



“Kamdhenu Limited Q4 FY18 Earnings Conference Call”

May 30, 2018



**MANAGEMENT: MR. SATISH AGARWAL – CHAIRMAN AND MANAGING
DIRECTOR, KAMDHENU LIMITED
MR. HARISH AGARWAL – CHIEF FINANCIAL OFFICER,
KAMDHENU LIMITED**



*Kamdhenu Limited
May 30, 2018*

Moderator: Ladies and Gentlemen, Good Day. And Welcome to the Q4 FY18 Earnings Conference Call of Kamdhenu Limited. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions 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 the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded.

I now hand over the conference to Mr.Satish Agarwal – Chairman and Managing Director of Kamdhenu Limited. Thank you and over to you, sir.

Satish Agarwal: Good afternoon 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 of steel TMT bar. We are the largest TMT retail sales in India, more than 80% of our sales in retail sales. Our brand sales turnover for the year was Rs.8,000 crores, a growth of 33% over last year. We have 6,500 active steel dealers across India. These are a committed chain of dealers and distributors connected with franchisee, sales depot created by Kamdhenu. Since we have franchise dealers and distributors in each state, we ensure good delivery of the TMT bars, we ensure delivery within 24 hours to any place in India.

In FY18 we earned a royalty income of Rs. 61 crores, a growth of 50% from last year and expect royalty income of over Rs.100 crores by FY2020. Premium generated by brand Kamdhenu across the value chain is over Rs.450 crores. During the year the company spent Rs.50 crores on branding and marketing and another Rs.20 crores was spent by the franchisee on the same. Going ahead, we expect the demand for TMT steel bars to grow multi-fold with the kind of opportunities we see in our country, affordable housing would be a big boost to the TMT steel sector.

Recently the government has announced an early completion of 10 million rural houses by the end of 2018, ahead of 2019 deadline and 11.8 million urban houses by 2020 instead of 2022 deadline under the “Housing for All” initiative will require huge amount of TMT and we expect multifold growth in the coming years. The Bharat Mala project, the second largest highway development includes a total investment of Rs.6,92,000 crores and the construction of 34,800

kilometers of new roads. This initiative is crucial to build connectivity and foster economic growth and we being in TMT segment, expect accelerated growth for us in the coming few years.

Post GST we are seeing a major shift from the unorganized sector to the organized segment, a lot of the unorganized players want to shift their way of doing business and want to get associated with Kamdhenu. Our aim is to add only those franchisees who have high production capacities. We are now only looking to add those who have annual capacities of over 1 lakh metric tons per annum. Our vision is to increase our annual production of franchisee business to 50 lakh metric tons and have a royalty income of over Rs.100 crores by FY2020.

Now coming to our paint business. We offer a complete range of decorative paint products which include exterior and interior emulsions, water-based primers, wood finishes, aluminum paints and texture and designer paints. We have the newest offerings with the premium luxury wall finished segment. We have more than 4,000 dealers associated with us in our paint business. We have an installed capacity of 46,000 ton per annum, having over 40 SKUs across 10 plus product categories. We currently have 32 sales depots presence in 21 states, we have 30 designer galleries in operation across India. We provide one-stop-solutions to customers as well as the painters. In the recent month we have started the outsourcing model for our paint division also wherein the low value products like putty, etc, are outsourced and only the value-added products and premium products are manufactured in our own manufacturing capacity. Our target for the paint business is to focus on topping the under penetrated markets, capture market share from urbanized players and improve our product portfolio which would give target paint premiumization.

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

Harish Agarwal:

Thank you, sir. I will take all you through the financials of the company. Revenue for FY18 are at Rs.1,180 crores as compared to Rs. 825 crores in FY17, a growth of 43%. Since the franchisee model which is asset light, the company should be analyzed on profit before tax and not on EBITDA level. Total turnover including all franchisee for FY18 are at Rs. 8,072 crores, a growth of 33% from FY17. For FY18 our steel business contributed 83% whereas our paint business contributed 17%. Profit before tax doubled for the year from Rs. 12 crores to Rs. 24 crores in FY18. Profit after tax also doubled from Rs. 8 crores to Rs. 16 crores in FY18.

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

Moderator:

Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Dhruv Agarwal from Crescita. Please go ahead.

Dhruv Agarwal:

Sir, my question is regarding your sales breakup between retail and institutional, so out of the Rs. 986 crores of steel that you have sold what is the proportion between retail and institution?

- Harish Agarwal:** Around 80% sales are in retail segment and 20% are in the project sites or to the builders.
- Dhruv Agarwal:** This is exclusively for steel, right?
- Harish Agarwal:** Yes.
- Dhruv Agarwal:** And for paints?
- Harish Agarwal:** In paints, we are totally into retail sales
- Moderator:** Thank you. We have the next question from the line of Kunal Shah from Emkay Global. Please go ahead.
- Kunal Shah:** Sir, I missed your commentary on the royalty, can you please repeat that?
- Harish Agarwal:** Royalty was Rs. 61 crores in the FY18 whereas it was as Rs. 41 crores in FY17, there was a growth of 50%.
- Kunal Shah:** And what would be your segmental breakup going ahead, what would you look at it in paints and steel in FY19, FY20 or further ahead?
- Harish Agarwal:** I ForFY18 the segment result is available on website, as well as BSE and NSE website which is given. And for FY19 the proportion would be, paint would be more as compared to steel. Presently we have 83% in steel and 17% in paint, in future you will find around 25% to 30% in paint and 70% to 75% in steel in our own balance sheet. Whereas in the franchise business you will find a turnover which we are targeting by 2020 of over Rs. 12,000 crores, which is presently Rs. 8,000 crores.
- Moderator:** Thank you. We have the next question from the line of Mulesh Savla from M M Savla Consultancy. Please go ahead.
- Mulesh Savla:** Sir, I have a small question on paint industry. May I know which kind of paints are we manufacturing more, may be water-based, my question is with reference with rising crude prices, does in any way impact our raw material cost and margin?
- Harish Agarwal:** First, we are into manufacturing of decorative paints. We have all types of product range which the market leaders like Asian, Berger, Nerolac, have i.e. interior, exterior, texture paints and designer paints. So as far as the crude price is concerned, it is connected with one product that is solvent based product and we are more of water-based and emulsions and premium based product for which crude price is not relevant.
- Mulesh Savla:** And are we able to pass on the increase if any?

Harish Agarwal: Yes

Mulesh Savla: And we do see good potential of paint business to grow in coming years?

Harish Agarwal: Yes.

Moderator: Thank you. We have the next question from the line of Girish Narang from Julius Baer. Please go ahead.

Girish Narang: Sir, I just wanted to understand the breakup of steel into trading and your core factory sales. I am assuming Rs. 650 crores should be trading?

Harish Agarwal: Yes, around Rs. 700 crores from trading business and Rs. 200 crores from steel, Rs. 61 crores from royalty.

Girish Narang: Yes Rs. 225 crores from steel, Rs. 700 crores from trading and Rs. 61 crores from royalty, right?

Harish Agarwal: That is Rs. 984 crores. **Girish Narang:** So now tell me sir, what is your margin in the trading business, 3% - 4%?

Harish Agarwal: No, it is not 3% - 4%, it is around 1% because it is a volume game.

Girish Narang: So, basically this means your core sale is a very high profitable business?

Harish Agarwal: Our focus area is franchisee business, royalty income.

Girish Narang: Okay. So the other expense, could just throw some light on the other expense of Rs. 126 crores, I would assume Rs. 70 crores would be the brand building?

Harish Agarwal: Yes. Out of which we have spent Rs. 50 crores and Rs. 20 crores is spent by franchisee units.

Girish Narang: Okay, so out of Rs. 126 crores, Rs. 50 crores goes in brand building and the balance?

Harish Agarwal: We have Rs. 50 crores towards the manufacturing expenses and Rs. 25 crores is around administrative cost, like office and other expenses. And manufacturing expenses also includes other expenses, there is no other bifurcation available in the format.

Girish Narang: I saw that figure coming down from last year

Harish Agarwal: No, last year it was Rs. 123 crores.

Girish Narang: I am saying compared to sales.

Harish Agarwal: Yes.

- Girish Narang:** So you think that will continue to stay flat or that will also increase marginally with sales?
- Harish Agarwal:** It will marginally increase, but not in the proportion of sales.
- Moderator:** Thank you. We have the next question from the line of Ajay Khandelwal from BOI AXA Mutual Fund. Please go ahead.
- Ajay Khandelwal:** Sir, what is the volume sales now we have for the full year?
- Satish Agarwal:** Full year volume through the franchisee route for FY18 was 17.1 lakh MT
- Ajay Khandelwal:** Versus 14-odd lakh last year, right?
- Harish Agarwal:** Yes. Last year it was 14 lakh MT.
- Ajay Khandelwal:** So, do we have breakup of this color coated sheets also?
- Harish Agarwal:** Yes, it is very minor.
- Ajay Khandelwal:** Because I think franchise total is 5-odd lakh ton
- Harish Agarwal:** Franchisees have only 2.5 lakh metric ton.
- Ajay Khandelwal:** Yes, but sales number is still yet to catch up for color coated sheets?
- Harish Agarwal:** Yes, it is only in the testing phase.
- Ajay Khandelwal:** So, sir, the royalty payment structure is the same there in color coated sheet also?
- Harish Agarwal:** No, in color coated sheet royalty earned is more, we are charging Rs. 1,000 per metric ton.
- Ajay Khandelwal:** And what is the premium in market that it commands?
- Harish Agarwal:** Around Rs. 3,000 to Rs. 4,000 as compared to local brands.
- Ajay Khandelwal:** So, what is the brand expenses now and expected for next year?
- Harish Agarwal:** Last year in FY17 we spent Rs. 50 crores, in 2018 we spent Rs. 50 crores, so we are expecting marginal increase but not much more.
- Ajay Khandelwal:** And what would be the volumes next year then?
- Harish Agarwal:** We are targeting for 22 lakh metric ton.

- Ajay Khandelwal:** On Kamdhenu NXT, in our release we have said that for NXT and for SS10000 that we have increased prices, right?
- Harish Agarwal:** Yes. We have increased prices for all 3 products i.e. Kamdhenu TMT, Kamdhenu SS10000 and Kamdhenu NXT.
- Ajay Khandelwal:** All three, sir?
- Harish Agarwal:** All three, as the market is in the upward trend.
- Ajay Khandelwal:** so we have increased by Rs. 800, right?
- Harish Agarwal:** Not Rs. 800, it has increased by around Rs. 2000 to Rs. 3000 per ton in last one month.
- Ajay Khandelwal:** So what would be our share then? Right now I think we were getting 35 paise out of Rs. 2 - Rs. 2.5 premium, now how much would it be?
- Harish Agarwal:** It will be more or less same, it will increase gradually but it will not increase overnight.
- Ajay Khandelwal:** So gradually it will start reflecting?
- Harish Agarwal:** Yes.
- Ajay Khandelwal:** And that is what we are building in saying that our royalty fees will increase to Rs. 100 crores in two years time, so this is what you mean?
- Harish Agarwal:** Right, sir.
- Ajay Khandelwal:** So, sir now coming to the paint division, so what is the volume we have done?
- Harish Agarwal:** From our own manufacturing we have 24,000 metric tons.
- Ajay Khandelwal:** And how much of it is value added or what we qualify as higher segment, out of the 24,000 metric tons
- Harish Agarwal:** Around 14,000 metric tons out of the 24,000 metric tons is value added which is water based and premium paints.
- Ajay Khandelwal:** So, sir next year what is the target in terms of volume ?
- Harish Agarwal:** 4% increase on the premium product and water-based product.
- Ajay Khandelwal:** Absolutely, but do we have any numbers in mind, what kind of volumes will they do?

- Harish Agarwal:** We are targeting around Rs. 275 crores in FY19 as compared to Rs. 200 crores in this year.
- Ajay Khandelwal:** In release we have said that paint division has made profit now this quarter?
- Harish Agarwal:** Yes.
- Ajay Khandelwal:** So this is what, PAT level?
- Harish Agarwal:** It is at PBT level, as whole year there is a minor loss, but on the PBT level in the fourth quarter we have profit.
- Harish Agarwal:** Rs. 8 crores from the paint and Rs. 28 crores from steel
- Ajay Khandelwal:** Because the ROCE that we have calculated on the steel business is also 42% where I think capital deployed is some Rs. 120-odd crores, so there also we have calculated that way only. So I think we need to check these numbers.
- Harish Agarwal:** Right, I will check.
- Ajay Khandelwal:** Also, if we start putting volume numbers for steel business that will help because what happens because of steel price volatility people say that branded sales revenue is flat for last three years before this year but this year there is a jump of 30%. So, if we start putting volume numbers that will give a very good picture.
- Harish Agarwal:** Right.
- Ajay Khandelwal:** So sir, just to wind up, so paint division you are saying Rs. 7 crores - Rs. 8 crores kind of EBIT for full year?
- Harish Agarwal:** Yes.
- Ajay Khandelwal:** And this quarter what is the EBIT done, I mean is there seasonality in this quarter anywhere in any of the numbers? Have we got any raw material benefit or is there any seasonality in numbers this quarter?
- Harish Agarwal:** In the paint business the sequence is quarter one, then quarter two is better, quarter three is more better and quarter four is more better, this is the sequence of the paint business.
- Ajay Khandelwal:** So now Q4 is the strongest and Q1 will be the weakest?
- Harish Agarwal:** Yes.
- Ajay Khandelwal:** For the company in steel business is there any seasonality?

- Harish Agarwal:** Throughout the year it remains same.
- Ajay Khandelwal:** Remains same, right?
- Harish Agarwal:** More or less.
- Ajay Khandelwal:** So steel numbers whatever we have done we can expect that there will be improvement on ongoing basis?
- Harish Agarwal:** Yes, in the paint business you will also see increase in Q1 because we are targeting Rs. 275 crores in FY19.
- Moderator:** Thank you. We have the next question from the line of Dhruv Agarwal from Crescita. Please go ahead.
- Dhruv Agarwal:** Sir, my question is regarding the royalty income, can you give me royalty income per ton for this whole year compared to last year?
- Harish Agarwal:** It is Rs. 358 per metric ton as compared to Rs. 283 last year.
- Dhruv Agarwal:** Sir, is your royalty income per ton fixed in nature?
- Harish Agarwal:** It is not fixed for all, it depends from region to region and market to market and franchisee to franchisee, the royalty income ranges from Rs. 300 to Rs. 500 per metric ton.
- Dhruv Agarwal:** Rs. 300 to Rs. 500 per metric ton is what you charge, and it varies from franchisee-to-franchisee and region-to-region.
- Harish Agarwal:** Yes, depending on the premium in the market. Right now premium on an average of Rs. 2,500 across India ranging from Rs. 1500 per ton to Rs. 4000 per metric ton.
- Dhruv Agarwal:** Okay, Rs. 1500 per ton to Rs. 4000 per metric ton is your realization, correct?
- Harish Agarwal:** No, it is brand premium.
- Dhruv Agarwal:** And average is Rs. 2,500?
- Harish Agarwal:** Yes.
- Dhruv Agarwal:** So on this Rs. 2,500 you charge royalty income from Rs. 300 to Rs. 500 range.
- Harish Agarwal:** Yes, average is Rs. 358 for FY18.



*Kamdhenu Limited
May 30, 2018*

- Dhruv Agarwal:** So, apart from this brand premium what is the per metric ton realization or the sales price we can say for steel?
- Harish Agarwal:** It is around Rs. 50,000 - Rs. 52,000, depending on the product, Kamdhenu TMT or Kamdhenu NXT.
- Dhruv Agarwal:** Okay. Sir, apart from the royalty income that you get from the franchisees, what is the other revenue stream that you charge to the franchise?
- Harish Agarwal:** We put stipulation to spend some money on the brand Kamdhenu. Last year the franchisee spent around Rs. 20 crores on the Kamdhenu brand and Rs. 50 crores were spent by Kamdhenu, so the total expenditure was Rs. 70 crores from the brand.
- Dhruv Agarwal:** Okay. So this you charged from them and then you spend that Rs. 20 crores on branding, is that right?
- Harish Agarwal:** We charge royalty then over and above the royalty we make some tabulation like you have to spend Rs. 50 in your area or Rs. 75 or Rs. 100, so it is over and above the royalty amount.
- Dhruv Agarwal:** So apart from royalty there is no other income from franchisee that accrues to you, correct?
- Harish Agarwal:** Yes.
- Dhruv Agarwal:** And sir my last question is on raw material sourcing, sir if you can explain how do you source raw material from the market?
- Harish Agarwal:** For manufacturing or for franchisee?
- Dhruv Agarwal:** You can explain it for yourself as well as franchisee, if possible?
- Harish Agarwal:** For our own manufacturing we have furnace and our capacity is 22,000 metric ton of ingot whereas we have TMT capacities of around Rs. 72,000, rest material we source from the local market or from Jharkhand and Orissa, Chhattisgarh. And franchise directly purchase the material, we give them the quality parameters that you have to buy raw material with this quality and they are free to buy from anywhere. Our person who has been deputed in their plant tests the material, if it is okay then it will go to production otherwise it will be rejected, returned back to the supplier.
- Dhruv Agarwal:** So you have your own furnace and the rest of the material you take it is from the states, and for franchisees you just have the given norms and then they take it directly from the market?
- Harish Agarwal:** Yes.

- Moderator:** Thank you. We have the next question from the line of Pratik Shah, an investor. Please go ahead.
- Pratik Shah:** Sir, I have two set of questions. One is, what is our current capacity and capacity utilization in our steel business?
- Harish Agarwal:** Our franchisee business capacity is 25 lakh metric ton and last year we sold 17 lakh metric ton and capacity utilization would be around 68% for the franchisee.
- Pratik Shah:** And coming to my second question, with regards to our raw materials where do we see the steel prices going ahead? And just in case if we see an increase in the steel price, will it impact our company?
- Harish Agarwal:** No, because we are in the secondary market, we buy ingot and billet from the market and reroll, the price is directly linked with the raw material prices. The moment the prices of raw material increases, immediately the sales price also goes up. So there is no impact in increase in the prices, except few marginal impact in the stock lying in the factory, either in our own factory or in franchisee unit. So there is not much impact on price increase or decrease.
- Pratik Shah:** Sir, what is the status of our 30 lakh convertible warrants issued by the company and how much till now has been converted to equity shares?
- Harish Agarwal:** 10 lakh has been converted into equity on 12th April, rest will be converted at end of this year, December 2018.
- Moderator:** Thank you. Our next question is from the line of Anmol Das from Stewart and Mackertich. Please go ahead.
- Anmol Das:** Sir, I wanted to ask about your own manufacturing capacity, what is the volume and EBITDA per ton of the realization?
- Harish Agarwal:** Our capacity for manufacturing of TMT is 72,000 metric ton, and 22,000 for furnace, i.e. manufacturing of ingot. And we have utilized about 75% capacity in FY18.
- Anmol Das:** And any figure regarding the realization of that?
- Harish Agarwal:** Realization is changing throughout the year, it was 40,000 in April 2017, and if you see in March it was Rs. 50,000.
- Anmol Das:** So you cannot give average for the year?
- Harish Agarwal:** You can average that, around Rs. 45000 metric ton.



*Kamdhenu Limited
May 30, 2018*

- Anmol Das:** And regarding the same thing, do you have any expansion plans for own manufacturing or you are going to keep it at a moderate pace?
- Harish Agarwal:** We are not planning expansion by capex infusion,, rather we are expanding our capacity through franchisee route. So we are planning to double our capacity in the next five years.
- Moderator:** Thank you. We have the next question from the line of Govind Sabu from India Nivesh Portfolio Management. Please go ahead.
- Govind Sabu:** Sir, regarding the volumes which we were talking 17.1 lakhs, do they all belong to TMT? And what is volume for structural steel and color coated sheet products?
- Harish Agarwal:** 2.5 lakh tons for structural sheet and color coated sheets and 14.5 lakhs for TMT.
- Govind Sabu:** And sir can I have the royalty breakup also in the same manner?
- Harish Agarwal:** Rs. 53 crores from TMT and Rs. 8 crores from the structure and sheets.
- Govind Sabu:** Small question, what is our plan for capacity and volumes next year FY19?
- Harish Agarwal:** By 2020 we are planning to have Rs. 100 crores royalty, and we are also planning to increase our capacity from 20 lakh metric ton to 50 lakhs metric ton in the franchisee route in the next five years. But we are not infusing our own CAPEX
- Govind Sabu:** Yes, that is good. And this royalty figure per ton has increased substantially this year as compared to FY17, from Rs. 283 crores to Rs. 358 crores. So, do we have any sense of going forward in FY19 what would be the figure?
- Harish Agarwal:** Yes, it would be around Rs. 400 per metric ton.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments. Please go ahead, sir.
- Harish Agarwal:** I take this opportunity to thank you everyone for joining on this call. I hope we have been able to address all your queries. For any further information, kindly get in touch with me or SGA, our investor relations. Thank you once again.
- Moderator:** Thank you, gentlemen. Ladies and Gentlemen, on behalf of Kamdhenu Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.