



“Kamdhenu Limited  
Q3 & 9M FY2019 Earnings Conference Call”

January 28, 2019



**MANAGEMENT:**

**MR. SATISH KUMAR AGARWAL – PROMOTER &  
CHAIRMAN & MANAGING DIRECTOR –  
KAMDHENU LIMITED  
MR. HARISH KUMAR AGARWAL – CHIEF  
FINANCIAL OFFICER – KAMDHENU LIMITED**



*Kamdhenu Limited*  
*January 28, 2019*

**Moderator:** Good day ladies and gentlemen. Welcome to the Kamdhenu Limited Q3 & 9M FY2019 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as from 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 “\*” 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, Promoter and CMD 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, you can view them on our website.

As you know, Kamdhenu is the largest TMT selling brand in India. We are the largest TMT retail seller in India with around 90% of our sales being retail sales.

Before we move on to discussing the performance for Q3 FY2019 we would like to bring you to notice that we have changed this strategy for our steel TMT business. We have decided to bring in more efficiencies in our own manufacturing and increase market share by the way of leveraging our brand and our asset lite business model.

In line with this we have reduced our focus on sales than to B2B segment and which we will call it as trading sales. This shift in strategy will lead to number one increased margins, number two better efficiencies with higher ROE and ROCE, number three reduced working capital requirement.

With this change in strategy, we believe the right way to monitor us would be by the way of tracking our sales excluding the trading sales, which has gone up to 57% compared to nine months of FY2018.

Our PBT has grown by 64% and our PAT has grown by 66%. Our focus will remain on high margin business that is B2C sales. For that we are increasing our own manufacturing capacity by the way of debottlenecking the existing facilities. This will help us innovate newer products going ahead, which will generate higher premium for our brand.

Secondly, we currently have 76 franchisee units who manufacture our products exclusively across India. Brand Kamdhenu is able to create a premium of over Rs.500 Crores in the market through our more than 6500 exclusive dealers and distributors spread across the country.



*Kamdhenu Limited*  
*January 28, 2019*

We ensure quick delivery of the TMT bars. Our USP is that we ensure delivery of any quantity; however, small it may be within 24 hours to any place in India.

Our company has spent Rs.61 Crores on branding and marketing and another Rs.21 Crores was spent by the franchisee on the sale. The company is on course to achieve its target of Rs.100 Crores royalty by 2020.

We expect 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 market potential of the affordable housing projects in the country is expected to touch Rs.6.25 trillion by 2022.

With the vision of housing for all 2022, India will need to construct 43000 houses everyday till 2022 to achieve the vision. This will significantly increase the demand for TMT bars in India and Kamdhenu, as a brand will be able to leverage its position through its strong dealer network.

Now coming to our paint business, the process of hive off the paint division through a demerger into a separate mirror image shareholding company, which has been recommended by the board during the last quarter, is under progress.

The following are the major benefits that we would be able to get from this demerger. Better scope for independent growth of the steel and paint division, independent and better management to focus on the steel and paint division, better operational efficiency and unlocking of value by listing both the division in two separate companies.

We offer a complete range of decorative paint products, which including exterior and premier emulsions, water based primers, wood finishes, aluminum paints and textures and designer paints. We have the newest offerings within the premium luxury wall finished segment also.

In the recent months, we have started the outsourcing model for our paint division wherein the low value products are outsourced and only the value-added products and premium products are manufactured in our own manufacturing capacity.

Our quality of paint products is superior to most of the organized peers. Target for the paint business is to focus on tapping the underpenetrated market, capture market share from unorganized players and improve our product portfolio, which would target paint premiumization.

With this, I would like to handover the line to Mr. Harish Agarwal to update on the operational performance of the company. Thank you.

**Harish Agarwal:**

Thank you Sir. I will take you all through the financials of nine months FY2019.



*Kamdhenu Limited*  
*January 28, 2019*

Total turnover including all franchisee for nine months of FY2019 are at around Rs.8,752 Crores, a growth of 47% from nine months FY2018. Revenue for nine months FY2019 are at Rs.974 Crores as compared to Rs.803 Crores in nine months of FY2018 a growth of 21%.

Revenue from steel business excluding trading has grown up by 73% to Rs.325 Crores as compared to Rs.188 Crores in nine months of FY2018. Revenue from trading has reduced by 70% in the last quarter from Rs.185 Crores to Rs.55 Crores.

Revenue from paint division grew by 35% to Rs.183 Crores as compared to Rs.136 Crores in nine months of FY2018. Royalty income through franchisees is up by 35% to Rs.60 Crores as compared to Rs.45 Crores in nine months of FY2018.

Profit before tax grew by 64% to Rs.26 Crores as compared to Rs.16 Crores in nine months of FY2018.

Profit after tax also grew by 66% to Rs.17 Crores as compared to Rs.10 Crores in nine months of FY2018. For nine months FY2019 our steel business contributed 81% whereas our paint business contributed 19%.

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

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Rohit Potti from Marshmallow Capital. Please go ahead.

**Rohit Potti:** Thank you for the opportunity and congrats to the company for a wonderful set of numbers. My first question is on the steel business. I understand that we have a branded sale of above Rs.8000 Crores in the country today, so can you give us the market share at the moment of our branded sales?

**Satish Agarwal:** That would be around 20% in the retail segment.

**Rohit Potti:** When you say that Rs.8000 Crores sales that we have, so that entire number is the retail segment that you are talking about is it?

**Satish Agarwal:** Yes.

**Rohit Potti:** And there we have a 20% market share?

**Harish Agarwal:** Around 20% in the organized sector.



*Kamdhenu Limited*  
*January 28, 2019*

**Rohit Potti:** I understand that and Sir with this evolution of our business model into a franchisee focused model I am guessing our steel business would have reduced working capital requirement or probably we do not have any major working capital requirements right because to the franchisees the only contribution that we have is to provide a brand and our marketing network right?

**Satish Agarwal:** Yes, that is right. Franchise unit has to provide working capital as well as capital investment in their plant. We do not require to invest anything in the operation of the franchisees unit. We give leverage of the brand to them and allow them to use our marketing network to sell their product.

**Rohit Potti:** Understood, so when we come to the steel business, where we would be requiring the working capital, as I guess the kind of the steel business model we are adopting we would generally not require much working capital, right?

**Satish Agarwal:** Yes, you are right there is not much of working capital requirement expect for our own manufacturing which we do it at our Bhiwadi unit, and also for the paint business we require working capital. For the trading activity we are reducing our working capital requirement.

**Rohit Potti:** When you say you are reducing your working capital, does that mean you be reducing it to zero in the future and how do you plan that?

**Satish Agarwal:** Yes, we are planning to make it zero, but it is not particularly feasible. There are some compulsions where we have to do some trading sales, but we are definitely going to narrow it down somewhere between 5 to 10 percent

**Rohit Potti:** Understood Sir and by how much are you increasing our own manufacturing capacity?

**Satish Agarwal:** The process is going on. In the last three quarters, we were having the production of around 59,000 metric tonnes as compared to 39,000 metric tonnes of the nine-month of FY2018, so we are increasing gradually. By the end this financial year, the process will complete, and the capacity will be almost double of the exiting.

**Rohit Potti:** Continuing on the steel business, I think in the previous calls you mentioned about us focusing slowly on higher value added products like color coated sheets, etc., so two questions here one how is that progress going on as far as contribution of other higher value added products is concerned and two do we continue to do research and development to come out with newer products, which will allow us to maintain, our brand strength?

**Satish Agarwal:** When it comes to color coated sheet, we are expanding our business only through the franchisee business. So, our income is only from the royalty sources, so this business is increasing through the franchisee route only we are not undertaking any production or manufacturing in this.. Number two in our own plant we are in the process of further developing the new product. Our plant is



*Kamdhenu Limited*  
*January 28, 2019*

being used for the R&D purpose and for the training our marketing and quality personals whom we depute in the franchise unit,.

**Rohit Potti:**

Sir this is something, which I am curious about. Could you help us understand how the whole franchise process works and how long do you take before you approve a person as our franchise manufacturer and what all processes are involved before they begin manufacturing for us, if you could help us understand the process I think that will be helpful?

**Satish Agarwal:**

For this our business development team identifies the unit, considering various parameters such as, whether the unit has a good potential in the market, quality of the promoters, , financial and non-financial discipline and after which they send a proposal to us. We basically identify those units which havethe capacity, but are facing problem in selling their products and also conduct due diligence of that Company, Thereafter we depute our quality control team to visit their plants. If they find that the plant is okay to produce as per Kamdhenu quality parameters, we allow them to use our brand name, otherwise first we upgrade their plant at their cost and thereafter we allow them to use our brand. During this process, we tell them you have to manufacture only Kamdhenu brand products. You are not allowed to manufacture any other product number one. Number two you have to sell your products through our marketing network only. We have a huge marketing network of 6,500 dealers and distributor across India who are exclusively working for Kamdhenu, so we have the marketing network, We have the brand, We have the quality parameters. We depute two persons in their plant. One for operation and one for quality monitoring, so this process roughly takes around three to four months as we start from the scratch that is right from the production process toselling the product in the market.

**Rohit Potti:**

Understood and extending this question, how do you plan to increase you network of 75 or 76 franchisees and 6500 distributors for the next three to five years do you have a target or anything of that sort?

**Satish Agarwal:**

When it comes to number of franchisees we are not inclined to increase the number of franchisees, but we are inclined to increase production capacity, which will be doubled in the next three years. Presently, we have a capacity of 25-lakh metric tonne of TMT, which in the next three years would be doubled to 50 lakh metric tonne, that's what we plan. With regards to our dealers and distributor network in the next three years, it will be around 10000.

**Rohit Potti:**

It is interesting, so why are you not looking to increase the number of franchisees? Is it because you think this is enough for us to serve the Indian markets for a long time to come or is it because there are no more franchisees left which satisfies your criteria?

**Satish Agarwal:**

There are a lot of units available in the market, but our focus is to add up that unit, which has larger capacity rather than the small capacity. Earlier we were adding that units which has a capacity, 5,000 metric tonne a month, but now plan to take only those franchisee on our board, which has a



*Kamdhenu Limited*  
*January 28, 2019*

capacity of at least 10,000 metric tonnes a month, so basically we have shifted our focus to take up a unit, which has the larger capacity rather than the smaller ones.

**Rohit Potti:** You plan to grow together with the current franchisee partners and help Kamdhenu become bigger and a better brand and at the same time the production capacity and the revenue and profits of the franchises will also increase along with Kamdhenu that is the plan is it?

**Satish Agarwal:** Definitely. We are telling all franchises that you may expand your business operations. You may expand your production, so they are doing.

**Rohit Potti:** Understood Sir and on the demerger bit could you give us a timeline on when you expect it to happen? Is it FY2020 or will it be FY2021?

**Satish Agarwal:** No it will be within FY2020. Within the next financial year, it will be completed.

**Rohit Potti:** Understood Sir. I will get back in the queue for further questions. Thank you.

**Moderator:** Thank you. The next question is from the line of Pankaj Jain from Mahavir Investment. Please go ahead.

**Pankaj Jain:** Thank you for the opportunity. Sir I have a couple of questions regarding TMT bars. We are having currently three types of TMT bars. Are we in the process of introducing any new TMT bars in the future?

**Satish Agarwal:** Yes. That is a regular phenomenon for Kamdhenu that we have continuous R&D in our plant especially in the one which is situated in the state of Rajasthan and I think within the next quarter you will find a new path-breaking product in the market.

**Pankaj Jain:** Got it and Sir what would be the overall demand for TMT bars in India on a broad based if you can just tell us and how much would be TMT used in retail space and through B2B space?

**Satish Agarwal:** One thing is very important in our business model that the demand can increase to any extent. When we are talking about the affordable housing or Pradhan Awas Yojana or any other infrastructure activity which may lead to increase in demand by 10% to 15% maximum, but the Kamdhenu's model is to convert the unorganized sector into organized sector. which means the existing capacity lying with the unorganised sector in the market is converted into converted into Kamdhenu products, so our main leverage is through the brand, and our retail marketing network and our own distribution system.

**Pankaj Jain:** Sir can you just bifurcate how much would be through organized and how much would be through unorganized right now currently?



*Kamdhenu Limited*  
*January 28, 2019*

**Satish Agarwal:** It is very difficult because India is big country and there are lot of units in the unorganized sector who are manufacturing and struggling for sales, so I think that is a plus point for Kamdhenu that unorganized sector players are approaching us daily in bulk and we are just looking for opportunities, which unit can be converted into a Kamdhenu product we first provide opportunity to our existing partners If the existing units has the land, they have the working capital, and if they are interested to expand their capacity then the first preference goes to them and if not then. definitely we look for opportunities to include new franchisees.

**Pankaj Jain:** So Sir can we assume that the unorganized market is a larger market than the organized market currently?

**Satish Agarwal:** Yes. In retail segment unorganized market is a huge market and lot of opportunity is there for us.

**Pankaj Jain:** Sir can you give us some light on the competition in TMT bars and the retail segment and how much would be their capacity?

**Satish Agarwal:** Competition, I think it is everywhere across the country, but if you are talking about the main producers only Tata is having the retail network and rest everywhere across the country in local market some regional brand is there and we have to selectively compete with all these regional brands and I think there is no major player except Tata Steel because JSW and JSPL are mostly working on the projects . Tata Steel also works on the projects , but they have the retail network also.

**Pankaj Jain:** Sir in your opening remarks you mentioned that we are doing debottlenecking so we are expanding our manufacturing through debottlenecking, but what would be the capacity in that and when it will come?

**Satish Agarwal:** The existing plant capacity for our unit was a of 72,000 metric tonne a year and now by doubling the capacity this will be to the tune of 1,44,000 to 1,50,000 MT approximately a year.

**Pankaj Jain:** Sir lastly what would be our capacity utilization currently in the paint business and the steel business?

**Satish Agarwal:** I think the paint business is doing well, good as per our expectation. This year we are seeing a growth of more than 30% in the paint business . The paint business has earned cash profits in this particular quarter and nine months also this year and hope in the future the paint will do extremely good.

**Pankaj Jain:** But Sir what would be the capacity utilization if you can just tell in the paint and steel business?

**Satish Agarwal:** In paint also, we are expanding the capacity as Harish ji mentioned that in paint we have started the outsourcing model for the low-priced products and recently we have expanded to Udaipur,





*Kamdhenu Limited*  
*January 28, 2019*

Ghaziabad, Banaras, and Bathinda in Punjab. For low price items like the putti and the distemper, we are getting it outsourced in the regional markets and for the premium products and the emulsion products we mainly produce in our own plants and we are increasing the capacity of our existing manufacturing capacity to cater to the growing requirements. I think with the existing plant, we will be able to supply paint to the tune of Rs.500 Crores and for that the work is in process and that will be completed in the next six months.

- Pankaj Jain:** Thank you so much. Got it. I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Ronil Dalal from Ambit Capital. Please go ahead.
- Ronil Dalal:** Sir my question was that post the GST did you see a lot of people moving from unorganized to organized?
- Satish Agarwal:** Definitely, the role of GST implementation is much more on unorganized sector. Previously in the unorganised sector there were number of firms , to get the advantage of excise duty use to split in several units which is difficult now as the limit is so low so buy introduction of GST more and more unorganized sector are going and converted into the organized sector and definitely we are getting an advantage of that.
- Ronil Dalal:** Okay and Sir can you tell me about how the Paints and Metals industry like how do you see the growth rate for the next two to three years for paints and for metals separately?
- Satish Agarwal:** Usually when we talk about the paint industry, the big six companies are growing at a pace of 8% to 10%. But since Kamdhenu is having a very small market share in a market size of more than 40000 Crores and we are just having the sales of 200 Crores to 250 Crores We have a very small market and our presence is limited mainly this north and center India. We have a lot of opportunities in Southern India and Central India or Western India. So we are growing at a pace of 32% to 35%. I do not see any constraint in this growth of 32% to 35% in the next three to five years.
- Ronil Dalal:** So is that revenue growth you are referring to, , right?
- Satish Agarwal:** Yes.
- Ronil Dalal:** and what about metal?
- Satish Agarwal:** In Steel also, normal growth in the steel sector is not more than 8% to 10% in any case, but since Kamdhenu is leveraging the brand and converting unorganized into organized sector. That way we have a growth of more than 30-35 Percent every year and hope in the next three to five years grow at the same pace



*Kamdhenu Limited*  
*January 28, 2019*

- Ronil Dalal:** Okay. Sure.
- Harish Agarwal:** Will can see from the numbers that in the nine months we have achieved brand sales turnover of around 8,750 Crores, last year our full year sales stood at 8,000 Crores. So, this year we will cross 12,000 Crores, which we have planned for 2020.
- Ronil Dalal:** Sir what about construction and real estate scenario. I am listing this from sometime that there are some signs of weaknesses in these sectors will this have any impact on our Company?
- Harish Agarwal:** If we talk about Kamdhenu, we are not seeing any impact because we are going with a pace of around 35% every year and which you can also see in our current numbers,. So Kamdhenu is not impacted by any slow down or any down of the demand in the market.
- Ronil Dalal:** Right. I understand there is a large opportunity for Kamdhenu so it would not impact you so much, but overall industry per se, like your competitors, would there be a big impact of the construction and real estate sector weakening?
- Harish Agarwal:** As We are in the TMT segment which not only required in the real estate but also in the other infra and , government project example affordable housing schemes. So TMT is required almost everywhere. So we do not see any downfall from other players as well be it in organized or unorganized steel sector in the country.
- Ronil Dalal:** That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Ritesh Bafna from RB securities. Please go ahead.
- Ritesh Bafna:** Thank you so much for the opportunity Sir. I have a few questions. One of them is how do we see our raw material prices prices going ahead, and if they still march northwards how is it going to impact our numbers basically?
- Satish Agarwal:** When you are talking about the the raw material prices and the prices of our finished products that is TMT Bars, most of our business is through the franchise units which are the secondary units, they purchase either sponge iron and billet and convert them into TMT bars. Therefore, in this model, once the raw material prices increase finished goods prices also increase and vice versa to any increase or decrease in RM prices can be passed on to the end consumer. Increase in RM prices has a very minor impact to our business model because there is a conversion margin for each and every units that they maintain plus their margin or profit, but particularly if you are talk about the main producers who are having the iron ore mines or coalmines then the impact of prices of the finished product is very much on the higher side. But in our model margin is not much affected by the RM prices
- Ritesh Bafna:** Okay. So you mean to say that we are indifferent with whether the prices of steel go up or down..



*Kamdhenu Limited*  
*January 28, 2019*

- Satish Agarwal:** Yes.
- Ritesh Bafna:** Okay. My next question is with respect to our paint's business, how much do we plan to grow this going ahead and how much did we grew in this quarter?
- Harish Agarwal:** In this quarter, we achieved sales of 78 Crores, which was 54 Crores in the last year Q3. and for nine months it was 136 Crores and this year it is 183 Crores. The growth is 31% and 45% respectively.
- Ritesh Bafna:** Okay. That is great. Thank you so much for answering my questions and I will get back in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Abhishek Jain, an individual investor. Please go ahead.
- Abhishek Jain:** Good afternoon Sir. Sir as I understand we are now going to reduce the share of our B2B sales, so despite of this decrease in the B2B sales are we still planning to achieve a revenue of 12000 Crores by 2021 or has the guidance changed?
- Satish Agarwal:** Yes that is right. We are talking about the brand turnover of 12000 Crores in the FY2019, which we have projected for FY2020. So this is the brand turnover including the a franchisee sales. But our 90 or 95% sales is in the retail segment.
- Abhishek Jain:** Okay Sir. That's all from my side.
- Moderator:** Thank you. The next question is from the line of Saurabh Ginodia from Stewart & Mackertich. Please go ahead.
- Saurabh Kanodia:** Thank you Sir for the opportunity. Sir if you can share the volume breakdown between own trading and franchise for the quarter and last year?
- Satish Agarwal:** Own manufacturing for the nine month last year stood at, 39000 metric tonne vs, 59000 metric tonne, a growth of 47% and for the franchisee last year, it was 12.53 lakh metric tonne and this year for nine months we have 16.40 lakh metric tonne, a growth of 31%. And for the trading last year, we have 1.34 lakh metric tonne and this year we have 1.11 lakh metric tonne especially in the last quarter, we were having trading sales of 53000 and in this quarter it is 13000, a shift of sales from 185 Crores to 55 Crores a reduction of 70% which is due to reduction in B2B sales.
- Saurabh Kanodia:** Okay and also if you can share a paint volumes?
- Satish Agarwal:** Regarding Paint volumes, we were focusing more on the value-added product, designer paint, and texture paint. this year we had a production of around 11000 Kilo liters which is almost same as



*Kamdhenu Limited*  
*January 28, 2019*

- last year but in terms of value our revenue stood at Rs 183 Crores vs Rs.135 crores which is majorly on account of shift in low value products to high value product.
- Saurabh Kanodia:** Going forward sales growth in the paint business will be more driven by value addition or it will be driven by geographical expansion or volume growth?
- Satish Agarwal:** It will be mix of geographical expansion as well as volume growth and shift from low end to high end products. We have started manufacturing premium products in our unit and outsource the low value products like powderbased putty or some other paints from Udaipur, Ghaziabad, Varanasi and Bhatinda. because of freight element.
- Saurabh Kanodia:** Okay and in your TMT business, do you track this metric of share of premium products in the overall TMT business?
- Satish Agarwal:** In our TMT product portfolio we are already having premium products which are manufactured in our own unit. Last year we have launched a new product called Kamdhenu NXT double rig interlock steel and that is gaining good traction in the market. We continuously invest in R&D and hope to launch more products in the TMT segment which will change the scenario of the TMT segment.
- Saurabh Kanodia:** why I am asking this question is because, if I see your royalty income and if I divide it by your volumes, royalty per kg comes to around 37 paisa per kg for current nine months compared to 36 paisa for the corresponding nine months. So how do we plan to increase this royalty income per kg in our business?
- Satish Agarwal:** Actually royalty will be increased by both ways. By increasing additional capacity and by increasing the market share,. Apart from that whenever any new product is launched and if there is an opportunity to increase the per tonne royaltywe do so . Also whenever there is the renewal of license after three years or five years there again we increase the royalty. it is a continuous process
- Saurabh Kanodia:** Okay. What kind of ball park number one should work out with respect to the royalty per kg?
- Satish Agarwal:** This year we will cross Rs.80 Crores and for the next year 2020 we have already planned for Rs. 100 Crores plus royalty income.
- Saurabh Kanodia:** Okay and if I see your PPT on slide #8, you have given your ROE and ROCE profile for the business, now as you have decided to reduce your B2B side of the business on the TMT, so what is the incremental ROE and ROCE, do you see because of this change on the TMT business?
- Harish Agarwal:** ROCE would be around 20% and ROE would be 16 to 17%.?



*Kamdhenu Limited*  
*January 28, 2019*

- Saurabh Kanodia:** Okay Sir and with respect to whatever cash flows we are generating; how do we plan to use the cash flows and what will be the capex?
- Harish Agarwal:** Presently, we are in the process of expansion of our capacity and debottlenecking, of our existing steel and paint units so we are investing our cash surplus into the expansion, as we are not taking any loan from the bank or institution.. And in the future we will have some treasury funds.
- Saurabh Kanodia:** Okay. Thanks a lot Sir. Thanks for your time.
- Moderator:** Thank you. The next question is from the line of Pratik Kothari from Unique Investment. Please go ahead.
- Pratik Kothari:** Good afternoon Sir. Thank you for the opportunity. Coming to our own manufacturing capacity, which I think you are planning to double it, what would be the capex for that?
- Satish Agarwal:** That would be around 15 Crores.
- Pratik Kothari:** Okay and we mentioned that we sold 60,000 odd metric tonnes in the first nine months, right?
- Satish Agarwal:** Right.
- Pratik Kothari:** Okay and coming to the franchisee part apart from royalty income, which I think we charge on per tonne of steel sold by them, do we get any other source of income from them?
- Satish Agarwal:** No. We are only charging royalty per tonne basis except at the time of signing agreement, we charge some amount depending on the area and premium at that place that is ranging from 10 lakh to 50 lakh.
- Pratik Kothari:** One time.
- Harish Agarwal:** For one time signing of the agreement.
- Pratik Kothari:** Okay and also for the first nine months you have mentioned that our marketing spend is 80 Crores, out of which 60 crores we have done and rest 20 Crores have been spent by the franchise across the India.
- Harish Agarwal:** Yes, we put this condition with the agreement that you have to spend certain expenditure on the brand as you are the direct beneficiary of the sales in your region, so our franchisee also has to undertake making expenditure on the Kamdhenu brand. which is around 21 Crores in the nine months.



*Kamdhenu Limited*  
*January 28, 2019*

- Pratik Kothari:** Okay so Sir effectively in the first nine-month, whatever royalty income we have earned from the franchise, we have also spent in terms of marketing, right.
- Harish Agarwal:** No. It is not true. it is for the over all Kamdhenu brand, which includes Own sales as well as trading sales. It also pertains to expenditure incurred on paint business.
- Pratik Kothari:** Fine. Okay Sir. That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Amit Shah from AM Securities. Please go ahead.
- Amit Shah:** Good afternoon Sir. Congratulation on a good set of numbers. Sir I had a couple of question. First being – how much percentage of TMT bars contributes to the construction cost?
- Satish Agarwal:** You see, when we are talking about a construction of three, four story or five stories building the average construction requires four to five kg of TMT on per square feet of area. If we go for high rise buildings of 20, 25 or 50 stories then the consumption of the steel goes to 7 kg per square feet and within the average of Rs.40 per kg of TMT bar, then average 5kg cost per square feet is equivalent to Rs.200 to Rs.250 per square feet in a construction cost.
- Amit Shah:** Okay and Sir my second question was that how much do are we spending on our Kamdhenu, brand and if you can provide us the individual breakup like x-amount is spent on Kamdhenu steel brand and x-amount is spent on Kamdhenu paint. So that will be helpful.
- Harish Agarwal:** Actually it is very difficult to segregate as both products are sold under the brand Kamdhenu. If we are making advertisement of Kamdhenu, then the benefit goes to the paint as well as the steel. For this purpose, we are demerging the paint business, so we will be able to give the exact answer in the next financial year, when businesses demerge.
- Amit Shah:** Okay, Sir I assume that when we demerge our paint business from Kamdhenu Limited, so the brand spend on paint business would be much higher than what we spend on a blended level right now? Is it safe to assume that?
- Harish Agarwal:** See it will depend on the position, right now it is very difficult to say.
- Amit Shah:** Okay and can you just tell us the brand spend as a percentage of sale?
- Harish Agarwal:** It would be around 1% or the brand turnover.
- Amit Shah:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Varun Agarwal, an individual investor. Please go ahead.



*Kamdhenу Limited*  
*January 28, 2019*

- Varun Agarwal:** Yes, I have two questions Sir. First on your royalty income that you are saying this year you expect 80 Crores, next year 100 Crores, post cost, what is the net income to Kamdhenу and second is what level of the paints sales would you breakeven at the net profit level Sir?
- Harish Agarwal:** Actually, your both questions can be addressed when the business is demerged. As in the earlier question, I had also answered that it is very difficult to segregate the expenditure of the steel as well as paint.
- Pratik Kothari:** But if you can give us some understanding on royalty income if we are earning let us say 80 Crores post all expenses what is the net income there?
- Harish Agarwal:** if you take the direct income portion it would be around 40% of the royalty income, 60% goes into the expenditure part, branding, marketing, and employees cost and administrative cost. It is a broad number, but the exact amount would be counted when the business is demerged.
- Pratik Kothari:** And what kind of margins you are expecting on a paint turnover of the 400 Crores to 450 Crores sales in FY2020 or in the next two years, what is the normal net margins that we are expecting?
- Harish Agarwal:** It would be around 10%.
- Pratik Kothari:** Okay. And today pre-demerger, you are saying on 100 Crores of royalty income, your net profit is 40 Crores approximately?
- Harish Agarwal:** Yes.
- Pratik Kothari:** Can you guide something on the royalty per tonne, you explained a few questions before that has been steadily rising?
- Harish Agarwal:** Yes, presently it is around Rs.370 per metric tonne,. And we are gradually improving by Rs.10 or Rs.20 every year. our major focus is on the increase in the volume and increase in the market share, so the royalty income will automatically increase.
- Pratik Kothari:** Sure that is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Saurabh Ginodia from Stewart & Mackertich. Please go ahead.
- Saurabh Ginodia:** Thank you for the opportunity again. Sir, will it be possible for you to break down your royalty income in terms of zone wise, north, south, east and west?
- Harish Agarwal:** Yes. If you take north that is 33% east 31%, south 19% and west is 17%.



*Kamdhenu Limited*  
*January 28, 2019*

- Saurabh Ginodia:** And similar numbers you can give for last year?
- Harish Agarwal:** Last year it would be more or less same, right now I am not having the percentage, but more or less it would be same.
- Saurabh Ginodia:** That is all.
- Moderator:** Thank you. The next question is from the line of Ashish Kumar from Infinity Alternators. Please go ahead.
- Ashish Kumar:** Thank you Sir for giving me an opportunity. Sir, couple of things; One thing is that we have heard on the volume side, some softness in volumes in the last quarter, are you kind of hearing the same thing and how does that impact your model, where your fixed costs in terms of branding are fixed in nature?
- Satish Agarwal:** You are talking about B2B sales?
- Ashish Kumar:** No, B2C sales, most of the other companies report B2B sales, but Tata Steel and JSPL have kind of reported numbers where Q3 has not grown over Q2 though Q3 normally is seasonally strong quarter, so are we seeing some softness in terms of demand at the ground levels on the customer side or there is no softness that you see?
- Satish Agarwal:** Kamdhenu follows asset light model. Whenever there is a decrease in demand the franchisee model works there, and if you see the numbers in the last three quarters that has continuously grown at a pace of 30% to 37%. In the next quarter also you will see the same trend and there is no impact at all whenever there is softening of demand people face the sales problem and that's where they approach us to take the benefit of brand leverage and to just convert unorganized sector into organized sector, that way Kamdhenu is least impacted or rather we can say we are not impacted at all and our growth strategy is going on continuously.
- Ashish Kumar:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand over the conference over to the management for their closing comments.
- 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 Advisor, our Investor Relation Advisor. Thank you once again. Thank you.
- Moderator:** Thank you very much. On behalf of Kamdhenu Limited that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.