



"Kamdhenu Limited
Q4 FY'23 Earnings Conference Call"
May 22, 2023

Kamdhenu Limited Management:

Mr. Satish Agarwal – Chairman & Managing Director
Mr. Harish Agarwal –Chief Financial Officer



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Moderator:

Ladies and gentlemen, good day, and welcome to Q4 and FY '23 Earnings Conference Call of Kamdhenu Group. 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 the 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 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Satish Agarwal:

Good afternoon, and a very warm welcome to everyone present on the call. Along with me, I have Mr. Harish Agarwal, Group CFO; Mr. Saurabh Agarwal, Managing Director of Kamdhenu Ventures Limited and Strategic Growth Advisor, our Investor Relations Adviser. We have updated our results and investor presentation for the quarter under stock exchanges and company's website. Hope everyone had a chance to go through the same.

We have delivered a strong performance in the financial year 2023 in both steel and paint business. I will speak about some steel business first. Our brand sales turnover of FY '23 had increased by 32% year-on-year to INR21,000 with franchisee volume growing 21% year-on-year to 29.8 lakh metric tons. The company has reported revenue growth of 22% year-on-year to INR732 crores for FY '23.

For Q4 '23 revenue was still at around INR167 crores. Domestic steel demand growth continues to remain healthy, driven by renewed thrust on infrastructure development and pickup in the real estate and construction activities.

India is looking to modernize, expand and accommodate aspirations of the growing population, through urbanization and industrialization. Thus, TMT bar consumption growth is expected to rise on account of government expenditure on infrastructure and manufacturing in the long run. Having a differentiated model of franchising help us scale efficiency. Our royalty income franchisee sales stands at INR114 crores from FY '23, showing growth of 25% year-on-year basis.

This ensures maximization of returns with minimal investment. Our presence and brand recall in the market with 40 lakh metric tons capacity through franchisee model places us in a sweet spot. We are looking towards expansion to propel further growth. With the current demand, we expect to achieve a brand sales turnover of INR25,000 crores by FY '24. We are delighted to inform you that we have cleared all our debts and are now debt free. From a sustainability viewpoint, we continue to focus on technology and innovation.

Going ahead, we are focused on increasing our annual capacity through franchisee route from 40 lakh metric tons to 50 lakh metric tons over the next year, increase our royalty income to approximately INR140 crores and increase EBITDA to approximately INR80 crores in FY '24.

To conclude, our company holds a strong market share in the organized segment of steel. Our pan India presence with 8,500 plus steel dealers is spread across India shall enable us to reach the remotest area. We wish to align the brand as a brand of the people's choice. With our strong brand, marketing and distribution network and unique asset-light model, we are well placed to capture any opportunity in future.

Now I'm going to hand over to Mr. Saurabh Agarwal, Managing Director of the Kamdhenu Ventures Limited, to present the reports of Kamdhenu Ventures Limited, which is now our paint business. Over to Mr. Saurabh Agarwal.

Saurabh Agarwal:

Good afternoon, everyone. Now I will give you a brief review about the Kamdhenu Ventures Limited, which is our paint business. Revenue for Kamdhenu Ventures stood at about INR260 crores for financial year '23 a growth of 7% of which INR251 crores is related to Kamdhenu Colour and Coatings Limited, 83% of our revenue comes from water-based products, 10% from solvent-based product and 10% from powder-based product. The average selling price of our products stands at INR79 for FY '23. We have 4,000-plus dealers pan India as on date.

Focus of doing business continues to penetrate into existing markets, explore new markets and expand the dealer network in Tier 2, 3 and Tier 4 cities. Our strategy remains on manufacturing and sales of premium paint products and reduction in manufacturing of low end products -- low value products. In order to achieve this goal, we are outsourcing our low-value products from contract manufacturing adhering to stringent quality standards.

Kamdhenu Ventures Limited has raised funds to the tune of INR65.25 crores by way of preferential issued to qualified institutional buyers. This amount was raised for the purpose of redemption of preferential -- preference shares and inclusion of funds in Kamdhenu Colours and Coatings Limited a wholly owned subsidiary of the company. INR58 crores will be invested in Kamdhenu Colours and Coatings Limited. This will be used in meeting the working capital requirement of paint business, image building through aggressive branding and marketing of the paint products, meeting capital expenditure by way of addition of fixed machines and tinting machines at dealer counters and reduction of GECL facility loan.

With this, I will hand over the call to our group CFO, Mr. Harish Agarwal, for the financials. Thank you all.

Harish Agarwal:

Thank you, sir. I will take you all through the financials for Kamdhenu Limited for Q4 and FY '23. Our steel volume from franchisee route have stood at 8.05 lakh metric tons in Q4 FY '23 and compared to 6.8 lakh metric tons in Q4 FY '22, a year-on-year growth 17%. FY '23, steel volume grew by 21% to 29.82 metric tons. Our TMT volume from own facility stood at 23,930 metric tons in Q4 FY '23. For FY '23, TMT volume grew by 15% to 102,080 metric tons.

Total brand turnover for Q4 FY '23 stood at INR5,677 crores as compared to INR4,822 crores in Q4 FY '22, a growth of 18% year-on-year basis. For FY '23, total brand turnover grew by

32% year-on-year to INR21,197 crores. Royalty income through franchisee stood at INR30.3 crores in Q4 FY '23 as compared to INR24.3 crores in Q4 '22, a growth of 25% year-on-year basis.

For FY '23, it grew by 25% to INR114.1 crores. Revenue from own facility stood at INR135.1 crores in Q4 FY '23 as compared to INR145.6 crores in Q4 FY '22. For FY '23, it grew by 25% to INR590.8 crores. Total revenue at INR166.9 crores and INR732.1 crores for Q4 FY '23 and FY '23 respectively. Our EBITDA stood at INR15.2 crores in Q4 FY '23 as compared to INR19 crores in Q4 FY '22. For FY '23, it grew by 10% to INR60 crores. Profit before tax stood at INR14.40 crores for Q4 FY '23 and for FY '23 it stood at INR54.90 crores, showing a growth of 11% year-on-year basis. ROE stood at 24.6% and ROCE stood at 34.1%.

Let us go through the numbers of Kamdhenu Ventures Limited now. Our revenue for Q4 FY '23 stood at INR70.8 crores and INR259.5 crores for FY '23 of which INR250.5 from Kamdhenu Colour and Coatings Limited. EBITDA for Q4 FY '23 stood at INR0.1 crores and - INR0.5 crores for FY '23, out of which INR0.4 crores was from Kamdhenu Colour and Coatings Limited. PAT stood at -INR2.5 crores and minus INR11.3 crores for Q4 and FY '23, respectively, out of this minus INR2.30 crores and minus INR10.3 crores is from Kamdhenu Colour and Coatings Limited for Q4 FY '23 and financial year '23 respectively.

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

Moderator: Thank you. First question is from the line of Darshil Pandya from Finterest Capital. Please go ahead.

Darshil Pandya: I just want to understand. So we have a total capacity of 36,000 KL p.a. from our own and 50,000 KL p.a. is from the outsourcing part. So I just want to understand what was the capacity utilization from our existing and for the whole period capacity?

Satish Agarwal: You are talking about the paint business?

Darshil Pandya: Yes. Paint business.

Harish Agarwal: In fact, in this financial year 22-23, we were also engaged in the outsourcing of low-value product, economic range of product. And our plant utilization was around 25% throughout the year. And now we are increasing production of value-based product in our own plant and reducing the low-value product.

Darshil Pandya: Okay. 25% is what you said, right? Okay. That is one. And sir, about the guidance that you have given...

Moderator: Darshil, your voice was not audible. May I request you to please repeat your question?

Darshil Pandya: If you can put some light on how you are going to achieve these numbers FY '23 year end?

Moderator: Darshil, sorry to interrupt you, you were not audible. Can I please request you to repeat your question?

- Darshil Pandya:** Yes. I'll repeat my question, sir. Okay. So you have given EBITDA guidance of 8% for FY '25 okay. So I just wanted to understand how are we going to achieve this, like, what's the strategic plan for achieving those numbers?
- Harish Agarwal:** Yes. We have an aggressive plan for the paint business. That is why we have made a demerger of this business. And how we are focusing on increasing our revenue. And we have also seen in the projections that we have also targeting the turnover of around INR1,000 crores in the next 4 years. INR1,000 crores, our EBITDA level will be much higher than what we have projected. And our strategy is to penetrate the product in the rural areas and also adding the new dealers, new tinting machines and infusion of the funds, which we have released last month in the aggressive marketing and the branding.
- Darshil Pandya:** Okay. And should I expect that the majority of the growth will be coming from the high-value products?
- Harish Agarwal:** Yes, you are right. We are focusing on that. So there is a margin in the high-value products.
- Darshil Pandya:** Margins on the high value. So what was the margins in the high-value products? That's the last question.
- Harish Agarwal:** In fact, there is a lot of expenditure on the sales promotion and branding. But if you see the gross margins, it would be around 40%.
- Darshil Pandya:** 40% in the high value.
- Moderator:** Thank you. The next question is from the line of Jiya Shah from Wealth Securities. Please go ahead.
- Jiya Shah:** So in the steel business, we are planning to raise some funds around INR70 crores. So what is the update on the same?
- Harish Agarwal:** First our request is pending with NSE and BSE, they are working on that. If we get the approval from the NSE, the fund will be immediately released. So it is in the hands of NSE and BSE.
- Jiya Shah:** So are we facing any particular issue for the dealer?
- Harish Agarwal:** They are calculating the price. So they have the different formula of calculating the price and we have the formula because when the demerger taken place on the fifth September, they are taking the value of calculation prior to that date without any adjustment. So we are representing our case in the SEBI also.
- Jiya Shah:** Okay. And -- like there's a major push in the infrastructure projects in the country.
- Harish Agarwal:** Your voice is cutting. So can you -- close to the mic?
- Jiya Shah:** Okay. I'll just check and rejoin the queue.

Moderator: Thank you. The next question is from the line of Aditi Sawant from ADM Advisors. Please go ahead.

Aditi Sawant: I have 2 questions. First, what are the current utilization levels at the steel plant?

Harish Agarwal: It is 85% in our own facility.

Aditi Sawant: Okay. And sir, in our steel business, revenues from our own facilities were up by 25% in FY '23. However, if I see in Q4, it has reduced. So can you please elaborate on this, why there was a reduction in Q4?

Harish Agarwal: In fact, there are 2 reasons. One is we have a strategy to reduce the trading sales, B2B business, wherein margin is very low. Number two, there is a reduction in the selling price. So that is why you are seeing the top numbers are low as compared to previous quarter.

Moderator: Thank you. The next question is from the line of Akash Mehta from Capaz Investments. Please go ahead.

Akash Mehta: First question would be that over the years, our revenue from water-based products is increasing and is currently at 83%. Is it more of a high margin or high demand?

Harish Agarwal: In fact, the market is moving towards the water-based product. And people are interested in getting the house painted with the water-based because of eco-friendly. So use of the solvent based and power based is gradually reducing. And within the water based, there are a lot of varieties; emulsions, distempers also. So we are increasing our high-value license. In the last year, there was an average of INR79 of the average ASP.

Akash Mehta: Okay. So you're seeing a trend towards water-based products?

Harish Agarwal: Yes.

Akash Mehta: And just the second question on our competition. Basically, with the new companies in the paint business, like, JSW also coming in, would our competition be increased? And what is your plan to compete with the established and new brand coming?

Harish Agarwal: We have our own market because Kamdhenu brand is well-known brand in the Tier 2, Tier 3 cities. And we are focusing to increase our sales in the Tier 2 and Tier 3 cities, where the presence of the large players are less. So we are not seeing any much competition with the big players.

Akash Mehta: Okay. So you plan to operate in our niche only.

Harish Agarwal: Yes. Because of our brand strength.

Moderator: Thank you. The next question is from the line of Riya Verma from NR Securities. Please go ahead.

Riya Verma: So I have 2 questions. Firstly, the EBITDA growth for steel business is at 10% for FY '23. So the growth is driven by higher volumes? And was it on account of higher realization?

- Harish Agarwal:** It is on account of increase in the royalty income.
- Riya Verma:** Right. And what is the market share in Tier 2 and Tier 3 cities for the paint business?
- Harish Agarwal:** It is around 70% of our sales come from Tier 2 and Tier 3 cities, 30% from the metro and Tier 1 cities.
- Moderator:** Thank you. The next question is from the line of Karan Shah from Shah Investments. Please go ahead.
- Karan Shah:** I have a couple of questions. Firstly, in the paint business, we have raised the funds. So how are we planning to utilize the same? And what additional capacities would come in? Also, can you comment on what kind of revenues we can expect from the same?
- Harish Agarwal:** We raised the fund for expansion of our paint business and we also, given the objective that we are going to reduce our debt of the COVID loan or some working capital limit and also increasing some tinting machines and some balance equipment for automation of the machinery and also for the branding purpose. And we have the sufficient capacity in our plant to have -- to make a product of high value to the tune to INR450 crores. So we don't require to increase any capacity except few automization.
- Karan Shah:** Okay. Okay. And sir, one more question. So over how many years are we going to utilize the funds?
- Harish Agarwal:** It will be spent in this year itself.
- Moderator:** Thank you. The next question is from the line of Kanika Kothari from Kothari Securities. Please go ahead.
- Kanika Kothari:** Firstly, I wanted to know who are the major competitors for TMT bars and according to you, what is our competitive advantage over them?
- Harish Agarwal:** Kamdhenu is the largest TMT selling brand in the retail segment of the branded product. Last year, we sold around INR21,000 crores TMT bar in India, and it is largest one. We have some market share of around 27% in the retail branded segment. So there is a competition in the retail segment with some big players. You can say that all of over India it -- we compete with Tata Steel and at the regional level, there are some Shyam Steel in some regions and some Elegant in some other region. So there are some regional players. But at the national level our product compete with Tata Steel in the retail segment.
- Kanika Kothari:** And also, are you planning to launch any new products in the coming few months?
- Harish Agarwal:** In fact, we have a continuous process of R&D in our plant and we used to introduce new product every 2 to 3 years. So a new product is in pipeline. And hopefully, in this year or at the beginning of the next year, we are definitely going to launch new TMT bar.
- Moderator:** The next question is from the line of Jiya Shah. Sorry, she is out of the queue now. The next question is from the line of Yash Dave from Unique Securities. It seems there's no response from

the line of Yash. We will move to our next question. That is from the line of Riya Soni from Soni Investments. Please go ahead.

Riya Soni: So I have a couple of questions. How is the demand for paint currently. Also how has been the trend in the prices of raw materials for paints.

Satish Agarwal: Can you repeat the question please?

Riya Soni: Yes. So my question was how is the demand for paint currently. Also how has been the trend in the prices of raw material for the paint?

Satish Agarwal: See average demand have are 15% to 20% average growth per year. The paint market in India is huge. It is almost 40,000 crores. We are already working on how to increase the demand. We do not have a big requirement because we have a requirement of 100 crores per year to motivate the sales of 100 crores. So, we have a strong presence in North and East India where our demand for the next year's paint sales is going to be very high. So, we are working on how to increase the demand for the paints.

We are working on to extend the dealer network. We are working on learning of aggressive branding marketing. The demand is growing in our sector. Demand is shifting from unorganized sector to organized sector. We do not even think that there could be any problems with the growth strategy in the future. We also have planned a big event in Delhi this year. The retail counters in the entire Europe and India including 700-800 people will be present and we invite many celebrities from Bollywood and we have a motivational program with the dealers for 3-4 days so I think it is very helpful in converting into sales.

Riya Soni: Okay. So secondly, without major push in the infrastructure capex in our country, how are you planning to meet the increasing demand for the steel, like, is this done?

Satish Agarwal: As Harish ji said, the funds that we have raised for almost 65 crores we are using that to upgrade the machinery. There is a requirement for tinting machines in the market on new counters and on old counters too we need tinting machines Apart from this, we have to reduce the bank debt, the COVID loan. I think we don't need any capacity expansion and as Harish ji said, we can easily sell 450 crores from existing plants and if we have value-added products, water-based products, emulsions, I think in the coming time, we can improve our capacity utilization without any capex.

Riya Soni: Lastly for the paint business, we are planning to raise INR200 crores to that we have already raised INR65 crores, so by when are we planning to raise the next INR135 crores?

Satish Agarwal: That's a long process. We are in the process of planning -- so maybe a strategic partner may be private equity because ultimately we have the goal of achieving INR1,000 crores sales within next 4 to 5 years. And that is under process. And whenever the things materialize, we will inform you.

Moderator: Thank you. The next question is from the line of Yash Dave from Unique Securities. Please go ahead.

- Yash Dave:** Sir, I wanted to ask, in the steel business, we were planning to fund raise to the tune of INR70 crores. So what is the update on the same? Are we facing any issue with regards to NSE and BSE since there is delay in the same?
- Harish Agarwal:** Yes. The application is pending for approval with the NSE and BSE. We are calculating the price in a different formula for which we are approaching SEBI for the clarification.
- Yash Dave:** Okay. And our royalty income grew by 25% year-on-year in quarter 4 and FY '23, could you tell the amount of royalty our company charged per ton?
- Harish Agarwal:** Last year average we were charging INR382
- Moderator:** Thank you. The next question is from the line of Darshil Pandya from Finterest Capital. Please go ahead.
- Darshil Pandya:** I just have one follow-up question. As we have....
- Moderator:** Sorry, Darshil your voice is not audible clearly.
- Darshil Pandya:** As we have seen that you have a good presence in Tier 2, 3 and 4 cities. So are we seeing any government projects or something because there demand for those all things is very much...
- Harish Agarwal:** Government project and government demand or infrastructure project creates the sentiment for the steel product, but we are mainly into the retail segment. So we are not directly supplying to the government project or the reality builders, developers. We are trying through the dealer or distributor only. But our main focus is on the retail segment, the retail consumer.
- Darshil Pandya:** This is in regard to the paint business. It's not in regard to the steel business.
- Harish Agarwal:** The same answer is for the paint business. We are into the retail business. We're not supplying to the government project or some others, except a few projects we are doing, but our main focus is on the retail business, retail segment, dealer to dealer consumers.
- Darshil Pandya:** Okay. So there is no scope for this specific product or are there -- is the Board looking up for this opportunity. There's a lot of things happening in Tier 2, 3 cities you may take it up?
- Harish Agarwal:** There is a scope for future working on the government project or the -- with the developers, with the real estate companies. But I'm giving feedback about the past, where we were focusing only on the retail segment. In future, we will definitely explore the possibilities.
- Moderator:** Ladies and gentlemen, that was your last question for today. I now hand the conference back to the management for their closing remarks. Thank you, and over to you.
- Harish Agarwal:** I take this opportunity to thank you 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 SGA, our Investor Relations advisor. Thank you once again.



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Moderator:

Thank you very much. Ladies and gentlemen, on behalf of Kamdhenu Group, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines. Thank you.