



“TTK Prestige Limited 2QFY22 Earnings Conference
Call hosted by Ambit Capital”

October 27, 2021



MANAGEMENT: **MR. T. T. JAGANNATHAN – CHAIRMAN**
MR. CHANDRU KALRO – MANAGING DIRECTOR
MR. K. SHANKARAN – WHOLE-TIME DIRECTOR
MR. R. SARANYAN – CFO
MODERATOR: **MR. DHRUV JAIN – AMBIT CAPITAL**



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Moderator: Ladies and gentlemen, good day and welcome to the TTK Prestige Limited 2QFY22 earnings conference call hosted by Ambit Capital.

As a reminder, all the participants' 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 touch-tone phone. Please note that this conference is being recorded.

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

Dhruv Jain: Welcome to TTK Prestige's 2QFY22 earnings call. From the management side, today we have with us Mr. T. T. Jagannathan, chairman of the company; Mr. Chandru Kalro, the managing director; Mr. K. Shankaran, the whole-time director; and Mr. R. Saranyan, the CFO of the company. Thank you sir and over to you for your opening remarks.

Chandru Kalro: Good afternoon everybody and thank you for coming. We have had obviously a blockbuster quarter as you would have seen the results by now. This has been our best ever quarter. It has been best in many many ways. First thing is that we have had a stupendous back volume growth, and we have had a good bottom line growth as you see under some very challenging circumstances of raw material price increases, and in spite of that, we have been able to actually expand our margin base and we are well placed for the season retail as we are speaking. Overall, every single parameter in terms of all our core categories has grown excellently. Now, we await your questions whatever may be there.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Congrats on a good set of numbers. My first question is with respect to the value and volume breakup. I know multiple products are there. Roughly if you can give a value/volume breakup.... To put it in perspective, what was the kind of price increase that we would have taken on blended basis during the quarter?

Chandru Kalro: We have given you some value breakup in our release that you have seen. Anything more than that would not be favorable to give in terms of competition and other pressures, but to your second question on what kind of price increases we have taken, we have taken a price increase in Q2 in July which was between 5% and 8%, and there must be a little bit of a lag effect on that because there were old stocks as you know with the old MRP. So, some of it came in the last quarter and some of it did not come.



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Ravi Swaminathan: In the presentation that you had given to the BSE website, basically you have talked about under the going-forward section that there has been some amount of festive stocking which has happened and inflationary pressures are there. If you can give your views on whether there will be a growth period given the high base which was established in 2H FY21? Would we see growth over that in 2H FY22?

Chandru Kalro: You have absolutely hit the nail on the head. You are right. In the 1st half of this year, there is a base effect which is a lower base effect as compared to last year. It was a normal year last year in the 2nd half, and therefore, while we are not looking at substantial growth, we are certainly looking at growth and healthy growth.

Moderator: The next question is from the line of Resha Mehta from GreenEdge Wealth Services. Please go ahead.

Resha Mehta: Congrats for a good set of numbers. My first question is on the sales growth numbers. If we look at the 2-year CAGR for the sales growth for H1, it comes at around 8%. So, looking ahead at the festive season, what kind of growth rate is our aspiration for the full financial year and for the year going ahead assuming that there will be no Covid-related 3rd wave or disruption ahead?

Chandru Kalro: First, we don't give a guidance for the year, as you know. But when I say healthy growth rate, we are obviously looking at double digit plus in terms of growth rate for the year as well, but I don't want to give you a guidance.

Resha Mehta: My second question is in terms of our working capital. If we look at our working capital to net sales, that's somewhere around 25%. So, just wanted to understand do we use tools like dealer financing or vendor bill discounting, etc., to bring down our working capital? The reason I am asking this is that if we look at our peers in South, Stovekraft has around 10% working capital to net sales and so has Butterfly improved drastically over the last 1 year because of these channel financing tools. Just wanted to understand that.

Management: Have you read our balance sheet? We have got 550 crores in the bank earning 5%. Why would I want to go get finance it and pay 12%?

Resha Mehta: Sorry, I couldn't hear you. If you could repeat?

Chandru Kalro: The point being made is, you know there is a lot of cash that we are holding at this point in time, and therefore, we have actually decided to plough it back into the business with a view of getting much better returns on it rather than the treasury income that we would have otherwise got from it. Coming to the channel finance tools, we have got channel finance tools that are in place, but we preferred not to bring it into play at this point in time. Going forward, we will bring it into play ultimately. We have also used our capital to buy more raw material so that we



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are more protected with respect to the cost increases as well. So, I think even after whatever working capital you are seeing, you are seeing a very healthy return on that capital in spite of that.

Resha Mehta: If I were to ask this the other way, is there any scope for further reduction in our working capital?

Chandru Kalro: Certainly.

Moderator: The next question is from the line of Sameer Gupta from IIFL. Please go ahead.

Sameer Gupta: Just taking it further from the previous participant, while I also noticed that the 1st half performance versus 2 years ago is a growth of 8%. I also heard you on the CNBC TV that you have taken around 15% kind of price hike this year. That implies that on a 2-year basis, volumes are actually flat on the 1st half basis. Just one question here that overall volume growth on a normal base of 2 years back if it is flat, I would assume that the recovery is still not complete or there is further scope to recovery from here or this is the normal scenario now with all the price increases taken, there is a volume head that is also being in the consumer?

Chandru Kalro: 1) First of all, it is not true that the volumes are flat. There has been a significant growth in volumes in many of our core categories. 2) The 15% is not a blanket 15% across the board. It is between 8 or 6 to 8 and 15%. 3) All the price increases may not have come in the 1st half because of the inventory that we would have carried and there is a lag effect on that.

To cut the long story short, if your concern is are we above the volumes of pre-Covid, yes, we have very well crossed the pre-Covid volumes as we speak.

Management: In all the product categories.

Sameer Gupta: Just a followup to that. Could you break this into components of growth from new geographies and distribution versus existing distribution?

Chandru Kalro: I don't think we would like to give further details than that because it is sensitive to competition. It is safe for you to know that almost every single geography for us has been growing, in fact growing well. There has been an all-round growth for all channels also.

Sameer Gupta: Sir, another followup and this is not related to your company specifically. But in general, in a high inflationary environment, the unorganized or the smaller players face working capital challenges. My only concern is that this may be a transient issue, and as the inflation goes back to a more normal level, we might again feed some share to these smaller players.



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Chandru Kalro: If it was that simple, then they would have gained share by now, isn't it? We have still maintained leadership for so many years. The point is very simple. Our mantra for leadership is providing a much better value equation to the customer through innovation, through any of the other kinds of value additions that we provide in our products and that is the strategy we will follow going forward. The unorganized players typically put 'me too' products. That is not the way we operate.

Sameer Gupta: I will move onto the second question if I may. Gross margin when I look at it, there has been a steady rise in inflation in most of the commodities since the 3rd quarter of FY21 and yet we have seen a sharp gross margin contraction sequentially only in this quarter versus no major impact in the previous 2 quarters. So, just wanted to understand is it old inventory that we were carrying in the past 2 quarters? Is the quantum of price hikes lower than the inflation this quarter? Just wanted to understand this aspect in a more granular detail.

Chandru Kalro: First, let me tell you, you look at the 1st half of last year and then the 1st half of this year. It is almost identical. So, a quarter-to-quarter movement is not the best way to look at it because of exactly what you said, which is the old inventories lying, new inventories lying, lag effects of price increases, etc. So, if you look at the 1st half of last year and the 1st half of this year, you are looking at almost identical margin.

Moderator: The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: The first question is with respect to the RM cost inflation. We have seen that the aluminum prices particularly have actually gone up in the last month or 45 days. My question is, how much price increase more to be done in order to maintain or protect margin?

Chandru Kalro: I will answer this in a different way. We are committed to protecting our margins or coming as close to it for the full year going forward in spite of all these cost increases.

Management: We don't know how much more cost increase there is going to be.

Achal Lohade: When you say the current margin, you mean the 1st half margin or the 2nd quarter margin, sir?

Chandru Kalro: Last year's margin. I have always said, please evaluate us on an annual basis. Quarter to quarter is very difficult and has a lot of other things. Our plan is to protect our annual margins to the extent possible. And we have also stated that we would like to be within the band and I think we are well on course to be within that band.

Achal Lohade: Just a question on your comment in the PPT with respect to the channel inventory. Is the comment pertaining to the industry or the company's channel inventory which is stocked up?



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- Chandru Kalro:** Last year Diwali was on 14th of November. This year Diwali is on 4th of November. A sell-in to the channel pre-season would have happened more in the 3rd quarter of last year and this year that has happened in the 2nd quarter of this year. That is precisely what that line is trying to tell you because that is how markets work. That's an industry-wise phenomenon is what we think but we are speaking for ourselves here. I don't think we should speak for other people.
- Achal Lohade:** In terms of the competitive intensity, have you seen it now coming back or what happened in the last 18 months is kind of continuing even now?
- Management:** Where did it go?
- Chandru Kalro:** What is the competitive intensity? It was always there. I don't think it has gone away. The point is that if you see our margins, our profitability, our growth rate, it tells you what kind of branding and what kind of brand power we enjoy with the customers. I think that is pretty evident.
- Achal Lohade:** Last question, sir, if I may with respect to the new categories in terms of the clearing solutions and the other new categories, where are we and how the scale up has been?
- Chandru Kalro:** We are going as per plan only. There is a distribution expansion plan that is happening. Albeit, in some areas last year there was a base effect because some of those categories had gone up dramatically last year given the Covid had just hit us. Those ups and downs are there, but otherwise, we are well on course.
- Moderator:** The next question is from the line of Bharat Chhoda from ICICI Securities. Please go ahead.
- Bharat Chhoda:** Congrats on a good set of numbers. I had a query regarding our capacity. What is our current cookware capacity if you can share that?
- Chandru Kalro:** I think we would have released our press release to the exchanges. In the last quarter, we have actually commissioned our new spray line in Gujarat factory which takes our capacity roughly by about 60% to 70% from where it was. I am also happy to tell you that we are presently utilizing all of it.
- Bharat Chhoda:** And, sir, on the cooker capacity?
- Chandru Kalro:** Cooker capacity we have not added anything significant, though I think we have added shifts and therefore our production is up. Just to tell you, the amount of production that we have had is almost 70% more than last year's in terms of actual production recorded.
- Management:** In cookers, we are able to produce what we can sell.



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Moderator: The next question is from the line of Disha Sheth from Anvil Share & Stock Broking. Please go ahead.

Disha Sheth: Congratulations on good set of numbers. Our Other Expenses are lower quarter on quarter. So, I wanted to check, is this the trend which will continue because of the operating leverage we are getting or we have controlled certain expenses because of high raw material and it might spike up in the coming quarter?

Chandru Kalro: There is only a 1 percentage point drop and that could be due to many things really. If you look at our Other Expenses, it is 24.6 and 23.6, not very different. And if you look at the half, it is 24 and 24.1. So, there is no real significant change.

Disha Sheth: On cooker especially, how has the demand been and are we gaining market share since we are growing at a very good rate in the comparison?

Chandru Kalro: I am sure that the category didn't grow by the percentage growth that we have shown. So, we must have got share from somewhere.

Disha Sheth: Sir, can you repeat the volume and value growth for the quarter? I just missed that.

Chandru Kalro: No, I did not give any volume and value growth. All I said was that if you see whatever we have given in our release, that is about the best we can disclose at this point in time and what we have released is that for the quarter, we have grown by 44% in value for pressure cookers.

Disha Sheth: Sir, on an overall 5 years' basis, what is our sales growth target since we are introducing new products?

Chandru Kalro: We have already declared our stated commitment to reach 5000 crores by FY25 through organic and inorganic growth and we stand committed to that number.

Disha Sheth: And then the margins in the range of 15% to 18%?

Chandru Kalro: 15% to 16.5% is what I thought we said, I don't want to say 18. But if we can do 18, why not?

Moderator: The next question is from the line of Sanjaya Satapathy from Ampersand. Please go ahead.

Sanjaya Satapathy: Sir, congratulations on a fantastic set of results and you have managed to protect your margin despite commodity pressure. Is this some kind of a sign of digital discipline and reducing competitive intensity?

Chandru Kalro: It is a combination of various factors. There are a lot of things that we have done internally to make sure efficiencies show up. I just said that our manufacturing has produced so much more than last year which means that my cost there would have come down. There are a lot of



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efficiencies that we have improved aside of the fact that we have taken timely pricing decisions and timely promotion decisions which has resulted in what you see. Competitive pressures I don't think have reduced. Competitive pressures will be there always. It is not some industry where there is no competition. I am sure with a brand like ours and the respect that it commands in the market, we will be in a position to continue doing this.

Sanjaya Satapathy: Sir, you have also talked about slight slowing of e-commerce business in terms of growth rate compared to previous quarters. Is there anything to read there?

Chandru Kalro: Nothing significant to read there except that we are just reminding you that the 2nd half of last year was a significant growth over the previous year because we tend to think that last year was a Covid year and therefore it was a bad year and therefore if we have grown against that, so what? The point is that the 2nd half of last year was a significant growth. In fact, if you look at our 9 months of last year, we have grown by 20% over the previous year while the 1st quarter which was a washout. What we are saying in this is that given that the base effect of the 1st half was different from the base effect of the 2nd half, we don't want you to think that we would grow by a similar amount of percentage that you have seen in the 1st half because the 1st half growth has come on that base effect. There is absolutely no gloom and doom that we are predicting in our release. In terms of the market, it's demand and our ability to satisfy that demand.

Sanjaya Satapathy: If I can just ask the last question, you have set a stiff target of almost doubling your sales in 3 years' time over the current year which is pretty commendable compared to what you have done in the past. If you can just help us understand how much will it be driven by your market share or gain in the existing product and how much it will be because of initiatives like new products as well as exports, etc?

Chandru Kalro: Even when we released our statement on our vision for FY25 at 5000 crores if you recall, we have told you that that's a combination of various factors. We have split it into domestic sales, new verticals, exports, and inorganic opportunity. It is not that the present domestic sale is doubling. It's a combination of various factors and we are at work in all of those areas and we are still staying committed to that number. So, it's a combination. There are acquisitions that we are always considering on our side which we have been talking to you. We haven't reported back to you because we don't have anything right now to report in concrete terms, but obviously, with the kind of cash we hold and the kind of commitment we have made to that growth, we are actively considering many options.

Sanjaya Satapathy: Sir, thanks a lot, and hopefully the kind of run rate that you are looking for the next 3 years, we will see in a normalized 2nd half of this year.

Moderator: The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.



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Aniruddha Joshi: Congrats for a really good set of numbers. Sir, in terms of the price hikes across the categories, are our price hikes in line with the industry or have we raised the prices higher than the industry?

Chandru Kalro: Each company is different. Each company's own internals are different. Let me tell you we as a company have followed a cost+ philosophy and always said that we must maximize value delivered to the customer. We never take opportunistic price increases and that is something we have maintained. Others have probably also been having different times at which they have taken price increases, we have taken on the basis of what our internals were and what our costs were. That's the philosophy we follow, and I believe by following that, the customer will also see the value in Prestige when he is buying a Prestige product.

Aniruddha Joshi: Sir, as you indicated initially that the company would be using the excess cash to improve the margins, basically if we increase the inventory levels, then obviously margin may increase, but will it result in higher inventory days and in turn impact asset turns and overall return ratios on one point? And even after adjusting for inventory uses, a lot of cash will be still left on the books. So, is there any further plan on that additional cash?

Chandru Kalro: Just to the previous question, I had answered that there are several proposals that are under our consideration as far as any acquisitions or inorganic opportunities that might be there, and that is something we are constantly looking for and we are very careful. Just because we have capital, we cannot go and acquire a company. We need to see what our future is, what its future is, etc. 1) There are several such proposals on the table. 2) Coming back to the inventory issue, if you look at the way the money is deployed, it is not deployed so much in finished goods as is deployed in raw materials for obvious reasons. And that is something you can take up and down at will depending on which way the market is going in terms of commodity costs.

Aniruddha Joshi: Our internal take in terms of inflation; because obviously it is difficult to.... It has literally been an inflation shock post 15th of September everybody is in a way experiencing, but what would be our internal expectation in terms of inflationary pressures? Whether it will continue for some 2-3 months' period issue or we are expecting it to be a prolonged one, more than 1 year kind of an issue?

Management: If you know a good astrologer, please recommend. I can't tell you.

Aniruddha Joshi: I agree, it is a very difficult answer. That's why, what we are seeing is other consumer companies are also taking calibrated price hikes because they are fearful that if they take too much of price hike and then if suddenly the inflation cycle goes down, then again they are caught on the wrong foot.

Chandru Kalro: You are absolutely right. It is important to be calibrated in our approach. I also told you we are a cost+ kind of a company. So, we have to calibrate these things and also make sure that under



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no circumstances we try to threaten the demand because it's never inelastic to price increases. Having said that, as I said, we are committed to be in a particular band for our margins and that's something we are well on course.

Management: We don't increase prices expecting future cost increases.

Aniruddha Joshi: We are seeing an inflation which was never seen. Probably we had seen similar inflationary shock in maybe 2009, but almost 20 years we have seen this kind of inflation for the first time. So, probably if the inflation can be so high, again the correction in inflation can also be pretty steep. In that case also, we will not correct the prices then?

Management: Remember, when you say correction, it is future. That's why the cost increases or price increases will not be 15%, it will be 5%. This would not be negative. When inflation comes down, prices don't come down; price increase that comes down.

Chandru Kalro: In any case, I do think that we are not in a position to comment today. There is an energy cost which is keeping on going up. In many of our raw materials, energy is a big part of that cost. And unless we see some correction in the energy costs, we are not looking at anything coming down. Chairman said, maybe the increases will not happen at that same rate but maybe it will not come down. From our side, we are calibrated enough so that we do not have a situation where we have to reduce prices; we are not there.

Moderator: The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: At the outset, congratulations for a great set of numbers. My first question is, if you could help us with your market share in cookwares, mixer grinders, and some of the other key categories like induction cooktops?

Chandru Kalro: I will not give you the market share numbers, because there is a lag in market share numbers by the time they arrive and the lag is at least a quarter away, but I can tell you that we are currently market leaders in pressure cookers, cookware, induction cooktops, in value-added gas stoves, in rice cookers, and we are the Number 3 player in mixer grinders.

Bhavin Vithlani: So, mixer grinder is an area where you have been highlighting that we are not amongst the leaders.

Chandru Kalro: We were Number 6 two years ago. We are at Number 3 position today.

Bhavin Vithlani: But in your view, what are the efforts that you are taking to increase your market share? Because some of the newer players have been using the online channel very extensively. If you could just throw more light and speak about the mixer grinder as a category specifically.



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Chandru Kalro: First of all, in the online space, we are the Number 2 brand; we are not Number 3 brand. So, we are very well entrenched in the online space. Our idea of getting market share is very simple, which is what the Prestige brand does, which is by providing innovative products and solutions to the customers. And our product pipeline is always getting populated with newer and newer innovations and we are sure that very soon, we will be talking and threatening the leaders in this category.

Bhavin Vithlani: My second question is on the channel mix. In the previous call, you had mentioned that there is a disproportionate increase in online mix because of the restrictions. Could you help us with the channel mix and what in your view is a longer time sustainable mix that you are looking at?

Chandru Kalro: As a strategy, we have always said that we would like to be maintaining our presence in all kinds of channels and we do not want to go get into one particular type of channel only. We as a brand are well distributed across the country. We have presence in almost every single type of channel and we would like to keep it that way. And we have seen that as a matter of fact when the lockdowns were there, online of course disproportionately goes up and then it tends to even out and the other channels come back as we have seen in Q2 and even now in Q3 in the month of October where people are coming out to shop in the offline space. We believe that in our kind of category, between 18% and 22% is the stable online and the rest will be offline.

Bhavin Vithlani: What was the online contribution in the last quarter?

Chandru Kalro: Around 18% to 20% if I am right.

Bhavin Vithlani: And what percentage would be by our exclusive stores?

Chandru Kalro: Around 16% to 17%.

Bhavin Vithlani: If you could talk about the newer products that you launched in the previous quarter, specifically the Svachh range of gas stoves. How is the response and what kind of growth we are seeing in that category?

Chandru Kalro: We have done a calibrated launch market by market. It's a new product and so far the response has been overwhelming if you ask me. We are not able to supply enough. I believe that it is an absolute disrupter in that category because there is no one else who has got that kind of a feature and it is so relevant to any user. We are having great hopes on this and we believe that we will be able to garner much better market share with this kind of platform. You are aware that in pressure cookers, when we launched Svachh pressure cookers, now we have moved every single model of ours to the Svachh platform. We are trying to do something similar to the gas stoves platform.



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Moderator: The next question is from the line of Gautami Desai from Chanakya Capital Services. Please go ahead.

Gautami Desai: Sir, I have read it in one of your past con-call transcripts that you had said that you have a 35% market share in cookware where the addressable market is 1400 crores and nonstick is 900 and stainless steel is 300. I was a little confused there. When you say that addressable market of cookware, what do you consider in that? And when you say that nonstick is 900 crores, does it mean that the total nonstick vessels that are sold in India that everything in India organized plus unorganized put together is 900 crores? Can you throw some light, sir, on this?

Chandru Kalro: I don't know which con-call you are referring to, first.

Gautami Desai: I think the last one only or maybe before that.

Chandru Kalro: Now, the addressable means what? Cookware is.... any stainless steel top is also a cookware.

Management: Clay pot made in the village is a cookware.

Chandru Kalro: Anything is cookware. What we are discussing is the value-added cookware - the nonstick cookware. And yes, our estimate is between 900 and 1000 crores as per the last research that was available to us. We are also kind of doing retail market share tracking and that is how we have stated those market shares when we did state them.

Gautami Desai: Sir, when you say 35% market share means you are right when you say that a plate and a spoon is also a cookware. So, all the cookware that is sold in India, all that put together your share is 35%?

Chandru Kalro: You are talking about nonstick cookware if I am correct. The clay pot is not nonstick, right?

Gautami Desai: You had said that cookware is 35% market share or maybe what you meant is your nonstick plus stainless plus your other value-added that all put together could be 400 crores?

Chandru Kalro: Yes, that is correct.

Gautami Desai: And that is organized plus unorganized sold in India, right, in your products?

Chandru Kalro: Yes.

Gautami Desai: Sir, now honestly I am not looking at any number on the market share, but I am just trying to understand that when you go into newer products like say mixer grinder or other appliances like cleaning products and all, and when we see large full-page ads of someone like Kent or anybody who suddenly comes up with a lot of those SKUs in which you are trying to be there. It looks like a low-entry barrier to me and low capital investment where a lot of manufacturing



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is outsourced. Sir, it will really help us if you tell us that what are the kind of entry barriers that you are trying to pose to your competitors?

Chandru Kalro: Shall I tell you that the pressure cooker and cookware industry is at least 50-60 years old?

Gautami Desai: Yes, right.

Chandru Kalro: You will agree?

Gautami Desai: Yes.

Chandru Kalro: And it is not difficult to make a pressure cooker and not difficult to make a nonstick cookware?

Gautami Desai: Right.

Chandru Kalro: Now, even if I have 30% to 35% market share in any of these categories, do you think after 60 years to maintain 35%, does it mean something?

Gautami Desai: Yes sir.

Chandru Kalro: If I had 2% market share, then I agree with you that there is an entry barrier. No entry barrier. There is an entry barrier which is brand, which is innovation, which is customer relationship, which is the way we are in a position to offer value to our customers, aftersales service, so many of these things add up. Just making a product and putting a full-page ad does not mean that you can get into the market. Now, a retailer when he puts his own in-store brand, does it take over from the brand? Let it be any category. It does not happen - because customers buy brand and that precisely why brands exist.

Moderator: The next question is from the line of Koundinya Nimmagadda from JM Financial. Please go ahead.

Koundinya Nimmagadda: Sorry for harping on this again, sir. Can you just help us understand what is the price hike that we took in FY22 and when did we take it for each of the categories till date?

Chandru Kalro: We have taken around 5% to 8% price hike in July of this financial year and that price increase has been only partially kicking in into the last quarter of which we have just completed. Again, I will tell you there are significant volume growth if that is what you are trying to extrapolate. There are significant volume growths over the last year and the pre-Covid year.

Koundinya Nimmagadda: Can you help us understand across categories? This 5% to 8%, I guess it would be higher for appliances. So, just trying to understand how....



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Chandru Kalro: Yes, you are absolutely right. The 5% was on cookers and cookware and the 8% to 9% was on appliances.

Koundinya Nimmagadda: The next question is on the demand momentum. From the numbers reported by your peers, it looks like the demand momentum is good. But just trying to understand with the sort of price hikes that we are taking, do you think that the demand momentum will sustain and the volume growth is going to happen here on so? What is your sense on the possibility of incremental price hikes to pass on the inflation on the demand side?

Chandru Kalro: We have stated to you already that we are going to maintain our margins to the extent and it looks like we are going to be able to do that. Now, taking a call on what the commodity costs are going to be, I think, is difficult at this point in time. Hopefully, they will abate and hopefully we will not have to do too much more. But if it is necessary, we will pass on and the brand is well in its position to do that.

Coming back to where this industry is, if you are looking at a price hike of 7% or 8% let us say or 5% in a pressure cooker, you are talking about Rs. 100 as the end cost that the customer is going to pay. Given that, what is the share of wallet on this type of product, I don't think it is something that will break the demand of the customer. So, I don't think it's going to be debilitating. I don't think it's going to derail anything. You must, however, remember that there is a base effect of last year 2nd half versus 1st half of last year. That is what we have stated in our release.

Koundinya Nimmagadda: Sir, my second question is on the distribution side. Can you quantify our current distribution reach? And also I missed the numbers when you quoted it with respect to the sales mixes between the channels?

Chandru Kalro: I don't understand. You want to know how many outlets we are in, is it?

Koundinya Nimmagadda: Yes, sir.

Chandru Kalro: I don't have those numbers readily.

Koundinya Nimmagadda: Sir, can you quote the mix between different channels?

Chandru Kalro: I had only stated that we have done about 20% on e-com and the rest is on the offline channels. And I think we should leave it at that because there are competitive intensities that I would like to protect myself against.

Moderator: The next question is from the line of Digant Haria from GreenEdge Wealth. Please go ahead.



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Digant Haria: Sir, you mentioned that in the 2nd half, we may still grow over the last year's large base and you have stocked up some raw materials also. Do you foresee any other kind of supply side issues or have we tried to insulate ourselves? Because the world itself is going crazy on all kinds of supply chain issues. Just your thoughts on that that if there is demand and maybe we cannot supply, is such a situation possible and how have we helped ourselves against that?

Chandru Kalro: Fortunately no because most of our supply chain is within India. As you know that we have stopped the China finished goods imports last year itself. Most of the components we have tried to indigenize. There are still some components which do come from there. I believe it is limited in its negative effect potentially and we do not see any major supply-side constraints to happen.

Digant Haria: In your presentation which you released, you said that rural is seeing some kind of positive momentum again. That's a little different from what maybe a larger company like Hindustan Lever said. Is it because our channels.... we used to do distribution through MFIs and those channels. Have they come back or what is it that we are seeing on rural for this positive kind of a commentary?

Chandru Kalro: There are 2 ends to the rural business. One is the MFI-led business which we have always stated. Last year, obviously the base was very small given the fact that almost no lending had happened to non-core loans because these are coming under their additional loans. Because of Covid, last year they had almost stopped. That is restarted. And the good thing is that that has restarted which is better than the pre-Covid year also. That is one good news there. The second thing is, on the non-MFI rural sales which we cannot measure completely but we can only give you a feel for. The tier-2 and tier-3 cities' growths are quite robust and we believe that that is also because these cities are feeder towns to rural India and that seems to be doing well. So, I think the rural India is doing well and the products that they are buying are also not necessarily the cheapest. They seem to be buying the better products.

Moderator: The next question is from the line of Vinod from Dolat Capital. Please go ahead.

Vinod: Congratulations on a very good set of numbers, sir. Just continuing with the question asked by the previous participant, what is the rural urban mix for us as well as for the industry if I take kitchen appliances as a broad umbrella across categories?

Chandru Kalro: As I said, the only measurable business that we have stated to rural is in the MFI business and that has restarted only towards the 2nd quarter of this year and that is starting to do well. That will be in the single-digit percentages between 3% and 5% which we are seeing which is attributed to rural as we know it. But what is actual rural given the population that is there which will go through our feeder towns that we can't say how much it is. Our feel is that those markets, those geographies, those pop strata are growing faster than the bigger cities.



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Vinod: Continuing on the same thread, one large FMCG company has called out a very big rural slowdown. What's our view, sir, going forward in the 2nd half of this financial year?

Chandru Kalro: I believe they have a better view. My current cursory view of this is not negative. It is actually doing very well for us.

Management: And will continue to do well in the 2nd half.

Moderator: The next question is a followup question from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Some of your peer sets have been talking about significant step up in the investments on digitalization and one of them has also mentioned about the ability to measure 75% to 80% of secondary and tertiary. If you could talk about the investments that we are doing on the digitalization because for us, so many SKUs actually it could help us meet the demand better.

Chandru Kalro: Let me tell you, we have almost 80% visibility on all secondaries that happen today and tertiaries that are happening. All of those are already in place. There is an end-to-end digitalization beyond just monitoring secondaries and tertiaries that is in place which I don't want to discuss right now here. But I believe that the kind of work that we are doing in digitalization will be unprecedented in our industry at least when we are finished with it.

Bhavin Vithlani: Any number that you would help us on the digitalization? What is the kind of spend that we would like to have budgeted as a percentage of revenues?

Chandru Kalro: I don't know whether we have budgeted as a percentage of revenue. There are more than 15- to 20-crores worth of projects as we speak. In fact, the management and everyone of us have said, if more is required, we will do it, but the idea is to get the job done.

Bhavin Vithlani: This is my observation and correct me if I am wrong that there has been a considerable step up in the pace of new products, and I am judging from the presentations that you have put out. Do you see this pace maintaining and what's the kind of spend that we do as a percentage of sales on R&D and innovation?

Chandru Kalro: Again, it's a need based. Our spend is on tooling, new molds, on new technologies, on finding out new designs; so, industrial designs, engineering designs, tools & molds, and most importantly consumer research which is the start point to many of these things that we do, and that's something we do constantly. Again, there is no budget. What we say is, we want to get, let us say, a particular category in which we want to do some disruption, we do whatever is required for that.

Management: We maintain EBITDA margin after spending on all these things.



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Bhavin Vithlani: You mentioned that you are running almost full out in categories like cooker, cookware, etc. If you could just help us what is the expansion plan and what is the capital expenditure budget that you may have for this financial year?

Chandru Kalro: This year, we might spend between 80 and 100 crores if I am right - at least, that is the kind of projects. How much will actually get spent will depend on what is the progress on each of those projects. We have just added one new spray line, as I said, in nonstick cookware. We are adding another line in stainless steel cookware. There are a lot of investments that we are now doing in pressure cookers as well, but these are incremental investments, and next year, we are doing something else for that. So, the capacity in the next 2 or 3 years will actually double.

Moderator: As there are no further questions from the participants, I now hand the conference over to the management for closing comments. Thank you and over to you.

Chandru Kalro: Thank you. That was an interesting session I must say. I once again say that we had a great quarter and a great 1st half. You can see that our margins have been maintained under some very challenging and trying circumstances through several initiatives that we have taken. The company is well placed, there is lots of cash in bank, and it is also well placed in the market as we speak. Our commentary on the 2nd half has been given on the basis of the 2nd half base effect of last year, but we are still looking at the 2nd half very positively as we speak and we hope that we will continue to run well in terms of the top line that we are doing. Thank you very much.

Moderator: Ladies and gentlemen, on behalf of Ambit Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.