in the long run.

Continued sluggish economic scenario is hampering spend from core middle-class giving room for down-trading by some regional brands and cropping up of some unorganised players. As a result value added products in general witnessed a better performance.

The kitchen appliance category is also witnessing entry of quite a few players - regional, national as well as global players who have brand strength mostly in non-kitchen appliance business.

Going forward, proactive innovation and product differentiation will be the key to stay ahead in the market place.

## **B. OPPORTUNITIES, THREATS AND COMPANY'S RESPONSE**

Shareholders are aware that the Company operates out of its core strengths of brand, innovation, design, manufacturing, distribution, sourcing and service capabilities and more importantly 'Customer Engagement'.

### **a. Opportunities within the Kitchen Domain:**

The core vision of the company has been 'A Prestige in every Indian Kitchen'; the core mission being 'Quality products at affordable prices'.

Driven by the above vision duly supported by the strengths outlined earlier your Company has been continuously broad basing its product offerings, customer segments and geographical coverage. Continuous interaction with the ultimate user of the product has been helping your Company in identifying the pain points and offering solutions in the form of innovative products, concepts and consumer offer of bundled products for a holistic use. This focus helps your Company to create opportunities even in the face of depressed consumer sentiment.

Given the fact that vast sections of Indian homes are to yet to equip their kitchens with various products- whether unbranded or branded- there is a significant opportunity in the long-run for every product category of Your Company in the kitchen domain. Your Company's growth over the last decade has largely come from tapping urban markets and offering innovative products at price points relevant to this consumer segment. Aided by the State policy of providing LPG connections to rural households and electrification of rural areas across India, rural markets are expected to drive growth in the coming years. Your company has geared its innovation efforts to offer a slew of products to the rural segment with appropriate price points.

Your Company is slated to launch around 100 new SKUs in the financial year 2017-18

Your Company continues to see a significant opportunity to increase its share of business in the non-south markets.

### **b. Opportunities adjacent to Kitchen Domain:**

As outlined in the earlier sections of this report, Your Company has been constantly in the lookout for offering products adjacent to the Kitchen Domain keeping the mind-share of the core customer. The response from the few markets where the products have been placed has been encouraging. These adjacencies can become a growth driver in the years to come.

### **c. Opportunities outside India: -Overseas Acquisition/Export Thrust**

Shareholders are aware about the acquisition of the branded business of Horwood Homewares Limited through the overseas subsidiary TTK British Holdings Limited. Your Company is expected to leverage this acquisition for developing global business. Any further opportunity, appropriate to the size of Your company will be examined. Your Company has kept all its India based manufacturing facilities 'export ready', by meeting all good manufacturing practices. These are

expected to drive white-label exports as well as exports to overseas brands acquired by Your Company. Your Company envisions to be a significant part of "Make In India" policy of the Government of India.

**d. Channel Management and Service Network:**

Over the last few years the method of reaching the ultimate consumer is undergoing a churn. Every channel – traditional dealers, modern format stores, exclusive retail network or online stores – is rediscovering and re-orienting itself to maximize footfalls. This process has thrown in opportunities as well as conflicts besides disruptions. Your Company is fully seized of the situation and has put in place strategies to leverage every channel to reach the ultimate consumer.

Prestige Smart Kitchen network continues to provide a significant contribution to the total domestic sales. Current focus is on consolidation and rationalization based on quality of the network rather than quantity. The. Due to this process, the same store growth has been satisfactory. The current strength of the network is 531.

Your Company is continuing the process of strengthening the service network and call centre operations so as to ensure timely service and build customer loyalty. It also provides the platform to increase sale of original spares. Current strength of the service network is 254.

**e. Threats:**

While there are vast opportunities in the Domestic Market, threats can continue in the form of unorganized sector and irrational discounting by regional brands. As the entry barriers are low, any lag in innovation can impact growth. In the short-term, GST implementation can cause some disruptions though transient.

**C. 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:

(In Rs. Crores)

	2016-17			2015-16		
	Domestic	Export	Total	Domestic	Export	Total
Pressure Cookers(including Microwave Pressure Cookers)	561.11	34.35	595.46	522.45	34.15	556.60
Cookware	274.43	5.91	280.34	272.69	2.53	275.22
Kitchen Electrical Appliances	491.69	0.89	492.58	446.73	1.09	447.82
Gas Stoves	229.86	0.89	230.75	209.53	1.40	210.93
Other Kitchen items	58.49	1.06	59.55	61.11	0.82	61.93
<b>Home Appliances</b>	24.38	0.00	24.38	6.32	0	6.32
<b>Total</b>	1639.96	43.10	1683.06	1518.83	39.99	1558.82

- Domestic Sales grew by about 8% and the Export Sales by 7.8%.
- The Pressure Cooker and cookware category registered a growth of 6.98% and 1.86% respectively. The lower growth was due to depressed market conditions in parts of South India as well as subdued demand for non-premium products.
- Gas stoves recorded a growth of around 9.5% while kitchen electrical appliances grew by around 10%.
- 'Cleaning Solutions' introduced in select markets for part of the year was received well and contributed around Rs.13 crores to the Sales.

- e. The EBIDTA before exceptional items margin for the year was about 12% as compared to 12.40% in the previous year. This marginal drop was caused by the factors already mentioned earlier in this report.
- f. The overall pay-roll cost ratio to Sales was around 7.16% as compared to 7.07 % in the previous year.
- g. The interest cost during the year was Rs.5.13 crores (PY Rs.1.84 crores). The higher interest outflow was on account of higher transitional borrowings. The Company continued to be debt free and carried a sizeable cash balance at the year end.
- h. Your Company has over the last three years substantially reduced its dependence on imports which has a positive impact on margins and cash-flows. Working capital efficiency improved as compared to the previous year.
- i. During the year under report your Company introduced around 109 new SKUs covering Pressure Cookers, Induction Cook Tops, Mixer Grinders, Rice Cookers, Gas Stoves and other small electric/non-electric appliances and cleaning solutions. All these introductions received good response.
- j. PSK network was consolidated and rationalized where necessary. The number of outlets as at 31.3.2017 was 531.The network now covers 26 States and 302 towns. The spread of the network is also evenly distributed between Metros, Mini-Metros, Tier 1, Tier 2 and Tier 3 cities. About 65% of the Stores are located in South and the balance in Non-South.

## **2. Properties & Investment :**

The shareholders are aware that Your Company has handed over the development of the Dooravani Nagar, Bangalore property to Rajmata Realtors (Salarpuria) for developing an office cum residential complex. Your Company has completed arrangements for monetizing its share of rights and the proceeds have started to flow in and expects completion of realization of proceeds during the FY 17-18. Accrual of income from this source will be reflected in the quarterly results from the first quarter of FY 17-18.

## **3. Overseas Subsidiary & Consolidated Results:**

As the shareholders are aware Your Company through its wholly owned subsidiary TTK British Holdings Limited, acquired the ultimate operating subsidiary Horwood Homewares Limited, UK. This acquisition was made in April 2016, prior to the impact of Brexit. It is heartening to note that this business withstood the shock of Brexit and delivered a sale of GBP 16.2 million with operating EBIDTA of GBP 2.3 million. The UK operations are managed by the whole-time directors and senior management based in UK. The consolidated statement of results is separately attached to this annual report.

## **D. OUTLOOK**

The Central Government Budget for 2017-18 has a major thrust on rural economy including investments in infrastructure and direct transfer of subsidies. The overall consumer sentiment is expected to pick up. The demonetization and the digital payment policies coupled with the expected implementation of GST is expected to drive the formal economy and render the market more organized. Depending on the progress of a normal monsoon and the impact of the Central Government's budget on rural economy and infrastructure, a GDP growth of 7.5% is expected. All these augurs well for the overall economy. Your Company's specific plans such as category expansion, market expansion to enlarge its customer base in select rural areas, global and export initiatives, etc., can help Your Company to grow at a better pace than the economy,

## **E. RISKS AND CONCERNS**

The various general economic risks and concerns which can impact your Company have already been outlined in the preceding sections. The concerns largely center on external factors. Your Company is continuously improving its efficiencies and is hopeful of dealing with the various challenges described in the preceding sections. Your Company will not compromise on the objective of growth and improving market share for the sake of short-term profits.

## **F. RISK MANAGEMENT**

Your Company has developed and implemented a Risk Management Policy which includes identification of elements of risk, if any, which in the opinion of the Board, may threaten the existence of the Company.

Your Company has a risk identification and management frame work appropriate to the size of your Company and the environment under which it operates.

Risks are being continuously identified in relation to business strategy, operations and transactions, statutory/legal compliance, financial reporting, information technology system and overall internal control framework.

Your Company is utilizing the services of independent professional management auditors for advising the Company on a continuous basis on contemporary risk management framework appropriate to the size and operations of the Company. They are also carrying out risk audit on a periodical basis.

Your Board is periodically reviewing the broad risk frame work to ensure that there is a dynamic process to capture and measure key elements of risks.

## **G. SHARE CAPITAL**

The paid up equity share capital as on 31<sup>st</sup> March 2017 was 11.66 Crores (PY 11.65 crores). During the year 9979 equity shares were allotted to the shareholders of Triveni Bialetti Industries (P) Limited pursuant to the Scheme of Arrangement sanctioned by the Hon'ble High Courts of Madras and Bombay. The Company has not issued any shares with differential voting rights nor granted stock options nor sweat equity.

## **H. FINANCES**

Your Company continues to generate substantial post-tax operating free cash flows and the same have been applied to meet capital expenditure besides other uses including retirement of debt and payment of dividend. Your Company on a standalone basis continued to be debt-free and at the end of the year carried cash and cash equivalents of around Rs.14 crores and short term investments of around Rs. 75 crores after investing Rs.97 crores in the UK Subsidiary.

## **I. INVESTMENTS**

Global standards in every respect – technology, manufacturing processes, green initiatives and governance During the year Your Company invested an amount Rs.97 crores in the wholly owned UK subsidiary, TTK British Holdings Limited in order to acquire through them Horwood Homewares Limited, being the ultimate operating subsidiary in UK. Other than this Your Company carries short-term investments in mutual funds as a part of treasury operations.

## **J. INTERNAL CONTROL SYSTEMS**

Your Company has necessary Internal Control Systems in place which is commensurate with the size, scale and complexity of its operations. Your Company is continuously making improvements in internal control systems keeping in view the increasing level of activities. Independent team of Internal Auditors/Management Auditors are carrying out internal audits and advising the management on strengthening of internal control systems. The reports are periodically discussed internally. Significant audit observations and corrective actions thereon are presented to the Audit Committee.

## **K. DEVELOPMENTS IN HUMAN RESOURCES**

In pursuit of the Long-Range Plan, your Company has forayed into overseas markets by establishing a subsidiary in UK. Your company is also expanding its operations beyond kitchen. Having due regard to entering new frontiers your Company has implemented strategic HR initiatives covering talent management, leadership development, succession management etc. The in-house Human Resource Department is constantly being strengthened. A host of people development programmes are put in place on a continuous basis.

The industrial relations across all the manufacturing units has been cordial.

The direct employment strength stood at 1295 as compared to 1217 in the previous year.