



Kamdhenu Limited
Q4 and FY21 Earnings Conference Call

June 23, 2021



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MANAGEMENT:

MR. SATISH AGARWAL – CHAIRMAN & MANAGING DIRECTOR

MR. HARISH AGARWAL – CHIEF FINANCIAL OFFICER



*Kamdhenu Limited
June 23,2021*

Moderator:

Ladies and gentlemen, good day and welcome to the Kamdhenu Limited Q4 & FY21 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectation of the company as on date of this call. These statements are not 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 the conference is being recorded. I now hand the conference over to Mr. Satish Agarwal-Chairman and Managing Director of Kamdhenu Limited. Thank you. And over to you, sir.

Mr. Satish Agarwal:

Good Afternoon and a very warm welcome to everyone present on the call. Along with me, I have Mr. Harish Agarwal- Chief Financial Officer and SGA, our Investor Relations Advisors. Before we proceed ahead, I hope you and your near ones are safe and doing well in these unprecedented times.

I hope you have received our ‘Results’ and ‘Investor Presentation’ by now. They are also available on our website.

Firstly, I am pleased to inform you all that the Board of Directors of the Company have recommended a dividend of Re.0.80 per share for face value of Rs.10 per share for FY21 i.e. (8% of Face Value of Rs.10 each).

FY21 had begin with challenges across the world. The spread of Covid-19 last year in March 2020 had led to severe disruption in business operations across industries. There was complete nation wide lockdown that was announced in March,20. Both our plants were closed for sometime and we adopted work from home policy. However, with the unlocking of the economy and easing of restrictions, we begin with our manufacturing operations in mid May,20 and it has led to increased business activities. We restarted our operations gradually and we have witnessed strong quarter on quarter improvement in both our business segments. Capacity utilization at both the plants increased gradually over the quarters through the year FY21. Despite of these external challenges, we have ended FY21 on strong note. We have delivered a steady performance in a year that has been marked by uncertainty due to Covid-19. In spite of CoVID-19 impact, our Company has clocked revenues of Rs.625 crores with EBIDTA of Rs.50 crores and PBT (excluding exceptional items) of Rs.31 crores for overall business for FY21.

Now, to first touch upon the business highlights and performance of the ‘Paint Business’. We have been in the decorative paints business segment for more than a decade and since then have rapidly scaled up the business. Through advanced research & development, we have been able to offer a wide range of highest quality paints at affordable prices, ensuring complete customer satisfaction. With our increased concentration on Tier II and III regions, our products are available across India. We have a strong distribution network and diversified product



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profile with 40+ SKUs. We have built a formidable 4,000+ dealer network across multiple cities, regions and cultures.

We are continuously striving on expanding our pan-India visibility through aggressive spends on advertising and promotions. With a focus on sustainability, Kamdhenu Paints have made all their paint products ecofriendly ensuring that beauty of nature remains intact. Our company is focused on increasing share of premium and environment friendly products.

We have given continuous importance on advertising and promotions. With that focus, we have recently collaborated with Preity G Zinta as a the Brand Ambassador for decorative paints business under brand name Kamdhenu Paints. This collaboration will help enhance the brand's pan-India reach and recall and drive greater consumption across the country. With Preity G Zinta's inclusion as the Brand Ambassador, with her wide appeal among the masses, it is set to blend perfectly with the ethos of the brand, aptly representing a modern woman who performs every role seamlessly.

We have witnessed certain delay in the restoration of the remaining building/ plant & machinery due to the second wave of Covid-19. Full-fledged operations are expected to commence soon which will further boost our growth trajectory. In the near term, paint industry players are likely to witness headwinds due to high raw material prices and second wave of Covid-19. However, going ahead, we expect normalization of activities.

Further, to update you on the insurance claim, the insurance company during FY 2020- 21 was in the process of evaluating claim amount and based on its interim assessment, out of such insurance claim recoverable, an amount of Rs.10.03 crores is likely to be deducted, accordingly the company has written off Rs.10.03 crores as exceptional item. An amount of Rs 5 crore as insurance claim recoverable has already released to Kamdhenu Limited in FY21 and the balance amount is expected to be realized in the current financial year.

Now, I would like to Update on "Scheme of Arrangement." The board of directors of the company in its meeting held on 25 January,20 approved the proposed scheme of arrangement including de-merger of paint business into a separate company. The company also received observation letter from Stock Exchanges NSE and BSE on 28th September,20. The Company has already filed Scheme of Arrangement with Honorable NCLT, Chandigarh on 15th March, 21 for its approval. We are expecting to complete hiving off the paints business within FY22.

Upon completion, the de-merger of the Paints Business will impart better management focus, facilitate administrative convenience and ensure optimum utilization of various resources. The proposed de-merger will provide for greater accountability and scope for independent expansion of both steel and paint businesses.

Now moving on to the key updates on the Steel Business. With phased unlocking and re-opening of the economy, we started witnessing recovery in demand with increase in the construction and infrastructure activities.

Our volumes from franchisee and own manufacturing operations have increased quarter on quarter. This is on account of our strong brand, resilient business model and well-entrenched distribution network across the country. Also our recouped business strategy with focus on high margin B2C sales, asset-light franchisee business and increase in own manufacturing has led to strong results.

Steel demand has remained robust and continues to rise on back of pickup in construction activities. Steel demand is driven by gradual pick up in real estate with relaxation in stamp duties in some states and government's thrust on infrastructure spends.

Government schemes like Housing for All by 2022, Pradhan Mantri Awas Yojana and Bharat Mala Projects are likely to spruce up the demand for the construction material used in housing and infrastructure. This will drive the demand for our products available across the country through our franchisee-based model.

Our country has been affected by the second wave of covid virus. However with phased unlocking of the economy and Government's initiative of vaccination program, now open to all above 18 years, we will achieve large scale immunity among the population and economic activities will be back to previous levels in due course.

To conclude FY21 has been a year with steady performance. We have seen strong demand for our product offerings. Here at Kamdhenu, we always believe in improving cost efficiencies and committed to developing world class products to address the evolving needs of the consumer. We are looking to penetrate further in markets where our presence is less and strengthen our footprints in existing geographies. Going ahead, we are committed towards introducing new products and expanding our business with more franchisees and dealers.

Now I would like to hand over the line to Mr. Harish Agarwal to Update on the Financial Performance of the Company.

Mr. Harish Agarwal : Thank you, Sir. I will take you all through the Financials for Q4 & FY21.

First, about the Paint Business,

- Total Sales from Paints for Q4 FY21 stood at Rs. 67.3 crores as compared to Rs.62.2 crores in Q3 FY21, an increase of 8% QoQ and stood at Rs. 55.34 crores for Q4 FY20. For FY21, total sales stood at Rs. 202.07 crores. We expect the momentum in paint business to sustain going forward with reopening of the economy and pick up in business activities.
- Paints segment contributed 30.3% of Revenues in Q4 FY21
- Our own manufacturing volumes have been increasing gradually quarter on quarter. The overall volumes (including outsourcing) have increased by 10% QoQ to 9,580 KL in Q4 FY21 and stood at 7,562 KL in Q4 FY20.

Coming to the Steel Business

- Our steel volumes including Franchisee route have increased by 11% QoQ to 7.26 lakh metric tonnes in Q4 FY21 as compared to 6.57 lakh metric tonnes in Q3 FY21 and 6.05 lakh metric tonnes in Q4 FY20. For FY21, our volumes including franchisee route stand at 23.90 lakh metric tonnes.
- Total Brand Turnover for Q4 FY21 stood Rs. 4,061 crores as compared to Rs. 3,353 crores in Q3 FY21, QoQ growth of 21% and stood at Rs. 2,720 crores in Q4 FY20. For FY21, it stood around Rs.12,000 crores.
- Royalty Income through Franchisee's was up by 13% QoQ at Rs. 26.6 crores as compared to Rs. 23.5 crores in Q3 FY21 and stood at Rs. 22.2 crores in Q4 FY20. For FY21, it stood at Rs.85.3 crores.
- Revenue from Own Manufacturing was up by 32% QoQ at Rs.128.5 crores in Q4 FY21 as compared to Rs. 97.7 crores in Q3 FY21 and stood at Rs.87.2 crores in Q4 FY20. For FY21, it stood at Rs.337.8 crores.
- Profit Before Tax for the steel business stood at Rs.16.9 crores for Q4 FY21 as compared to Rs.13.0 crores in Q3 FY21, QoQ growth of 30% and stood at Rs.6.7 crores in Q4 FY20. For FY21, Profit Before Tax stood at Rs.47.1 crores as against Rs.37.3 crores in FY20 (excluding exceptional items of Rs.24.38 crores)
- The Company has recouped its business strategy of reducing B2B sales and focused on improving efficiencies in own manufacturing and on franchise based business model which have led to increased Margins and Better efficiencies driving growth.
- Our ROE of the steel business as on March 2021 stood at 29.7%, an increase of 680 basis points from 22.9% in March 2020.
- Our Debt to equity ratio stands at 0.3x as of 31st March, 2021.

For the overall business

- Revenue for Q4 FY21 stood at Rs.222.4 crores as compared to Rs.183.4 crores in Q3 FY21, a QoQ growth of 21% and stood at Rs.235.6 crores (including B2B sales of Rs.70.90 crores) in Q4 FY20. For FY21, our revenues stood at Rs.625.2 crores.
- Our EBITDA was up 50% QoQ to Rs.20.4 crores in Q4 FY21 as compared to Rs. 13.7 crores in Q3 FY21 and stood at Rs.8.7 crores in Q4 FY20. Our Margins for the Quarter stood at 9.2%. For FY21, EBITDA stood at Rs.49.8 crores.
- Profit before tax (excluding exceptional items) stood at Rs.15.6 crores for Q4 FY21 as against Rs.9.6 crores in Q3 FY21, a QoQ growth of 61% and stood at Rs. 3.4 crores for Q4 FY20.
- For FY21, Profit Before Tax (excluding exceptional items) stood at Rs.31.1 crores
- Our cashflow from operations stood to the tune of Rs. 50.2 crores in FY21
- Our Return Ratios have been continuously improving on account of increased efficiencies in the business. Our ROE stood at 7.8% as on 31st March, 2021 and ROCE stood at 12.3% as on 31st March, 2021.
- Our Debt to Equity Ratio stands at 0.5x

With this, I would like to open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Dinesh Kotecha from KRIC. Please go ahead

Dinesh Kotecha: You have made some projections of Rs.450 crores and Rs.1,000 crores of revenue for the paint industry and margin of 8% and 11% from (-2%) I mean I would like to know what are the basics of this. I mean what are the assumptions that you have taken for this particular growth figures that is first question?

Satish Agarwal: The assumptions what you have talked of Rs.450 crore and Rs.1,000 crore by FY26. I want to tell you in brief that after the fire incidence. We had to outsource plenty of materials and due to that the cost of production was increased. In this year during the last quarter unfortunately because of increase in crude prices the raw material cost has increased by about 5% to 6% for the whole paint industry. By the way, in this market condition no Company is able to pass on the raw material price increase to end user. As you all know that some prices have been revised in the month of June and for the remaining products some price increase is going to be implemented from 1st July. So, the impact of price increase of raw material costing which was there is almost 80% to 90% that has been passed on to the customer and from 1st July ~80% to 90% will be passed on. Secondly, post the fire incident, the whole building of our own plant is ready. Almost 95% plant and machinery has been installed and production has started and the remaining 5% in the month of July also will come in production. So, sufficient capacity will be there in our own plant and for the low price item we are outsourcing in Udaipur and Haryana which is at reasonable cost. We have tied up with everyone. The target which we are expecting for FY22 and 23 in both of them, we have planned of 50% growth. Hopefully our internal resources which are there and from internal accruals 50% growth for FY22 and FY23, we will achieve them and conservative EBITDA margin of minus 2% or 8% or 11%. The way the volume is getting increased and our turnover is getting increased because it is fixed cost running industry or business accordingly I think we have done the micro analysis and done the working and in our whole country whatever depot is there and in which depot what product will be sold and what will be the position of that product and what costing is coming we have done the micro analysis. Hopefully we will be able to achieve the target definitely by FY23. The target of Rs. 450 crore is easily achievable and after that we think that we will do some investment on plant and machinery and anything else working requirement will be there over the next 5 year for Rs.1,000 crore plan is there hopefully. We are working on that and detail working is going on and we would be able to do that because in paint there is lot much potential of ~18% to ~ 20% annual growth. Every



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Company is working very good and all our product in the market are acceptable and after including Preity Zinta there is lot of improvement and there is an improvement in demand also. So, we think that we will be able to achieve this target easily.

Dinesh Kotecha: Second question is what are the areas of cost discipline that we have got benefit of this year?

Satish Agarwal: Mainly whatever formulation is there in that we have done a lot of improvement through R&D because it is important that quality should also improve. With introduction of new products or alternate products and there are many such products which are running on traditionally, their costing has increased and their import substitutes are forward. There is a drastic improvement in raw material costing and secondly the decentralization of product. On the transportation cost side, there is a lot work going on so that we can minimize our transportation cost. However, we have a drawback as our presence is in ~80% of the country, but both our plant are in Rajasthan, one in Udaipur and other in Rajasthan Alwar district. So, we will try to negotiate on minimizing our transportation so that we can make some saving out of it, but ultimately the costing which is getting reduced or our overhead is getting reduced, but our volume and turnover has increased so we are getting lot of improvement.

Dinesh Kotecha: One more question I want to ask in Tier-2 cities and Tier-3 cities we are present where there is 70% population, so when are we going to debut in Tier-1 cities?

Satish Agarwal: In Tier-1 or in metros, our presence is there in Calcutta depot and we have a depot in Delhi and in Bangalore also there is a depot, but we are not depending that because the thing which is there in metro or in Tier-1 is a brand concept in the minds of people. People over there have mindset of a particular brand that they want to use particular product only, like to use either Asian or Berger or Nerolac. We are getting better realization than in metros or in Tier-1 cities. Also the bigger dealers which are there have huge expectation in terms of discounts, incentive scheme and due to that realization comes very less though turnover is very good. I think we are moving slowly and gradually and from Tier-1 also we have started getting demand slowly and gradually. But our focus is on areas from where we are getting the best realization and like I have said through painters we have a lot of involvement, we have made a lot of scheme to incentivize on painters and apart from this we are giving them the recognition and we are doing their insurance also. So, nothing happens when the painters is not connected from their heart and painter get associated when they get the good product at a reasonable cost and they should have a good service life. Initially people were hesitant and now we are in the paint industry for about 10 years, so we are

getting the trust level of dealers, painters, consumers slowly & steadily and gradually it is coming. So, I think that we have come out of our disruption of two years post fire incident and from 1st July onwards we will be able to utilize the whole production capacity. For the market demand we are focusing more on value added product in which we have paint strainers, colorants, or emulsion or special products or texture paints that we are making in our own plant. For the low-price item where transportation cost is more we are outsourcing them. So, hopefully we will be able to achieve our target.

Dinesh Kotecha: My last question is that construction chemical, wall putty and niche products which you are making premium good finish, water proofing solutions, floor coating, dual primer tell us something about all this, what is the CAPEX plan over there and how you are going to grow from that segment?

Satish Agarwal: See we are making the putty in Udaipur and outsourcing it because in entire India white cement is manufactured in Udaipur. So, what we used to do before, we were bringing that to our plant at Alwar and give the transportation of incoming and then again material goes back to South India so we have to pay double transportation. So we have started our contract manufacturing in Udaipur, we have our own old supplier present there. We have set up a big plant in Udaipur for Emulsion, distempers, primers and putty with a very large capacity so our costing is getting improved and many such products like Enamels, solvent also we are outsourcing. Only niche product like Emulsion, plastic paints we are going to manufacture in our plants. Since it is a value added product the margins is more so we are manufacturing in our plants and remaining products we are outsourcing.

Moderator: Thank you. The next question is from the line of Amit Shah from ACE Securities. Please go ahead.

Amit Shah: I have few questions on steel sir, our brand turnover has seen a sharp increase in Q4, so what is a guidance for the current year?

Satish Agarwal: In Q4 the steel prices has abnormally increased, that is why we are seeing a increase in turnover in Q4. In current year for steel turnover which is there will be maintained and total quantity will also be improved. We are expecting total turnover of almost Rs. 438 crores from our plant from our manufacturing and Rs.94 crore we are expecting from royalty income. So, total revenue as against Rs. 423 crores we are expecting Rs. 530 crores plus should be there in the year 21-22.

Amit Shah: So, how are you seeing the scenario in Q1 with the second phase of COVID-19?

Satish Agarwal: See Q1 definitely was disturbed and in this situation also I feel that from last year Q1, this Q1 FY21 should have a better performance because we have got a little bit of June month and unlocking and ease in restrictions already happening. Since we are present Pan India and in this year Pan India everywhere the COVID impact was there, but I think as compared to Q1 of last year, we would still be better in this year. We are trying our best so that Q1 should be good, but it is must that whatever the whole year target we have, that we will be able to cover in the next three quarter and we will be able to achieve it slowly and gradually.

Amit Shah: Sir, my second question is what is the average TMT prices for Q4 FY21 and how has the increase been over Q4 last year and last quarter Q3?

Satish Agarwal: See our average price of TMT is Rs.46,128 per metric ton and in last year in Q4 the price was Rs. 38,198 and in Q3 the average price was Rs. 41,200 and in this year it is Rs. 41,600 that means Rs. 5,000 a ton it has increased from Q3 to Q4. These prices are prevailing which we had in Q4 and this price is little bit plus. So, I think in the current year target, these are all easily achievable until and unless if the third wave of COVID does not disturb us. With the way construction activities has boomed and in the housing segment, work has slowly and gradually improved. So we think that demand has improved because in our entire country the demand is there and from everywhere it is positive. April and May definitely was a bit disturbing, April second half and May first half was more disturbing. So, I think from July onwards demand will be regularized.

Moderator: Thank you. The next question is from the line of Abhinav Kothari from ACE Advisors. Please go ahead.

Abhinav Kothari: Sir, I have two questions pertaining to paints business sir you talked about price increase in raw materials of paints you said 80% to 90% of the total increase is already taken, my question is I mean when we have taken this price hike in which month?

Satish Agarwal: 50% price hike has been implemented in the month of June which is the currently running and balance price hike will be implemented with effect from 1st July. Sir what happens in this a little bit of boost up in two doses and the benefit is that further price increase is getting increased from 1st July and to increase the sales of June the dealer get the comfort level that from July onwards prices are increasing so that I should collect maximum stock so that I can take more supply. So we think that June sales we will be able to do good and July onwards from here on purchasing gets started for Diwali season because when Diwali comes in October, & November and for that material, dealer collects in the month of July and in August, September the work is on

site. So who want to enter in Diwali season for that purchasing starts from July, August onwards. So, I think that because every Company has done the price increase which they are not able to do from last 6 months and now they have done it because there is a demand in the market and so I think that it is acceptable in market everybody knows and dealer also know that price increase has happened because of increase in raw material prices and Company can increase anytime. So I think almost 80% to 85% people have pass on and in future we will see that if the major companies will be able to increase then it will be increased by us also otherwise it is not going to happen. Now everybody is seeing the demand from the market and how it is going to come.

Abhinav Kothari: Why I was asking this because as raw material prices have been increasing significantly since December I mean did we take any price revision in Quarter 4?

Satish Agarwal: No. See if Asian does not revise the price than no Company has the courage to increase. If Asian increases and then all other Companies increases along with that. Actually, our price and their dealer price list and MRP it is common for every Company only name is changed. But remaining all the products price is same of all the companies, but only the marketing scheme, incentive and discount structure are different for all companies , but MRP and DPL is common everywhere.

Abhinav Kothari: As I understand this Asian Paint has implemented the price increase of about 2.8% if I am not wrong, so I mean this 80% to 90% of our price increase comes out to be what percentage change as compared to the previous price?

Satish Agarwal: See raw material costing is almost 50% in the paint industry. So, if I talk about finished product that we have done 3% price increase in finished products so that means 6% raw material price increase impact that we are able to cover. So, apparently you can see in raw material it is 6% increase, but when it goes to finished goods 3% increase that gets covered.

Abhinav Kothari: So I think in the second quarter we are going to see much impact of price increase?

Satish Agarwal: One is that Diwali sale also happens in this quarter. July, August, September quarter which is there in that Diwali sales also come and we have come out of COVID, so definitely we are going to see an improved impact in the second quarter.

Abhinav Kothari: Sir my next question is on demand side and how has the overall demand for paints in the past three months I mean April, May and June and what kind of guidance you want to give for the full year FY22?

Satish Agarwal: April, May and June is exceptional where in our entire country all our depots, dealer, rural areas everywhere there is an impact of hampered sales because of COVID. But still in some areas 25% to 30% of targeted sales we have done in the month of April, May month. In this year FY22 like I have said earlier also that in current year 50% and in next year also 50% growth target we are expecting and hopefully we will be able to achieve because demand is slowly and gradually it is getting improved like the way we are getting out of COVID, phased unlocking and project work has started, labor has started coming so demand is coming back to normal levels. Total material which is getting manufactured is getting dispatched daily.

Moderator: Thank you. The next question is from the line of Deepak an Individual Investor. Please go ahead.

Deepak: Sir my question is that in full utilization of both paints and steel business, how much turnover we can do in top line?

Satish Agarwal: See in today's date, installed capacity what is there is we have given in investor presentation. Our own plant production capacity is around Rs.450 crore and 30,000 KL and contract manufacturing we are outsourcing in Udaipur and in Haryana of low price items 36,000 KL capacity is there of installed capacity of Rs.150 crore. So, we are in position to give total Rs.600 crore supply from our existing plant and if I want to go extra so definitely we are planning of some machinery in our plant. We are working on outsourcing because we have a freight disadvantage, so we want that in South India or in Central India if manufacturing contract is going to happen so for that our talks are going on and if it is going to happen then we will get the advantage of freight.

Deepak: Sir in next two to three years can we expect 20% growth in top line?

Satish Agarwal: In paint, as I have said, in the year FY22 or FY23 minimum 50% growth we are taking in hand and hopefully we will achieve 50% and the plan what we have made till March,26 is of Rs.1,000 crores turnover top line paint. So, we are working on that and, the whole team is involved in that. So, we think that we should be able to achieve it. For that whatever resources is required in due course we will do the planning, but business will become viable and profitable only once it crosses over Rs.1,000 crores. We have given our 10 to 12 years to build our brand, to create dealer network, to generate customer loyalty and to generate painters and dealer loyalty we have invested in that over past so many years. Now that our whole plant is ready and our installed

capacity is there in two to three place. So I think it is a high time that with the demand we will be able to give it good growth.

Deepak: Sir, in terms of borrowing we have to pay which we have given in FY2021, have we done that, do you have a plan to make it a zero-debt Company?

Satish Agarwal: See our Company is zero debt Company because we do not have a term loan except COVID which we have taken some loan in very low interest. It is necessary that we are reducing our working capital limits. In steel we have reduced lots of limits. Almost 70% to 80% has been repaid and in paint we will work once the paint is tie up then also we will work in that and that Harish will tell you more about that.

Harish Agarwal: In the COVID period we have taken around Rs. 20 crore term loan which was available at concessional rate of interest and apart from that we have reduced in steel as sir have said. Around Rs. 30 crore we have done the repayment in steel business and paint limit as it is working on.

Moderator: Thank you. The next question is from the line of Akshay Jain from Jain Capital. Please go ahead.

Akshay Jain: Sir I have few questions starting firstly so what is the view on increasing competition in the paint segment with the entry of companies like Grasim?

Satish Agarwal: See in today's date this question is out of field. In the paint industry there are revolutionary changes that has come, perception has changed since Indigo has come, valuation criteria has changed. Before two years like as you all know that JSW Paints had also entered the paint segment. but they also are not in retailing, they are also making industrial paint required for color coated sheet that comes for warehouses. In paint decorative segment if anyone wants to come for that they have to create a very big retail network that is not easy. If you talk about paint companies the old paint companies they are present, they are 80, 90, 100 years old companies.. Over a period they have created brand loyalty and dealer network.. Grasim's plan is that if to aggressively spend money then definitely they are all welcome and if everybody thinks that in the paint industry ~15% to 20% annual growth is there which is the only segment because per capita paint consumption is very less it will go three, four, five times it will go. I think potential is there, but when Grasim will come then also it is good like Asian is a market leader and others are also working and everybody is earning money and everybody's work is going on and every product is getting sold so there should be a healthy competition. In paint industry, actually if you will see since the GST has come the small industries in district headquarter who used to prepare and

sell in the vehicle or do out of book sales o where VAT theft is there and excise theft is there, that has become unviable and tax has also come down to 18% from 28%. So, I think the paint business which was in unorganized sector that has also shifted in the organized sector. I also think that many paint Companies are there that is a very big market because small industries viability is over. The bigger the Company is the bigger the network will be there, the more sales will take place, there that viability will be there. Every plant can work there is no issue, there are so many plants of cement coming, cement installed capacity is rising and everything is getting consumed in infrastructure and where in infrastructure, cement is used there paint is also used in finishing.

Akshay Jain: Next question like you have mentioned in answer unorganized to organize, it is getting shifted, so sir post implementation of GST have we actually seen the transition of the market share from unorganized to organized sector on ground happened?

Satish Agarwal: Actually, it has happened, if you see many companies results you are going to monitor post GST that will definitely not become zero. For industry to get closed it takes around one year to two year so definitely big amount of shares of every paint companies that you are seeing the growth which are having abnormal growth is because of unorganized sector as slowly and gradually it has collapsed.

Akshay Jain: Sir lastly what is the current utilization level at both the plant?

Satish Agarwal: In Steel if you see almost 70% utilization is there. In our steel plant and whatever franchise route is there, in that also almost it is running at around 65% capacity utilization. In steel we are increasing our capacity like from 36 - 37 lakh ton capacity to 50 lakh ton which is coming there in two years. To reach to that level, there is our program because steel demand is continuously growing and in that also our model which is the asset light model. What we do that connect with people already selling in market, in the unorganized sector, with implementation of certain changes in their plant, upgradation of quality, capacity utilization and brand leverage we enable them to shift from unorganized to organized and sell their product under the Kamdhenu brand., After the value addition and after the quality control they are getting good realization, in that also work is going on. In paint also 60% to 70% capacity utilization is there and we are working on it. Like I have said Rs. 600 crore of our capacity has been build, these machines have been installed one and half months back and the impact which will come from 1 July onwards that will be seen in this year.

Moderator: Thank you. The next question is from the line of Kashish Shambhwani from Negen Capital PMS. Please go ahead.

Kashish Shambhwani: My first question is what is the debt breakup in paint and steel business at the moment?

Harish Agarwal: In the paint business we have a working capital of Rs.60 crore and in the steel business we have Rs.30 crore limit of working capital. For the COVID, we have Rs.15 crore COVID loan in paint business.

Kashish Shambhwani: And what has been our marketing spend in the paint division in FY21?

Harish Agarwal: Actually, this year there was change in the presentation for revenue. What we have done, we have net of sales of around Rs.35 crore towards credit notes issued under various incentive schemes to dealers, from the total sales promotion expenditure of Rs.60 crore on the paint business. Rs.35 crore we have reduced from the revenue of Rs.237 crore for FY21, it was done because of certain GST and TDS complications. So, if you will gross up the spent and see so it will be around Rs.60 crore and net off it is around Rs.25 crore brand expenses including marketing & everything.

Kashish Shambhwani: And what would this be for FY22?

Harish Agarwal: It will run in same way. The schemes are based on the turnover and it is on percentage wise as soon the percentages of sales increases, in proportion to that scheme amount will also increase.

Kashish Shambhwani: Do we need to increase the marketing spent to get from the current day of Rs.200 crores to Rs.600 crores or our distribution system is ready, and we do not need that much increase in the marketing, what we feel about that number?

Harish Agarwal: Right now, the network what we have prepared already has sufficient scope to absorb the sales of Rs.400 crores to Rs.450 crore. Our 33 sales depots, 4,000 dealer network and 16,000 painters network is there with that around Rs.400 to Rs.450 crores turnover we can achieve easily.

Kashish Shambhwani: Will be EBITDA positive in paint business in FY22?

Harish Agarwal: Definitely sir.

Kashish Shambhwani: And royalty income has been Rs.85 crore this year in steel business, next year we are assuming Rs. 94 crores, so in presentation you have given a guidance of Rs.150 crores in FY23, so how will you be able to pull that Rs.150 crores almost 50% jump then?

Harish Agarwal: If COVID was not there then we would be able achieve it beforehand, but because of COVID there has been a slight delay. So, what we are taking in hand Rs.94 crore, this is on a conservative side otherwise it is Rs.100 crores plus this time. 50% jump what we are talking is because like the way construction activity is rising, the way demand is coming because if we deduct the COVID for two years and we take out the average of previous year our growth to Rs.150 crores royalty is achievable in all means by FY23 and we are going to do around Rs.50 lakh ton. Day by day our capacity is also getting increased.

Kashish Shambhwani: In this how much CAPEX we have to do for doing 50 lakh ton?

Harish Agarwal: Our model is asset light model, to increase the capacity, we do not have to do any investment. The unit which is already in the market, the existing unit we bring them under our brand umbrella and we upgrade their plant. Up gradation cost is there which is around Rs.5 crore Rs.10 crore that unit owner had to bear this expense. We just give them the marketing support to use our marketing network, we depute our quality monitoring team and in that we give the brand leverage which means we give them the permissions to use the brand. Every support is there of Kamdhenu for which we charge royalty from them and we do not have to invest any CAPEX. We just monitor the quality and supply chain, this is our unique asset light business model. Why we say OUR capacity because we have our exclusive agreement that he is going to make only for us and he is going to sell in our marketing network only, it is not like that he is going to sell the material anywhere outside our network and towards expansion of capacity, we are taking new unit and existing units wherein expansion is going on.

Moderator: Thank you. The next question is from the line of Sachin Shah from SS Securities. Please go ahead.

Sachin Shah: So I have couple of questions first is there is an exceptional item of Rs.10 crores which is loss due to fire accident, what is the status of that claim, how much you have already received from the insurance Company and have they sanctioned the remaining amount now?

Harish Agarwal: Interim assessment has been done by insurance Company. There are two elements in the claim. Element one inventory part and second building, plant and machinery. So in that inventory report already submitted and approved and it has been reached to head office. For plant and machinery interim assessment has been done, but report has to be filed in next month by the surveyor. What we have to receive based on the interim assessment by the surveyor, we feel that Rs.10 crore we have to take a hit, for which



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we have write off the expenditure as an exceptional item. As an interim relief of Rs.5 crores has been released by the insurance company and around Rs.57 lakh disposal of salvage also we have received so we have received of Rs.557 lakh.

- Sachin Shah:** And what will be the status of your phase 2 of refurbishment of your own plant?
- Harish Agarwal:** It is about to complete. In the next month there will be full-fledge production.
- Sachin Shah:** It will become operational?
- Harish Agarwal:** Operations are going on right now. But full-fledged production will commence from next month.
- Sachin Shah:** And another question is that what is the status of the demerger of your paint business by when do you expect to list Kamdhenu Ventures, so will you be looking forward to private equity or strategic partner in the business? what would be the objective?
- Harish Agarwal:** Now, both the business, we want to make them independent and we have to focus to scale up business. As you have asked the status, we have filed the application in the NCLT on 15th March,21 and the hearing is also fixed for 9th July. We are expecting that within FY22, shares should be listed. We are also working on line to raise funds through private equity or strategic investor, definitely to grow business, funds are required. So, once the listing is done then we will plan accordingly, and we have to reach Rs.1,000 crore turnover. So to touch that level we need support from strategic partner or private equity or raising funds by any other means.
- Sachin Shah:** What will be the structure for the same, the paint business are you keeping in subsidiary or in Kamdhenu Ventures?
- Harish Agarwal:** The new Company, where in shareholding will happen in mirror image, Kamdhenu Venture Limited will be listed which will have its subsidiary Kamdhenu Color Coating Limited. It is there in which paint business is going to be transferred. The funds which we are talking, will come in Kamdhenu Venture or it can come in Kamdhenu Color Coatings depending on the structure of the deal whether private equity is approaching or strategic investor is approaching, or it is coming through QIP, it depends on the structure.
- Sachin Shah:** Can you tell about structure how the share capital or net worth of newly listed Company would? how would the shareholder structure be?

Harish Agarwal: In terms of Shareholding, 1 is to 1 we are giving it in the mirror shareholding. In which for Rs.10 per share of Kamdhenu we are going to give Rs.5 per share of paint business.

Moderator: Thank you. The next question is from the line of Deepak an Individual Investor. Please go ahead.

Deepak: Sir, I want to ask that like last 10 years overall turnover CAGR is around 25%, so next 5 to 10 years if we expect 50% growth in paint and including TMT the same 20% to 25% CAGR?

Harish Agarwal: Like you have calculated 25% CAGR, if we take out COVID and the disruption which has happened because of fire and calculate that average it will be 35%. So, we are taking in to consideration that we have built up our marketing network, our sales depot are also sufficient, manpower is there and branding also we are pushing, and we have also added the plant which we have materials through outsourcing route, so considering all these situations 50% growth we can definitely achieve.

Deepak: In paint if it is 50% then for overall revenue how much including steel business?

Harish Agarwal: Overall after the demerger, the both business will be separated, steel and paint, you have to see it differently like we were talking paint we are taking 50% growth and if we talk of steel we are seeing 20% to 25% growth. We will also do it in future and if you see the past track of the growth, it is coming in this way.

Deepak: What will be desired EBITDA margin going forward if we achieve sale of Rs.1,000 crore in paint business

Harish Agarwal: That we have given in presentation like we have given 12% EBITDA level for Rs.1,000 crore.

Deepak: Any expected timeline of demerger?

Harish Agarwal: First hearing is fixed for 9th July,21. We have requested in the prayer that due to COVID we should be allowed online requisite meetings and for some companies we have requested for the exemption so overall we are expecting that in FY22 the whole process should be completed, with this planning we are working.

Deepak: My last question is that if you see from the paint business there is lot of competition no Company is giving guidance, what are the tailwinds which giving confidence of



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50% growth, your competitor I think entry business such as Shalimar paint if you see in the Tier-1 city people go with dealer of Asian Paint?

Harish Agarwal: You forget about percent you talk about absolute term. When we talk of Asian Rs.10,000 crore sale they are doing, the sale so next year target from 10% to 11,000 crore. We are doing Rs.200 crore sales and in the coming year we are taking the target of Rs.300 crore and in percentage term 50% we are definitely seeing, and market share we want is only of Rs.100 crore. Like you are seeing of percentage so that we do not have to see in that context because if we talk of industry growth 15% to 20% is industry growth.

Moderator: Thank you. Ladies and gentlemen as this was the last question for today I would now like to hand the conference over to the management for closing comments.

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 relation advisor. Thank you once again.

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