



“Kamdhenu Limited
Q2 FY24 Earnings Conference Call”
November 09, 2023

MANAGEMENT:

Mr. Satish Kumar Agarwal – Chairman & Managing Director, Kamdhenu Limited

Mr. Harish Agarwal – Group Chief Financial Officer, Kamdhenu Limited

Mr. Saurabh Agarwal – Managing Director – Kamdhenu Ventures Limited



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Moderator:

Ladies and gentlemen, good day, and welcome to the Q2 FY '24 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 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

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I now hand the conference over 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 present on the call. Along with me, I have Mr. Harish Agarwal, Group CFO; Mr. Saurabh Agarwal, MD of Kamdhenu Ventures Limited and SGA Advisors, our Investor Relations Advisors. We have uploaded our results and investor presentation for the quarter on the stock exchanges and company websites. Hope everyone had a chance to go through the same.

We have delivered a strong performance for both the steel and paint business in Q2 and H1 FY '24. Coming to our steel business first, that is Kamdhenu Limited. During H1 FY '24 revenue for the company stood INR393.6 crores reflecting a growth of 3% on a year-on-year basis. Total brand turnover for H1 FY '24 stood at INR11,935 crores as compared to INR10,225 crores in annual H1 FY23, that is a growth of 17% year on year basis.

In India, the demand for TMT steel bar is on an upward trajectory, spurred by robust construction activities in both urban and rural areas. These bars are favored for their strength and durability, making them essential for infrastructure development and real estate projects. As the nation continues to invest in modernization and building resilient structures, the demand for TMT bars is expected to maintain its strong growth momentum.

What distinguishes us from our competitors is our franchisee and dealer-driven model. With a network of 8,500 plus dealers and a strong presence through our large number of franchisees, our reach continues to expand significantly while being asset-light. We also have a strong brand name when it comes to providing superior quality products, further emphasizing the company's commitment to excellence.

We have successfully navigated through short-term challenges by leveraging our capabilities while maintaining unwavering efficiency and will continue to do so going forward.

Now I would like to hand over the call to Mr. Saurabh Agarwal to give you an update on the paint business. Over to you, Mr. Saurabh.



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Saurabh Agarwal:

Thank you, and good afternoon, everyone. I would like to give you a brief on the paints business that is Kamdhenu Ventures H1 FY '24. In H1 FY '24, we continue to see strong momentum in the paint business. Revenues grew by 7% year-on-year to INR127.5 crores. EBITDA stood at INR8.9 crores, a significant turnaround compared to minus INR0.5 crores during the same time last year. This can be primarily attributed to our constant efforts to improve our sales mix with a large focus on premium products.

Demand for paint has witnessed remarkable growth in recent years. This surge can be attributed to several structures, including a booming real estate sector, increased urbanization and a growing middle class population with higher disposable income. Additionally, the government's focus on infrastructure development and affordable housing schemes have further fueled the demand for paint.

As consumers seek to enhance the appearance and longevity of their properties, there is a growing preference of innovative and eco-friendly paint solutions with a deferred range of choices and the construction and renovation sector on the rise, the Indian paint industry is poised for continued attention in the years ahead.

Kamdhenu Ventures in H1 FY '24 has raised fund amounting to INR65.25 crores through potential issuance of qualified institutional buyers. This fund raising endeavor serve the crucial purpose of ingesting capital into Kamdhenu Colour and Coatings Limited, our wholly owned subsidiary.

A significant portion of the rate INR57.76 crores has been invested in our subsidiary by the way of subscription of INR57.76 lakhs, 0.01% optionally convertible redeemable preferential shares of phase value of INR10 each at an issue price of INR100 per share of KCCL. The funds have been utilized in several purposes, which includes meeting the working capital requirement of the paint business and the reduction in working capital debt.

To further align with our commitment of recognition as rewarding our shareholders trust the Board of Directors of the company had approved the issuance of fully paid up bonus equity shares of INR5 each to the shareholders of the company in the proportion of 1:1. The bonus equity shares shall rank pari-passu.

We at Kamdhenu Ventures continue to focus on underserved smaller town through our expansive distribution network. As the economy grows and these cities start urbanizing the demand of paint-related products would rise with increased infrastructure projects.

Our strategy would be to forge partnership numerous dealers to expand our reach across several geographies in India. We would also continue to improve our sales mix total premiumization of our product portfolio by launching a larger array of higher quality, innovative and premium products, while expanding into new segments.

The company has strategic planning of forging partnerships with numerous new dealers across India, augmenting its production capabilities by adding new plants, tapping under-penetrated markets. premiumization of product portfolio through the launch of innovative products and expanding into new segments and expanding nationwide visibility.

All together Kamdhenu Paint has envisioned itself to become the preferred choice of customers. Our innovative and expansive product portfolio would be a key contributor to growth and help a lot further potential in this company for years to come.

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

Moderator: Participants, please hold on. We have got the line disconnected with the management. Please hold on. I'm trying to reconnect back with them. Yes, sir, we can move ahead. Participants, we have the management on the line. Sir, we can go ahead.

Harish Agarwal: Thank you, sir. First, I would like to take you through the financials of the steel business. Now I would like to share the highlights for Q2 FY '24. Our steel volume from franchisee route has stood at 7.5 lakh metric ton in Q2 FY '24 as compared to 6.82 lakh metric ton in Q2 FY '23, a year-on-year growth of 10%.

Our TMT volume from home facilities stood at 29,398 metric tons in Q2 FY '24, registering a growth of 10% year-on-year. Total brand turnover for Q2 FY '24 stood at INR5,804 crores as compared to INR4,916 crores in Q2 FY '23, witnessing a growth of 18% year-on-year. Royalty income through franchisee stood at INR29.6 crores in Q2 FY '24 as compared to INR26.2 crores in Q2 FY '23, a growth of 13% on a year-on-year basis.

Revenue from own facilities stood at INR155.4 crores in Q2 FY '24 as compared to INR155.8 crore in Q2 FY '23, having almost same level. Total revenue stood at INR185 crores in Q2 FY '24 as compared to INR191.3 crores, registering a degrowth of 3% year-on-year, mainly on account of reduction in B2B sales.

Our EBITDA stood at INR13.3 crores in Q2 FY '24 as compared to INR12.2 crores in Q2 FY '23, a growth of 9% year-on-year. Profit after tax stood at INR10.2 crores for Q2 FY '24 as compared to INR8.2 crores in Q2 FY '23, a growth of 24% year-on-year.

Now I would like to share the highlights for H1 FY '24. Our steel volume from franchisee route has stood at 15.68 lakh metric ton in H1 FY '24 as compared to 14.12 lakh metric ton in H1 FY '23, a growth of 11%. Our TMT volume from own facility stood at 61,491 metric ton in H1 FY '24, registering a growth of 20% year-on-year.

Total brand turnover for H1 FY '24 stood at INR11,935 crores as compared to INR10,225 crores in H1 FY '23, a growth of 17% year-on-year. Royalty income through franchisee stood at INR61.5 crores in H1 FY '24 as compared to INR53.7 crores in H1 FY '23, a growth of 15% year-on-year. Revenue from owned facilities stood at INR331.6 crores in H1 FY '24 as compared

to INR308.4 crores in H1 FY '23, registering a growth of 8% year-on-year. Total revenue stood at INR393.6 crores in H1 FY '24, registering a growth of 3% year-on-year.

Our EBITDA stood at INR29 crores in H1 FY '24 as compared to INR27.6 crores in H1 FY '23, a growth of 5%. Profit after tax stood at INR22.2 crores for H1 FY '24 as compared to INR18.2 crores in H1 FY '23, a growth of 22% year-on-year basis.

Let us go through the numbers of Kamdhenu Venture Limited now. Kamdhenu Ventures reported strong performance during the second quarter and half year ended fiscal '24. First, to give you the highlights from Q2 FY '24. Revenue for the quarter stood at INR65.8 crores as compared to INR64.4 crores in Q2 FY '23, a growth of 2% year-on-year. EBITDA stood at INR4.9 crores as compared to INR0.7 crores last year in large increase due to an improved product mix coupled with improving operational efficiencies.

Our PAT has turned positive to INR3.4 crores in Q2 FY '24. Coming to the highlights for H1 FY '24. Revenue for H1 FY '24 stood at INR127.5 crores as compared to INR119.1 crores in H1 FY '23, a growth of 7% year-on-year EBITDA stood at INR8.9 crores as compared to minus INR0.5 crores last year, indicating turnaround in the paint business.

Our PAT stood at INR5.6 crores, which was minus INR5.5 crores in H1 FY '23. Average selling price per liter for H1 FY '24 stood at INR88. Water-based product contributed 83%; Powder product, 6%; and solvent based product 11%.

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

- Moderator:** The first question is from the line of Ms. Priyanka Singh from Atidhan Securities.
- Priyanka Singh:** So I had some questions on the steel business. Firstly, how about you planning to increase our franchisee and dealer network?
- Harish Agarwal:** We have planned to increase the capacity through the franchisee route, which is at present, we have 40 lakh metric ton capacity of TMT bar, which we are going to increase to 50 lakh metric ton very soon. And we are continuously increasing our dealer network across India by appointing new dealers.
- Priyanka Singh:** Okay. And what are our plans to increase our penetration in South and West regions?
- Harish Agarwal:** Can you repeat the question?
- Priyanka Singh:** So basically, what are our plans to increase our penetration in South and West regions?
- Harish Agarwal:** Yes. We have the plan to increase the capacity of the franchisee unit and we are also looking for the other franchisee unit to add the capacity in that regions.
- Priyanka Singh:** Okay. Okay. And why was there been increase in the short-term debt in the balance sheet?

- Harish Agarwal:** No, it's a INR1 crores against the FDR.
- Priyanka Singh:** Sorry, sir, INR1 crores?
- Harish Agarwal:** Kamdhenu Limited steel company is a zero debt company. There is no term loan. There is no working capital. But in a balance sheet, you are seeing a borrowing of INR1 crores. This is against the FDR, only limit against the FDR.
- Priyanka Singh:** Okay. And lastly, what would be the target brand turnover for FY '24?
- Harish Agarwal:** We are targeting brand turnover of around INR25,000 crores in FY '24.
- Moderator:** The next question is from the line of Mr. Pankaj Jain from Mahavir Investments.
- Pankaj Jain:** Sir, my first question is with the overall slowdown in the overall spending and the weak demand environment across the country, what are the strategies that the company has adopted to address the same?
- Harish Agarwal:** Paint or business? Paint or steel?
- Pankaj Jain:** Steel.
- Satish Agarwal:** Slowdown. Do you wish to understand this question about both steel and paint? Or is it just about a particular segment?
- Pankaj Jain:** Sir, majorly about paint business.
- Satish Agarwal:** **For Paints.** there is a slight slowdown in the market. And as you must have seen in Q2, there has been an excessive rainfall in India in the monsoon. And there was flooding in many places as well. So, it definitely affects demand. Kamdhenu focus is on the grassroots level. We are working on our premium products. Now, we will see that there is not much growth in volume. But the bottom line has improved.
- There is a larger focus on value added products. And for that, the branding and marketing are done on the ground level. This is done through the education of painters, dealers, and customers. We tell them about our good products. So, we focus more on that. And we have made a club for painters in which many people are interested
- And we incentivize painters as well. So, I think we are doing more activities on the ground level. And we are not so focused on TV networks. Because our sales are in tier 2, tier 3, tier 1 cities. Our major share is in tier 2 cities. And in tier 1, our presence is increasing. So, the main focus is on the ground level. Our field team, marketing team, and our retailers are educating the customers that we are providing the best products at a reasonable cost. So, I think that is working for us.

Pankaj Jain: Understood, sir. Sir, I have a second question. The overall growth guidance that the company has given to achieve INR1,000 crores of Revenue by FY'28 in paints business, Sir, you have told us our strategies, but how will we achieve this in the long term? The volume will increase, or the market share will increase. How do you plan to reach that INR1,000 crores of revenue by FY'28?

Satish Agarwal: This is our target for the next four to five years. And we are taking both organic and inorganic growth. In the areas where our presence is weak, we are improving our presence gradually, especially in South India. Because we have a manufacturing unit in Rajasthan. So, the transportation of paint from here to the South will cost us more. So, for that, we are developing a market in the South, like in Andhra Pradesh, Telangana, Karnataka, and other states. So, we are developing a market there.

And as soon as the market develops there, we will establish an association of production units so that we can produce locally. And the second thing is that where we are intensifying our retail network, we are increasing the dealers and new areas. So, that means the dealer network will increase, the geographical area will also increase, and for that, we will add a manufacturing unit after a year or two.

So, we are also planning how to generate funds through equity participation and we will set up a plant in Central India from where we can cover Central India and South India. So, this is how it is working. The company has made a plan for INR1000 crores. We are working on it in detail. And hopefully, we are working on this line.

Pankaj Jain: Thank you. Sir, I would like to ask about the new entrants coming which are trying to hold put like Grasim and JSW, they are also entering the paint business with aggressive pricing and strategies while also increasing their dealer network. So, what will be our strategy to fight that? Why will one prefer our Paints over the others?

Satish Agarwal: Grasim and JSW are big players and I think their competitor will be Asian Paint or other big companies. We are known for our steel and paint business at the grassroots level. And our loyalty to the customer or the product or our retail network or our painters who are mainly influencers. So, we get more operate through them.

And I think that among these big players like the big trees, which are affected by the storm, the small trees on the ground they don't have any problem. So, I think we are working more on the ground and we are working with strength. And definitely, it is right that when big players will come to the market and there will be some competition. So, I think the growth of paint and the demand in our future is increasing. So, there is no big issue for Kamdhenu. Because Kamdhenu doesn't need a sales growth of INR2,000, INR3,000 crores every year.

We have sale of INR400 crores to INR450 crores which we have to increase it to INR1,000 crores in the next five years. So, that means every year we need 20%, 25% growth in which we

need a share of INR100 crores every year. Every year, the sale of INR5000 to INR10,000 thousand crores is increasing. So, I think there should be no problem in this.

Pankaj Jain: Thank you. Sir, Lastly we were talking about the growth of 20%, 25%. So, the growth will largely come from volume, product mix or will there be a realization improvement? What will be the major driver? Will there be a volume growth or product mix?

Satish Agarwal: See, both will be there. There will definitely be a product mix. And the volume growth. The visibility of the brand will not be as much without volume growth. The higher the volume growth the larger the brand visibility. And along with that, the value-added products, premium products, how much acceptance do we bring in the market? So, definitely, the main growth driver is for profitability.

Pankaj Jain: Understood? So, sir, I will join back in queue for further questions. Thank you very much.

Satish Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Ms. Payal Shah from Investor. Please go ahead, ma'am.

Payal Shah: Thank you so much for the opportunity, sir. My questions are related to the paint business. So, my first question is, even though oil prices have gone up or raw material costs have declined on a Y-o-Y basis, so, could you please comment on the same, like?

Satish Agarwal: Ma'am, as per my investor presentation, if you look at it, the main focus of Kamdhenu paint is on water-based products. And the percentage of solvent which depends on oil prices, this year, we have a contribution of 11% solvent. And the powder-based products are only 6%. So, you will see that the water-based products are 83%. Normally, any company does not focus more on water-based products than 60%, 70%. All companies have to work on powder-based and solvent-based products. In Kamdhenu, even the primer products are water-based and eco-friendly. And we are focusing on that. So, I think, the oil-based products and petroleum products are not going to affect us much.

Payal Shah: Okay, sir. My second question is, the paint business is now EBITDA positive. So, what is the EBITDA margin for this particular business?

Satish Agarwal: Ma'am, this year, we are thinking that our EBITDA in this current financial year is 6%. So, I think, as the sales increase, because in Q2, there was excessive rain and floods in the whole of India, and in some states, like J&K, Uttaranchal, and Himachal, there was a lot of disturbance. There was a lot of excessive rain. So, I think, in the Diwali season, and after that, Q3 and Q4, hopefully, the sales should improve. And the margins, I mean, as the sales increase, the EBITDA margin will have an effect. So, hopefully, in H1, Q1 and Q2, Q3 and Q4, hopefully, it should improve.

Payal Shah: Okay, sir. My second question is, our revenue growth has been a little less. So, is this because of the festive season shift, or is there any other reason for the revenue growth to be less?

Satish Agarwal: Look, the revenue growth has been less because, as I told you, in two- three states, there has been a lot of excessive rain, where the sales have been very disturbed. And the area where there has been flooding, there has been a lot of excessive flooding, in many parts of India, in MP, in North, in Uttaranchal, in Himachal, and apart from this, in J&K. So, there has been a lot of impact of this on sales.

There were many depots in UP, where there was no flooding, we were able to recover the entire sales from there. And I feel that this is the festive season, and the October sales have been satisfactory. And I feel that from November onwards, this will remain on the same track.

Payal Shah: Sir, my last question is, which region are we targeting for geography, where there is an opportunity for our market share to increase?

Satish Agarwal: Look, in North, we have a strong performance and position, because in North, we have a unit, so our freight is a little less from here, and that is why it is more economical. So, here, UP, Punjab, Himachal, Bihar, West Bengal, Odisha, so, these are the belts of North, where there is a better, stronger performance there. And in Central India, South India, we are developing a marketing network, by opening new depots.

So, from there, the response is coming slowly, sales are increasing there, and as the sales increase there, As the sales increase their further we can do direct sourcing of materials from our Main plant. And for the low-priced products, we will develop another mechanism for that, by sourcing locally, we will supply that. So, I feel that work is going on at both the levels, and in the coming time, I think this will look good.

Payal Shah: Thank you so much, sir. Thank you for answering my question. Thank you.

Moderator: Thank you. The next question is from the line of Mr. Rajiv Mehta, from ACE Capital. Please go ahead, sir.

Rajiv Mehta: Thank you for the opportunity. So, I had a couple of questions. Sir, could you throw some light on the demand scenario for the steel products and the paint business? And also, how has been the trend in the prices of the raw materials?

Satish Agarwal: I would like to tell you about steel, that whenever we talk about infrastructure development in the country, steel is used for construction, and for finishing any project, paint is used. So, as you can see, there is a lot of infrastructure, whether it is for railways, highways, in the housing segment, or in the airports and roads.

So, I think, the current fast pace on which the infrastructure development is happening in India, this will cause increasing demand for steel. So, I would like to point out one more thing about this, Kamdhenu is a branding and marketing company. We are not just a sales or steel unit.



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We have an asset-light franchise model, where we have more than 80 units of steel products across India. We make TMT bars, colour-coated sheets, pipes, other structural steel, we make banding wires. So, through them, this is our franchise model.

So, we are continuously building up capacity with our demand. We are strengthening new networks in new areas. Although, in the entire country, we have a network of Kamdhenu in every state, but we are strengthening it more. As demand increases, we have to meet it. So, you mentioned profitability, because my major source of income comes from royalties. And my royalties are increasing every year.

The major driver of my growth is my volume. As Harish ji said, this year, we are going to increase the volume of steel to 32 lakh tons. Last year, our volume was 28-29 lakh tons. So, as the volume increases, the strength of the brand increases, and the income of royalties also increases. And because all these units are our franchise units, so, as the prices in the market decrease or increase, the prices of raw materials also increase or decrease proportionately. So, in the market, it does not affect our franchise units or Kamdhenu.

Kamdhenu's royalties are based on per ton basis. We work on volume. So, as the volume increases, Kamdhenu's royalties are almost unaffected or increasing. Except that, if the price increases or decreases on the stock, it comes under everyone's P&L. and as far as paint is concerned as demand is increasing prices has not escalated as much. Prices haven't revised in the past 6-8 months.

And it is happening that all the companies have changed their formulation. Because through R&D, everyone's effort is to find the best product, how much costing can be reduced, how durability can be improved in today's date. So, all the companies work on R&D. So, in this period, there have been a lot of cost-effective and formulation changes. In which the quality has also improved. The ingredients of raw materials have also changed. So, by working on that, and I think that in the era of competition, everyone will have to improve their profitability.

Rajiv Mehta: Okay. And sir, in our trading business, we have seen negligible contribution. So, how do we expect it to continue going forward?

Satish Agarwal: Are you talking about steel?

Rajiv Mehta: Yes, steel business?

Satish Agarwal: See, in steel, our effort is that, we have developed a installed capacity of 5052 lakhs tons through franchise route. So, we are making an effort of increasing it by 5 lakhs tons every year And in this too, the main focus or preference is that, the existing franchise units, by doing backward integration, we are improving their capacity.

Instead of adding a lot of new units, the first priority is that the existing units have to build up their capacity, by which their profitability improves, and the supply in the market also improves.



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And in this, there is no investment of the company. The company's support, technical support is there.

So, we are focusing on this, that the capacity is there, there is improvement, and the second thing is that, are you talking about B2B sales? The thing is that, till the time we needed, as our B2C sales are increasing, because there is no margin in B2B sales, all the developers and builders need more credit.

So, I think that there is a little bit of disturbance in this, so we are slowly reducing our focus on B2B sales, It is only there, where they need direct material from Kamdhenu, or they need advice from Kamdhenu, or through Kamdhenu, orders are routed, or payments are made through them. We are doing that much work. Rest, our entire effort is on increasing , B2C sales and that we should reach our end users through our retail network. While providing the best services, best prices, and best quality.

Rajiv Mehta: Okay, got it sir. Thank you, it was helpful.

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

Harish Agarwal: I would like to thank everyone for being part of this call. We hope, we have answered your questions. If you need more information, please feel free to contact us, or Mr. Deven Dhruva from SGA, our Investor Relations Advisor. I would also like to extend my heartfelt wishes for Diwali, and the upcoming festive season. Thank you.

Moderator: Thank you, sir. On behalf of Kamdhenu Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.