



“TTK Prestige Limited 3QFY2017 Results
Conference Call Transcript”

January 31, 2017



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- Moderator:** Ladies and gentlemen, good day and welcome to the TTK Prestige Limited 3QFY17 Results Conference Call hosted by Ambit Capital Limited. 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 the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anuj Bansal from Ambit Capital. Thank you and over to you Sir!
- Anuj Bansal:** Thanks everyone for taking time out for this call. We are happy to host Mr. Jagannathan and Mr. Shankaran from TTK Prestige. We will start this call. Over to you Mr. Jagannathan to take the call forward and for your opening remarks.
- T.T. Jagannathan:** Thank you. It was a difficult quarter as we all know, but we had a very good October. In October we actually grew about 20% over last year and then November 8th came demonetisation and the sky fell down. Thereafter, it was very tough because collections were not coming, cash was tight in the market. So, November loss was serious. The December loss was very small, but because of the serious November loss the quarter remained more flat, about 1% down. The bottom line hit a drop because of three reasons. Firstly, if the top line is flat then the bottom line drops because overheads keep increasing. Secondly, this year there was higher interest and depreciation charge of around Rs.10 million as compared to last year. Lastly, material prices were high this quarter compared to the same quarter last year. I am open to questions.
- Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. Anyone wishing to ask a question may please press "*" and "1" on your touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take the first question from the line of Mr. Ravi Swaminathan from Spark Capital. Please go ahead.
- Ravi Swaminathan:** Thanks for taking my question. A tough quarter it was. If you can give a flavour as to post November directionally how things are improving? How the month of January especially is?
- T.T. Jagannathan:** Like I told you, December we were flat. November was about 30% down. In January, I think it is about 17% up.
- Ravi Swaminathan:** That is a good growth number Sir. During this quarter, we had seen a significant sharp decline in the cookware business by 7%. Was there a particular hit because of that?
- T.T. Jagannathan:** There were two reasons. One is the gifting came down sharply because of demonetisation. Secondly, there was a huge institutional order last year for cookware and this year there was no order. Unfortunately, that happened in the month of December.



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- K. Shankaran:** As you know, November was a marriage month in most parts of India and because of the cash shortage the festive season consumption was lost. November was an aberration. In December, we started getting back to normalcy, we are seeing growth in January 2017 and it should look upwards from now onwards.
- Ravi Swaminathan:** Okay. If you can give a flavour of growth or at least directional sense in gas stoves, mixer/grinder as in appliances segment?
- T T Jagannathan:** In spite of the quarter being bad, gas stoves and mixer/grinder grew.
- Ravi Swaminathan:** Okay. Was it the function of the premiumisation which is continuing to happen or volume increase also was there?
- Chandru Kalro:** There was volume increase in mixer/grinder. There is premiumisation in gas stoves, which is also making that business grow. We have had growth in all our small domestic appliances. There has been a problem only in the cookware business because of the wedding season in November. As you know, it is the peak wedding season, just post Diwali, and that is when the demonetisation had hit.
- Ravi Swaminathan:** Okay. Regarding South, we understand that there has been a lot of impact because of Vardha cyclone and on the political upheaval here, but are you seeing improvement from such a low base in South?
- Chandru Kalro:** For two years in a row now we have had one or the other issue in December unfortunately. Yes, we can say that we bounced back in most markets in the South as well. In fact, it is only Tamil Nadu which is having problem, the rest of the South is actually doing quite well. Even Tamil Nadu has started to bounce back.
- T.T. Jagannathan:** In Tamil Nadu, for four months, we had Vardah, we had Jayalalitha, we had demonetisation, then we had jallikattu.
- Ravi Swaminathan:** Yes, correctly Sir, that had impacted. Regarding Horwood, if we do a simple calculation, margins have seen an improvement in Horwood. Sequentially also we have seen a growth. What kind of growth is sustainable and what kind of margins we would be aiming at?
- T.T. Jagannathan:** The margins have gone up in this quarter. In long term, this won't be sustainable because Horwood took a price increase to balance the depreciation of the Pound. Horwood was hit till middle of the quarter, while it got the benefits of the price increase for the full quarter. Horwood only had the problem of the depreciation in the Pound for half the quarter. This has kind of equalised in terms of gross margin. Going forward, what Horwood is trying to do is add to the product line and see how it can get the top-line growth. The top-line growth in these kind of markets are all in single digit as you know. These are not markets that grow very fast, very low single digit. England is actually now only starting to come to grips with the Brexit scenario



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because most companies were hedged till almost November. So the inflationary pressures will start going up only in this quarter of January to March that is when we have to see how things pan out.

Ravi Swaminathan: Okay. But would we try and increase exports from India?

T.T. Jagannathan: We are starting to supply products from India.

Ravi Swaminathan: Okay, got it. We had in September quarter some Rs.1,200 million of long-term debt, in the recent press release you had mentioned that we had hedged. So have we paid off all the debt related to Horwood acquisition?

K. Shankaran: . For TTK Prestige standalone, we do not have debt as of today. We have got Rs250 million cash.

Ravi Swaminathan: Okay. The debt which is there at the international level, how much it would be?

K. Shankaran: That is about 14 million pounds, which carries an interest cost of 2.5%.

Ravi Swaminathan: Okay, thanks.

Moderator: Thank you. We will take the next question from the line of Arnav Mitra from Credit Suisse. Please go ahead.

Arnav Mitra: Sir, on the gross margin the decline that we see YoY is it mainly due to the mix or are you also seeing pressure from the aluminium increase and have you taken pricing to pass on that impact?

T.T. Jagannathan: There are four reasons for the gross margin decrease. One is, when the turnover does not go up costs keep going up, so the gross margin comes down. Second, you are right, material prices were up over the last year. Third, there is a mix also; higher the share of appliances, higher the material cost. Lastly, we comparatively had a higher interest and depreciation so the margin came down.

Arnav Mitra: And on the material cost, have you taken price increases and do you think there is going to be further impact going ahead in the next couple of quarters on the input cost side hurting your margin?

T.T. Jagannathan: We are in the process of taking price increase now. I cannot predict what will happen in the next two quarters.

Arnav Mitra: Okay. You mentioned in the beginning that January has seen a 17% growth, so is this representative of what you might be expecting or has there been some pipeline refilling which



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has driven this? What I am trying to understand is do you think consumer offtake growth is so strong in January or there is a bit of pipeline here getting refilled?

T.T. Jagannathan: No. Consumer offtake growth is strong.

Arnav Mitra: And it has been reasonably evenly spread across the geographies in terms of this kind of a double-digit plus momentum?

T.T. Jagannathan: Yes.

Arnav Mitra: Okay Sir, thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Kalpesh Gothi from Veda Investments. Please go ahead.

Kalpesh Gothi: Good afternoon Sir. Can you give me how much Tamil Nadu contributes to our top line?

Chandru Kalro: Around 15%.

Kalpesh Gothi: Okay. Can you give me the break-up of South and non-South revenue growth or decline?

T.T. Jagannathan: Similar growth in the last nine months. By and large, the ratio is 50:50 now.

Kalpesh Gothi: Okay. You just said in your previous answer that we have taken a price hike in the UK. How much percentage?

T.T. Jagannathan: 15%. It is huge in the UK.

Kalpesh Gothi: Right. The aluminium price has gone up. When did we take our last price hike in the domestic market?

T.T. Jagannathan: Two years ago.

Kalpesh Gothi: Okay fine, thank you Sir.

Moderator: Thank you. We will take the next question is from the line of Janish Shah from Quantum Advisors. Please go ahead.

Janish Shah: Good afternoon Sir. I have broader questions not particularly to this result. It is related to the Horwood acquisition. You had acquired that business and it has been generally delivering around 15% margins and the acquisition cost was reasonable. My question is that what kind of a synergy do you see going forward from this business and in terms of acquisitions what kind of a strategy the management is going to follow going forward as far as inorganic growth is concerned?



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T.T. Jagannathan: I will answer your second question first. We have a very simple philosophy for acquisition. We have had four points. First, the company will be profitable. Second, if they are good brands. Third, if they have good management. Lastly, it should not have manufacturing. If it meets these conditions, if the cost of acquisition is reasonable enough for us to swallow without hurting the parent company then we will acquire. To answer your first question, the synergies are enormous because Horwood is in the same business as we are in. They are right now restricted to the geographies of the UK. With our manufacturing facilities available in India, we plan to expand such geography throughout Europe and USA.

Janish Shah: But the fact is that TTK Prestige generally has been catering to the domestic market and growth rate and potential for domestic market is significantly higher than acquiring any business in the developed market?

T.T. Jagannathan: I disagree completely. If you see, the UK market will be growing by 2%, but if I add Europe and the UK, it will grow substantially in%. Right now, Horwood is only in the UK. If you add Europe to the UK market and look at the growth that is what we are planning to do.

K. Shankaran: If I understand your question correct, when there is opportunity in the domestic correct, why do you want to acquire, am I right? First of all, we need to derisk the company from every single respect. So if we had not added UK this year, we would not have added around Rs.150 crores to topline on a consolidated basis. Therefore, we must look at the opportunities and the size of acquisition. It is not that we are losing focus on India. Our Chairman said very clearly that we look at it we have to have a strong local management. We do not want to manage from India and spread ourselves thin. Our focus on domestic will be more than 200%. Therefore, I think there is no need to worry about acquisition distracting us.

T.T. Jagannathan: These acquisitions are not at the cost of the domestic market focus. We need to have proper synergy for us in every respect, whether it is manufacturing or sourcing or otherwise.

Janish Shah: Okay, thank you very much Sir.

Moderator: Thank you. The next question is from the line of Chandra Gopal from JM Financial. Please go ahead.

Chandra Gopal: Good evening Sir. I just wanted to understand the impact of demonetisation. In North, we heard that people were decreasing the stocks and excess cash was given to the company for corrections. Was it the case with you also Sir?

T.T. Jagannathan: No. We asked them to deposit cash in their bank account and give a cheque to us.

Chandra Gopal: Okay. In case of Horwood, what was the revenue growth number for the nine months, if you can share?



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- T.T. Jagannathan:** They have not grown actually this year. They dropped by about 5% because of the Brexit largely.
- Chandra Gopal:** Okay. You mentioned in the release that value-added products and high-end products, new introductions continue to grow, if you can throw some more light on that aspect?
- Chandru Kalro:** We have launched a new range of pressure cookers for the Clip-On range of pressure cookers. That along with the fact that our stainless steel and hard anodized pressure cookers have done very well this year, the model mix has improved dramatically. With no price increases, the average realisations are up by 9% per unit. The model mix is significantly better than last year.
- Chandra Gopal:** Okay. Again on the cleaning segment, what are the updates now, how are we doing there?
- Chandru Kalro:** For the cleaning segment, as we told you last time we are building the distribution, setting up platform. Every month is a new high in terms of turnover. So it is a constantly growing business. As we said, we will need four to six quarters before we can actually put a number on how much we can attempt, but so far we have had a very good response to our products and the distribution is happening across.
- Chandra Gopal:** Great Sir. Thank you so much. All the best.
- Moderator:** Thank you. The next question is from the line of Anuj Bansal from Ambit Capital. Please go ahead.
- Anuj Bansal:** Sir just continuing on the new product launch aspect itself. Given all the disruption that was caused by demonetisation, have you deferred your new product launch plans or are you continuing the way you had planned initially?
- T.T. Jagannathan:** We are continuing in the way we had planned initially.
- Anuj Bansal:** What kind of growth can we expect if you can give some kind of guidance from new product launch?
- T.T. Jagannathan:** We are trying to bet back to double-digit growth going forward.
- Anuj Bansal:** Right. New product launches are going to be a significant part of that growth or this is the growth which you expect from your existing line itself and new product launches should be over and above this kind of growth that you are targeting?
- T.T. Jagannathan:** This includes new products.
- Anuj Bansal:** Okay. The second question that I had for you was that you have been working very aggressively in your e-commerce strategy. So in light of what demonetisation did, I believe e-commerce for most companies has actually helped them during this period. Are you looking to not accelerate



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your e-commerce strategy from here on or are you continuing it the way you were doing it earlier?

T.T. Jagannathan: You are absolutely right. Even in the phase of all these problems, the e-commerce grew, and our e-commerce is growing every month. We are going about with this focus in the same way as we were doing earlier. If nothing, as you correctly said, we might accelerate a few things.

Anuj Bansal: Could you just refresh, in case if you have shared it earlier, what is the kind of sales contribution you are targeting from e-commerce over a medium to longer term?

Chandru Kalro: Currently it is between 4% and 5%. We are looking at that going to 7% to 8% quickly.

Anuj Bansal: Right Sir. My final question is around the fact that we were looking for bringing in some products from the UK into India. Any guidance that you can give around the timeline and what kind of products are we looking at, in general anything you can share around that aspect as well?

T.T. Jagannathan: I do not know where you got that information. We are not at all looking at bringing products from the UK to India. On the contrary, we are looking at taking products from India to the UK.

Anuj Bansal: So that is around the capacity utilization point of view, right? You are looking to manufacture certain products using Indian capacity and export it to the UK.

T.T. Jagannathan: Yes.

Anuj Bansal: But in terms of product ideas, are you looking to bring in any product ideas from the UK into India?

T.T. Jagannathan: We bring product ideas from the world to India, why the UK alone?

Anuj Bansal: All right Sir, great to know. Thank you.

Moderator: Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Thanks for taking my question. I just wanted to understand this recovery that you had indicated in January, is it across all the categories or is it in cookware in specific or in any specific category?

T.T. Jagannathan: It is across categories and across geography.

Avi Mehta: Okay. Just on the Horwood bit, is there seasonality in sales. Margins you have indicated that this quarter is not the right number to assume going forward, but in sales is the run rate that we saw in Q3, is there seasonality over here, because first quarter was a very low number, then second and third quarters have been similar broadly, so how should I look at the fourth quarter Sir?



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- Chandru Kalro:** . The period of April to June is lower, that is the low quarter The quarter October to December is higher due to Christmas and New Year seasons..
- Avi Mehta:** So, Q4 and Q3 are the best quarters?
- T.T. Jagannathan:** Yes.
- Avi Mehta:** Okay Sir. Lastly, if I look at the base quarter, that is Q4, in the employee cost there was a sharp reduction that we had seen in Q4FY16. If you could help me just recollect what was the reason for that? Typically there is a decline that we see on a Q-o-Q basis.
- T.T. Jagannathan:** . Basically what happens is that when there is lower capacity utilization in the fourth quarter, we do away with contract labour, casual labour and overtime. Therefore, there is reduction in basic labour cost in those months. It depends upon the level of activities during the fourth quarter.
- Avi Mehta:** So, we should see a similar trajectory even here or has demonetisation tuned that?
- T.T. Jagannathan:** In the fourth quarter it will go down.
- Avi Mehta:** Okay, we should see a similar trend. Thank you very much. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.
- Sameer Gupta:** Good afternoon Sir. Most of my questions have been answered. I just wanted to clarify, the 5% drop in Horwood for the nine months is in constant-currency terms right?
- T.T. Jagannathan:** Yes.
- Sameer Gupta:** So what it would be after taking into account the Pound depreciation?
- T.T. Jagannathan:** That really does not apply. Yes, there is 15% depreciation in the pound from the time we went in and then post Brexit.
- Sameer Gupta:** Let me just clarify again. The currency does not impact the business, the model is such?
- K. Shankaran:** Indirectly it does. Let me give you a clarity. We acquired the company only in April, so we are trying to compare with the period before acquisition. There has been a drop of 5% over the previous year. That was largely due to the Brexit effect, where the goods have become expensive across the UK. Therefore, there has been a little bit of consumer slowdown in the UK that has affected the growth.



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Sameer Gupta: Okay. Secondly, could you just give a sense on your distribution, how much of it is through wholesale and how much of it is through modern date direct retail and those lines?

T.T. Jagannathan: We do not do any wholesaling. We sell through our own distribution. Let us say, the traditional trade is about 55% of our business. Modern format is about 20% of our business. We have our own retail which is about 15% of our business. The balance is e-commerce and institutes.

Sameer Gupta: Okay, that is great. Thank you, that is all from my side.

Moderator: Thank you. The next question is from the line of Arnav Mitra from Credit Suisse. Please go ahead.

Arnav Mitra: Couple of followups. On the Prestige Smart Kitchen (PSK), did you see any different kinds of growth in December-January versus rest of the trade? I was trying to understand if there was any down stocking or something in the earlier part?

T.T. Jagannathan: The PSK has actually had a slightly better performance in the traditional trade because remember we accepted cards right from the beginning. The sales did not drop to that extent as it did in the traditional trade. Where I think the problems happened was in the traditional trade where cash was the issue.

K. Shankaran: Again, retail customers use more cash in the traditional retail outlets. In PSK, customers largely use credit cards.

Arnav Mitra: Sure. Lastly, on competitive intensity, did you see any reduction in the intensity from the local players due to demonetisation and how has that trended after November?

T.T. Jagannathan: We will probably see that effect a little going forward because they were already in the market by November. If anything, they would have probably gone and stocked up with the wholesale because they were all cash business.

Arnav Mitra: Sure. Maybe with a little bit of lag there could be some impact.

T.T. Jagannathan: It will happen from hereon going forward.

Arnav Mitra: Sure. Thanks Sir, that is it from my side.

Moderator: Thank you. The next question is from the line of Janish Shah from Quantum Advisors. Please go ahead.

Janish Shah: Could you just give us a flavour regarding the distribution? Was there a requirement for you to hold your distributors and maybe extend the credit period or something like that, which has happened to you in this period?



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- T.T. Jagannathan:** There was a demand for that, but we refused.
- Janish Shah:** Okay. On the company side, there was not much of a stretch on the working capital, what has happened?
- T.T. Jagannathan:** No. We did not change it first of all. In fact we refused the supply unless payment was given for the earlier credit.
- Janish Shah:** Okay. Thank you very much.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Anuj Bansal for his closing comments.
- Anuj Bansal:** We would like to again thank Mr. Jagannathan and Mr. Shankaran for doing this call with us. I would like to handover the call to Mr. Jagannathan for any closing comments that he may have.
- T.T. Jagannathan:** I want to thank all the participants for the patient hearing they have given us and let us hope for the best. Let us hope demonetisation effects are over.
- Anuj Bansal:** Thank you Sir. With that, we would like to close the call now. Thank you everyone for participating.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Ambit Capital that concludes today's conference. Thank you for joining us and you may now disconnect your lines.