



“Kamdhenu Limited Q3 FY2018
Earnings Conference Call”

February 14, 2018



MANAGEMENT:

**MR. SATISH AGARWAL - CHAIRMAN AND
MANAGING DIRECTOR - KAMDHENU LIMITED
MR. HARISH AGARWAL - CHIEF FINANCIAL
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Moderator: Ladies and gentlemen good day and welcome to the Kamdhenu Limited Q3 FY2018 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinion and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 this conference please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now like to hand the conference over to Mr. Satish Agarwal, Chairman and Managing Director of Kamdhenu Limited. Thank you and over to you Sir!

Satish Agarwal: Hello I am Satish Agarwal, CMD of the company. Good morning and a very warm welcome to everyone. Along with me, I have Mr. Harish Agarwal, Chief Financial Officer and SGA, our Investor Relation Advisor. I hope you have received our results and investor presentation by now. For those who have not yet, you can view them on our website.

As you know Kamdhenu is the largest TMT selling brand in India. We are India’s leading company dealing with manufacturing, distribution, marketing and branding our TMT bars. We are into the paint business also.

Now coming to the steel business, Kamdhenu Limited has a manufacturing unit in Bhiwadi in Rajasthan where we focus on the search and introduce new products based on customer requirement in the market.

We currently have a strong TMT product portfolio which includes Kamdhenu TMT, Kamdhenu SS10000 TMT, Kamdhenu NXT TMT. Our products are quite superior compared to our peers. Our products are used in all type of construction, working ranging from building to Dams.

Kamdhenu believes in asset light model and therefore we have created a franchise to this model for developing both brand leadership in steel bars on Pan India basis.

We provide design and technology to the franchise and also assists them to upgrade their facilities wherever necessary. The investment made inside the radiation is done by the franchise itself.

We are associated with more than 75 franchise units to manufacture TMT bars, manufacturer on steel products, colour coated profile sheets. These franchises manufacture products based on technology, design and quality, specification provided by Kamdhenu. Through these franchises we are selling products for over more than Rs.6000 Crores under the Kamdhenu Brand across India.



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We have 6500 exclusive steel dealers across India. These are a committed chain of dealers and distributors connected with franchises or sales depots created by Kamdhenu.

Since we have franchises, dealers, distributors in each space we ensure quick delivery of TMT bars. We ensure delivery within 24 hours to any place in India. We are the largest TMT retail sales in India. More than 80% of our sales is retail sales.

This model of ours is a win-win situation for all those who are associated with us. Kamdhenu provides franchise units with expertise and experience for an efficient business which ensures quality, which gives comfort to End consumers.

For franchises this is a ready platform in a niche brand giving facelift to them and also to the unorganized players, which can leverage our brand Kamdhenu and provide them with exceptional distinctiveness.

This enables them to earn premium on their products. Kamdhenu even provides them with complete access to do marketing network across India. Kamdhenu through its franchises has a capacity of manufacturing 25 Lakh metric tonnes of TMT bars, 5 Lakh metric tonnes of structural steel, 2.50 Lakh tonnes of colour coated profile sheet.

Through the franchise model we made Rs.41 Crores last year. In the first nine months we have already crossed that number and by the end of this year we should be doing a brand turnover of over Rs.7500 Crores and we will make over royalty Rs.60 Crores approximately through the franchise route.

We expect that the demand of TMT steel bars to grow multifold with the kind of opportunities, we see in our country. Affordable housing would be a big boost to the TMT steel sector. The government is planning to build 5 Crores houses in the next three to five years even if they are able to build 2 Crores houses, it will require 10 Crore metric tonnes of TMT bars in India. That is at least 2 Crores metric tonnes of additional demand every year.

We are seeing a major shift from the unorganized segment to the organized segment. There is a lot of consolidation taking place in the industry from which we are benefiting a lot. Our vision is to increase our annual production capacity of franchise to 50 lakh metric tonnes by 2022 and have a royalty income of over Rs.100 Crores by financial year 2020.

Coming to our paint business. In 2008 we set up our own unit for manufacturing of decorative paint under the flagship brand Kamdhenu. We are currently almost amongst the top 10 companies in India. We are having more than 4000 dealers associated with us in our paint business. We have an installed capacity of 46000 Tonnes per annum, having over 40 SKUs and more than 10 product categories. We are currently having 32 sales depots with presence in over



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21 states in India. We offer a complete range of decorative paint products which includes Exterior and Interior Emulsions, Water Based Primers, Wood Finishes, Aluminum Paints and Textured & Designer Paints. We have the latest offerings within the Premium Luxury Wall Finish segment. We offer exclusive range of global trends in wall finishes, vibrant colours, texture and coatings, etc.

We have 30 designer galleries in operation across India. We provide one-stop shop solution to the customers as well as painters. Our target for the paint business is to focus on tapping the underpenetrated markets, capture market share from unorganized players and improve our product portfolio which would target sales premiumization.

Now I would like to hand over the line to Mr. Harish Agarwal, my CFO, to update the operational performance of the Company.

Harish Agarwal:

Thank you Sir. I will take you through the financials of the company. Revenue for 9M FY2018 are at Rs.803 Crores as compared to Rs.583 Crores in 9M FY2017, a growth of 38%. Since we have a franchise business model, which is an asset light model, numbers should be analyzed on the basis of profit before tax and not on EBITDA levels.

Total turnover including all franchise for 9M FY2018 are at Rs.5542 Crores, a growth of 40% from 9M FY2017. For 9M FY2018 our steel business contributed 83% whereas paint business contributed 17%. Profit before tax for 9M FY2018 is at Rs.16 Crores as compared to Rs.9 Crores in 9M FY2017, a growth of 80%.

Profit after tax for 9M FY2018 is at Rs.10 Crores as compared to Rs.6 Crores in 9M FY2017, a growth of 60%.

With this I would like to open the floor for question and answers.

Moderator:

Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Mangesh Bhadang from Param Capital. Please go ahead.

Mangesh Bhadang:

We have seen a good growth in the steel business and in paints business. Revenue has grown at around 12% and 19% on a QOQ basis. So what kind of traction are we looking at the paints business?

You had mentioned this Rs.100 Crores of royalty income from the franchise route by 2020 so, how many franchises you will need for that?



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Harish Agarwal: We are focusing on increase in the capacity. We are not focusing on the numbers. So our aim is to have capacity of around 50 Lakh Metric Tonnes by 2022. Numbers may be less, but capacity should be 50 Lakh Metric Tonnes

Mangesh Bhadang: For the existing franchises, you would be focusing on increasing the capacity.

Harish Agarwal: Year to year increase the capacity. We intend to be associated with our large franchises. So capacity should be double of what it is presently.

Satish Agarwal: As you understand that as soon as the capacity increases for the existing unit, the profitability increases substantially. Moreover we are changing the technology for example, in older days franchises used billet/ingot heating through the heating furnaces of coal/FO. Now with the change in technology, we are installing all the induction furnaces or other furnaces and trying to setup the Concast where the Concast will be directly converted to the TMT bars. This will save at least Rs.1000 per tonne as re-heating of either through coal or through the furnace oil. So that is the technology we are using everywhere and more and more units are installing this technology or we can say it as the backward integration for the rolling mills and as soon as their capacity increase, their process is changed to feeding from the Concast to the rolling mill. So there is a substantial growth in the margins of the company. We are focusing more on the expansion of the existing units and the backward integration process for all the roll units so that the profitability is considerably increased. This will give a win-win situation for Kamdhenu as well as to all the franchise unit.

On the Paints business, during Q3FY18 we saw a good growth. Now our sales are 50% of the premium products whereas four to five years back the premium products hardly contributed 15% to 20%. This means Kamdhenu products are accepted at each and every project may be a five star hotel, maybe a luxury project, Thus there is acceptance for our product in the market and we hope from the next quarter onwards the numbers will be definitely positive for the paint division also.

Mangesh Bhadang: For this quarter, we have seen gross margins contracting almost 400 BPS (basis points). Is it because of the increased steel prices which we were not able to pass on?

Satish Agarwal: Steel has always been a very competitive market.

We are basically in the retail segment. On the project side, you can charge any price, but in particular, the sale we do we have to support all the dealers, all the network partners and substantial part is almost passed whenever there is a price hike. So definitely the competition is there, but I think we should aim on the last figures that is the profit after tax and that is continuously improving.



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- Mangesh Bhadang:** For our royalty income, what it is as a percentage of sales and at what levels can it increase to? So just to give an example, for FY2018 you said all franchise sales of almost Rs.7500 Crores for royalty income of Rs.60 Crores which is basically less than 1%. So is it any chance that you can increase to 1% or more in future given the busy schedules that we have taken on the profitability side?
- Satish Agarwal:** The franchises royalty we collect is not on the percentage basis but on per tonne basis. That is continuously increasing.
- Harish Agarwal:** The royalty was Rs.41 Crores in last year which on per tonnes was Rs.282 per metric tonne. Now it is Rs.364 per metric tonne. The royalty has increased due to the launch of Kamdhenu NXT product in April 2017. So per tonne basis royalty is increasing.
- Harish Agarwal:** I think royalty has increased by more than 30%. Last year the average franchise royalty was Rs.282 a tonne and for 9M FY18 it is Rs.364 per tonne. That has improved by 30% and I think with the addition of the next quarter it will further improve as more and more units are going for the Kamdhenu NXT product and the royalty for that is charged at a higher rate.
- Moderator:** Thank you. The next question is from the line of Shekhar Singh from Excelsior Capital.
- Shekhar Singh:** Just wanted to understand the franchise business. Since you mentioned this royalty of Rs.360 per tonne is what you are trying to charge for the new products. Now just need some data points as to what is the total tonnage that you have done in the nine months period and then Q3 under the franchise scheme?
- Satish Agarwal:** I think by now you must have understood the franchise model. In the franchise model, we provide technology and we support them with the brand leverage and they are entitled to use Pan India dealer and distributors network and whatever the brand premium we are charging across India that is basically shared by Kamdhenu, the franchises, the distribution channel may be a distributor and the dealers, retail counters. So normally we are getting across India a premium of Rs.2500 a tonne. Kamdhenu brand is commanding a premium over the local brand of Rs.2500 a tonne. Kamdhenu is getting royalty at Rs.360 or Rs.370 a tonne, retail counter is getting a margin of Rs.1000 a tonne, my distributor who invests money on the dealers and provide them credit facility normally gets Rs.400 a tonne and the balance is retained by all franchises. That way all the four partners in the system are benefited all the way. Moreover, the sales quantity which you asked last year the quantity for the entire year, was 14.66 lakh metric tonnes and this year we are hoping to cross more than 16 lakh Metric tonnes so in the nine months we have already achieved 12.50 lakh tonnes of quantity.



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Shekhar Singh: What are the key expenses for the Royalty which you get? For technology is like one-time expense, but there are no recurring expenses, like if you increase the franchises. What are the expenses, additional expenses that come in?

Satish Agarwal: The main cost is the advertisement and marketing of the brand. We are on the national channels. We have the centralized publicity system on all the news channels, entertainment channels or movie channels, apart from this we are doing publicity and brand awareness through all the regional channels may be a Kannad, may be Telugu or may be any other channels. Second, we normally organize regional annual meet for all the dealers once in a year in each and every state or where the number of dealers are more, then we organize more than two or three retail dealers conference so that encourages the motivation. However, there is a considerable cost we have to incur because everywhere whatever schemes and programs we are providing them as a marketing tool, may be gold coil scheme, may be the tour scheme, may be the foreign tour scheme, so all these schemes are discussed and the targets for the next year are discussed, whole performance are discussed and award ceremonies are conducted in all the meetings. So that is the second aspect. The third we normally float several marketing schemes may be foreign tour every year more than eight or ten tours are organized for all the dealers. So that is a big tool. We organize abroad meeting and motivational tours of the dealers and distributors. Apart from this we have several employee costs on the regional level everywhere we have the retail marketing team with the franchise at each and every level we have the quality person, we have the marketing team, we have the other persons deployed over there, because there are so many challenges in day-to-day working. So it is a considerable cost, mainly the marketing cost, the employee cost and the advertisement cost.

Shekhar Singh: On your own production that is the in-house production that you do of around 25 lakhs tonnes what is the EBITDA per tonne you make on your own production?

Satish Agarwal: Let me correct you. My own production is hardly 60,000 tonnes. Out of this 25 lakh Metric tonnes capacity, we hardly have a capacity of more than 50,000-60,000 tonnes and that unit is not only used for the production, but also for the R&D, as well as to train all the quality people of the franchises, to train the production people to cut the cost and thus there are a lot of expenses which we incur in the existing units. I think it is very difficult to separate all the costs.

Shekhar Singh: So, in a way, if I understood correctly the TMT business is primarily franchise based and your own production is very small percentage of the total and you plan to double the franchise model from 25 lakhs tonnes to around 50-lakh tonnes?

Satish Agarwal: Yes.

Shekhar Singh: And in this expansion for 25 lakhs to 50 lakhs will you be incurring any capex or only the franchise will incur the entire capex?



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Satish Agarwal: At present we do not have any capital expenditure plan and that is the specialty of the model. We will only expand this capacity through the franchise model, whatever the expenses are there that will be totally incurred by all the franchises.

Shekhar Singh: On your paint business you said your capability is 40,000 tonnes, right now. Roughly what is the EBITDA per tonne you will be making over there and what is the capex that you have done for this plant?

Satish Agarwal: I think it is too early to work out the EBITDA for the paint because in paints business we are facing a very tough competition because Kamdhenu has just entered in the last seven to eight years. However, other paint companies like Asian, Berger and Nerolac are more or less 80 or 100 years old, so to create a brand, to create a loyal dealer and distributor we have to pass on several lucrative schemes to convert the painters to convert the contractors into the Kamdhenu brand. We have the strength to create a brand in the market. We have spent a lot in advertisement and marketing expenses, still the quantity and the sales turnover is very low, currently we are getting an EBITDA of 3%, but I think in the next coming quarter and the next financial year the EBITDA would be much attractive.

Shekhar Singh: In paints business, also do you plan to have a franchise model sort of a thing or only for the TMT business you have?

Satish Agarwal: For the low price items we have just started one unit in Udaipur for making the putty because of the low priced items we can go on regional level outsourcing but for the premium products since they require continuous R&D in the units and the formulations cannot be shared by each and everyone, so I think the point of concern we are working and evolving how we can go for the expansion of capacities to meet out the future demand.

Moderator: Thank you. We will take our next question from the line of Ritesh Bafna from Profitability Advisors.

Ritesh Bafna: As a percentage of our construction cost, how much does TMT bars make up for that percentage, like 5% or 10% or 20% how much is the percentage on the construction cost for the TMT bars?

Satish Agarwal: I think there is a simple thumb rule. If you go for a construction of three to four story, 5 kgs of steel is used for per square feet of the construction. Suppose you are going for a construction of 1000 square feet house, you will be required 5000 kgs of steel that is 5 metric tonnes of steel and now a days the price of steel is almost Rs.50 a kg, you can work out Rs.250 per square feet steel for the construction. The steel is required in this proportion every time. If the building is much higher 20-storey, or 50-storey then this steel consumption is comparatively increased from 5 kg to 8 kg. 50% of the steel is further increased.



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Ritesh Bafna: My other two questions will be related to our expenses. First of all, we work on a franchise model so I see an uptick in our employee expenses, so can you just explain why is there an uptick and what is included in these employee expenses?

Harish Agarwal: We had to depute two or three people at each and every franchise units so around 200 people we had deputed in the franchise units. We have the marketing network across India so we have around 300 people in the marketing which is creating demand, which is handling the setup of networks, so around 500 people is engaged in this business so this is the costs which we had to incur apart from advertisements, sales promotions, brand promotions, electronic media, which we have said in the earlier question.

Ritesh Bafna: So there is an uptick, so should I assume that the number of people employed have increased?

Harish Agarwal: Definitely. The number of franchise units has increased then the number of people is required more, but if we increase the capacity of a particular unit, it does not require any additional force because we have to depute two people or three people in a unit, so if the capacity increase there is no need to increase the people.

Ritesh Bafna: So that brings me to the other question relating to capacity utilisation can you just give a breakup of the capacity utilisation of both our businesses the steel business and the paints business?

Satish Agarwal: In paint business we have a capacity of 46,000 metric tonne per annum, but in the steel business we have 25 lakhs metric tonnes through the franchise route. In our plant we have 72,000 metric tonnes.

Ritesh Bafna: How much of that is utilised in your own plant and combining the franchises?

Satish Agarwal: Around 65% at our own plant as well as the franchise.

Ritesh Bafna: The steel prices globally are on an uptick so I just want to get an understanding how do you see steel prices in India going ahead and how will it impact our company's cost?

Satish Agarwal: There is two type of working in India and particularly in the steel business. The main producers those who are having the iron ore mines, the coal mines or other infrastructure facility with banks they are on one side. Kamdhenu on the other side is the secondary producer where we have to buy the raw material in the shape of either sponge iron or the billet or any other products, so I think in the secondary producers market, the prices of the raw material as well as the finished products are moved jointly. The conversion cost or the difference between the raw material and the finished product is almost fixed. That varies from Rs.6000 to Rs.7000 or Rs.8000 a tonne but that does not affect more on the prices of the international market. If the raw material are up, the finished product prices are up and if the raw material prices are down, the finished product prices are down but in the case of the main producers where their cost is fixed, raw material cost is



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- fixed for mining they have their mines of their own that effects majorly on those people, but in secondary rolling mills I think it effects hardly 1% to 2%. There is no major impact.
- Ritesh Bafna:** You do not see any major impacts to our business right now?
- Satish Agarwal:** Yes.
- Moderator:** Thank you. Our next question is from the line of Govind Saboo from India Nivesh.
- Govind Saboo:** Our steel sales comprises of three things, one is the manufacturing sales, second is the trading sales and the third is royalty income. So can I have a breakup of these three sales for 9M FY18 and Q3FY18?
- Harish Agarwal:** For 9MFY18 from manufacturing we have around Rs.147 Crores and from trading we have Rs.478 Crores, for franchise (Royalty income) we have Rs.45 Crores.
- For Q3FY18 Rs.49 Crores is from manufacturing, Rs.185 Crores from trading and Rs.15.92 Crores from royalty.
- Govind Saboo:** What is the advertisement and sales promotion for three months and nine months?
- Harish Agarwal:** Sales promotion and advertising for nine months is around Rs.50 Crores.
- Govind Saboo:** Just needed a small clarification, So Rs.364 per tonne is the average royalty, which we are earning, in the current year. So does this include the blended per tonne royalty of coated sheets and other products also?
- Harish Agarwal:** This is average of all royalty.
- Govind Saboo:** All royalty, structured steel as well as colour coated profile sheets.
- Harish Agarwal:** If you want break up of this we have the breakup.
- Govind Saboo:** No, that is fine. Second thing is it safe to assume that 65% capacity utilisation will be achieved for structural steel and colour coated profile sheets also or do you think it will be different?
- Harish Agarwal:** More or less same.
- Moderator:** Thank you. We will take the next question from the line of Dinesh Shah an individual investor.
- Dinesh Shah:** Currently we are in three types of TMT bars. So are we in the process of introducing any new TMT products in the future?



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- Harish Agarwal:** The R&D process is going on in our plant so in every two years we introduce a new product. We are working on the next version.
- Dinesh Shah:** So any timeline that you can mention for these new products?
- Harish Agarwal:** Right now not.
- Dinesh Shah:** Are you looking to expand our current capacity of 72,000 metric tonnes in the near future or will it be only through franchising route?
- Harish Agarwal:** We are only planning through the franchise route.
- Dinesh Shah:** Can you throw some light on the geographical mix if possible for our sales and franchise distribution like parts of north and west?
- Harish Agarwal:** In broad numbers our north is strong, but exact numbers I will have to calculate on regional geographical basis. I will get back to you through SGA.
- Dinesh Shah:** How do we incentivize our franchises and dealers on a regular basis? Like how is the incentive model that works for you?
- Harish Agarwal:** Kamdhenu brand is commanding an average premium of Rs.2500 /MT across India ranging from Rs.1500 to Rs.4000. In the Rs.2500 there are four partners, Kamdhenu, franchise, distributor and dealer. We are charging Rs.300 to Rs.400 per metric tonne. Distributor is also charging Rs.400. Rs.1000 is charged by the dealer and Rs.700 to Rs.800 is retained by the franchise units. So in that way they are all incentivized, Kamdhenu and others.
- Dinesh Shah:** How much are we spending on creating our Kamdhenu brand? Is it a number that we are looking to spend every year or is it a percentage of sales or something else?
- Harish Agarwal:** Not in the percentage or sales. If royalty income increases then it is not required in the same proportion, but this year we spent a lot due to launching of the new product Kamdhenu NXT in April.
- Dinesh Shah:** Any idea about how much would be the number going ahead?
- Harish Agarwal:** In nine months we have spent around Rs.50 Crores. Last year we spent Rs.70 Crores on the brand.
- Moderator:** Thank you. Our next question is from the line of Rahil Jasani from ICICI Securities.



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- Rahil Jasani:** On the paints segment, you said we have 4000 dealers, so is there any specific geography that we are targeting. Is there any specific geography where we have a majority share of dealers?
- Harish Agarwal:** In the north, we have the majority and south we have less presence. West and east is moderate.
- Rahil Jasani:** And you said that the royalty income has increased to around Rs.360 per metric tonne, 30% more than last year mainly due to the launch of Kamdhenu NXT TMT products. So is it only solely because of that or are there any other mix change that you have observed?
- Harish Agarwal:** It is also because of 10% increase in the volume.
- Moderator:** Thank you. We will take our next question from the line of Ranga Swami an individual investor.
- Ranga Swami:** Is there any chance to demerge the paints division from the steel business?
- Satish Agarwal:** We can think of it at a right time. Right now, we are working on both the businesses in the same company and at appropriate time we can think of the demerger.
- Ranga Swami:** What is your focus on Steel business in South India? I mean I have not seen anything in my area.
- Satish Agarwal:** I think in south as well as in north, north is the strongest part for the steel as well as for the paint, However, in steel business we have presence across India, in Tamil Nadu, in Andhra, Karnataka, Kerala, Goa and Maharashtra. I think our presence is everywhere. The presence in the north is much stronger than this but if 50% is in the North India than 40% is in South India everywhere you will find a Kamdhenu product.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the floor back to Mr. Satish Agarwal for closing comments. Over to you Sir!
- Satish Agarwal:** I take this opportunity to thank everyone for joining on the call. I hope we have been able to address all your queries. For any further information, kindly get in touch with me or Strategic Growth Advisors, our Investor Relation Advisor. Thank you all once again.
- Moderator:** Thank you very much Sir. Ladies and gentlemen on behalf of Kamdhenu Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.