



“Kamdhenu Limited Q1 FY-19 Earnings Conference Call- Transcript”

August 6, 2018



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



*Kamdhenu Limited
August 06, 2018*

Moderator:

Ladies and gentlemen, good day and welcome to the Kamdhenu Limited Q1 FY19 Earnings Conference Call. 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 '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Satish Agarwal – Promoter and Chairman of Kamdhenu Limited. Thank you and over to you sir.

Satish Agarwal:

Good morning and a very warm welcome to everyone. Along with me, I have Mr. Harish Agarwal - Chief Financial Officer and SGA our investor relations advisor. I hope you have received our result and investor presentation by now. For those who have not yet, you can view them on our website. FY 18 was a great year for us wherein Kamdhenu grew by 93% on the back of the strong demand of TMT bars and our focus on implementing strong execution strategies through our brand Kamdhenu. We have been able to create a premium of over Rs. 450 crores in the last year. We have started strongly in the Q1 of this year as well and we expect the growth momentum to continue in this year as well. 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 in retail sales, through our more than 6500 exclusive dealers and distributors. We ensure quick delivery of TMT bars, our USP is that we ensure delivery of any quantity within 24 hours to any place in India.

We expect a demand of TMT steel bar to grow multifold with the kind of opportunities we see in our country. Affordable housing would be a great boost to the TMT steel sector. Recently the government has announced an early completion of 10 million rural houses by the end of 2018 ahead of 2019 deadline and a 11.8 billion urban housing by 2020, instead of 2022 deadline. Under the housing for all initiative, this will require huge amount of TMT and we expect multifold growth in the coming years. Post GST we are seeing a major shift from the unorganized segment to the organized segment. A lot of unorganized players want to shift their way to doing business and want to get associated with Kamdhenu. Our aim is to add only those franchisees who have a high production capacity. Now, we are only looking to add those who have annual capacities of over 1 lakh metric tonnes per annum. Our vision is to increase our annual production capacity or franchise business to 50 lakh metric tonnes through franchisee route.

Now coming to our paint business, we offer a complete range of decorative paint products which include exterior and interior emulsions, water-based primers and wood finishes, aluminum paints and texture and designer paints. We have the newest offering within the premium luxury wall finish segments. We have recently launched a new series of dual paints, Kamo Dual luxury emulsion under Kamdhenu paints. Kamo Dual luxury emulsions can be applied on both exterior



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and interior surfaces which ultimately reduce the inventory cost of all the dealers and the final cost of the end user.

We have more than 4,000 dealers associated with Kamdhenu in our paint business. We have an installed capacity of 46,000 metric tonnes per annum, having over 40 SKUs across our 10 plus product categories. We currently have 32 sales depots with presence in our 21 states in India, we have 30 designer galleries in operation across India. We provide one stop shop solutions for the customers as well as painters. In the recent months we have started outsourcing model for our paint division also where in the low value products are outsourced and only the value-added products and premium products are manufactured in our own manufacturing capacity. Our target for the paint business is to focus on tapping the under penetrated market, capture market share from unorganized players and improve our product portfolio which would target the premiumization.

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

Harish Agarwal:

Thank you sir,. I will take you all through the financials of the company.

Revenues for Q1 FY 19 are at Rs. 400 crores as compared to Rs. 228 crores in Q1 FY18, a growth of 75%. Since we have a franchisee model, which is asset light, the company should be analyzed on the basis of profit before tax, not on the EBITDA level.

Total turnover including all franchises for Q1 FY 19 are at Rs. 2900 crores, a growth of around 70% from Q1 FY 18.

Royalty income for the Q1 Rs. 19 crores, a growth of 39% from Q1 last year. Our aim is to earn royalty income over Rs. 100 crores by the financial year 2020.

In Q1 FY19 our steel business contributed, 88% where are our paint business contributed around 12%.

Profit before tax more than double for the quarter from Rs. 4 cores in Q1 FY18 to Rs. 9 crores in Q1 FY19. Profit after tax also doubled from Rs. 3 crores in Q1 FY18 to Rs. 6 crores for this quarter. With this I would like to open the floor for question and answer.

Moderator:

Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Dhruv Agarwal from Crescita Investments. Please go ahead.

Dhruv Agarwal:

Sir, due to some line disturbance I did not get the Q1 numbers for the franchisees and the total group held together so if you could repeat that please?

- Harish Agarwal:** This time we have brand turnover of around Rs. 2900 crores which is a growth of 70% over the Q1 of FY18.
- Dhruv Agarwal:** Okay and sir you could give the volume numbers for the steel business for Q1?
- Harish Agarwal:** In Q1 FY19, it was 5.25 lakh metric tonne,
- Dhruv Agarwal:** And sir if you could give me the breakup between the manufacturing volume and the trading volume, if you have them?
- Harish Agarwal:** In this quarter, manufacturing volume was around 18,000 metric tonne, whereas trading volume was 57,000 metric tonne.
- Harish Agarwal:** And franchisee was 5.25 lakh metric tonne.
- Moderator:** Thank you. The next question is from the line of Ajay Khandelwal from BOI AXA Mutual Fund. Please go ahead.
- Ajay Khandelwal:** So, what is the royalty between bars and structural steel now? I am just trying to understand that is there now increase coming from the structural steel also? Because there I think we charge almost 3X of bars.
- Harish Agarwal:** Actually, most of the royalties come from TMT segment. Right now, I don't have the royalty break-up from the structural steel and TMT .
- Ajay Khandelwal:** Okay no problem sir.
- Harish Agarwal:** 80% of the royalty from TMT segment.
- Ajay Khandelwal:** Okay and sir, how is this coated sheet business doing now?
- Harish Agarwal:** It is picking up.
- Ajay Khandelwal:** Okay, and what about the paints business now, what are the volumes and EBITDA?
- Harish Agarwal:** EBITDA margins is around 4.5% where as last year same quarter it was 3.5% .
- Ajay Khandelwal:** Very good, so it has improved?
- Harish Agarwal:** Yes.
- Ajay Khandelwal:** And then sir, how is the mix

- Harish Agarwal:** The turnover from paint business has grown by 34%. This year we have recorded a sale of Rs.49 crores as compared to Rs.37 crores last year same quarter
- Ajay Khandelwal:** okay, so sir, do we expect Q2 to be very strong for paints?
- Harish Agarwal:** Yes.
- Ajay Khandelwal:** Diwali is in November, so do you expect Q2-Q3 both to be very strong, ?
- Harish Agarwal:** Yes.
- Ajay Khandelwal:** Excellent, so sir, you also spoke in the interview about this upfront fee that you charge for franchisee.
- Harish Agarwal:** Yes.
- Ajay Khandelwal:** So, For example, if we get somebody on board for 1 lakh tonne and I think our franchise agreement is for 3 years, so, what is the franchisee fee that you charge upfront and how do you amortize it? Is it for 3 years that you take it in the P&L directly?
- Harish Agarwal:** No, first we account it as and when we receive the one-time execution charges, because initially we have to spend some money on development of the market and also on the branding; Number 1, we book the income as and when we sign the agreement and receive the royalty; Number 2, about the quantum of the amount we receive from the signing the new franchisee unit. depends on area to area where our premium is Rs. 5,000 there we charge Rs. 1 crore, if our premium is in Rs. 1,000 then we charge Rs. 40 lakhs, that depends on case to case, region to region. It is not fixed .
- Ajay Khandelwal:** Okay perfect. So, when you say we have received Rs. 19 crores of royalty income this quarter, does that include any of this upfront fee?
- Harish Agarwal:** Yes, from total of Rs.19 Crores, one time fee contributes Rs. 52 lakhs .
- Ajay Khandelwal:** Okay great. And sir, earlier we highlighted that there will be some plans for the paint division which may be disclosed by the end of the quarter. So, has anything happened there?
- Satish Agarwal:** No, we have started outsourcing the low value product and we are only focusing on our premium product. And in this quarter we have launched the new product Kamo Dual which is a luxury emulsion, which can be applied on interior and exterior surfaces, which is a unique product gaining good traction in the market, in the last 1.5 months we have sold around 2 lakh litres of this product.
- Ajay Khandelwal:** Very good, and is this coming from Delhi and North region?

- Satish Agarwal:** Yes.
- Ajay Khandelwal:** Okay great , just one more question. We will see increase in royalty fees but our working capital and brand expenses will be similar to last year Right?
- Harish Agarwal:** Yes, we are planning to streamline the branding expenses. We would not like to increase the expenses in portion to sales, but it will be a little higher as compared to last year.
- Ajay Khandelwal:** So, everything will flow through the profitability then?
- Harish Agarwal:** Yes.
- Ajay Khandelwal:** Correct, perfect sir.
- Moderator:** Thank you. The next question is from the line of Anmol Das from Stewart & Mackertich. Please go ahead.
- Anmol Das:** My question is regarding the royalty income, for last year it was about Rs. 360 per tonne?
- Harish Agarwal:** Yes.
- Anmol Das:** So, can you give any guidance regarding this quarter and is it increasing?
- Harish Agarwal:** No, it is the same Rs. 360 in this quarter and in the last year of the same period it was Rs. 340. We are focusing on increasing the volume of the product we are not focusing on increasing the royalty.
- Anmol Das:** Okay. No, actually you mentioned in the last quarter that you have launched certain coated sheet product which has more margins?
- Harish Agarwal:** But again, we are focusing more and more on the TMT.
- Anmol Das:** Okay and sir, another question on the paints division. There was an update from you regarding Graphenstone joint venture, any development in that deal or has that been scrapped?
- Satish Agarwal:** Actually, we did not find their product the way they were claiming. We had sent their product in the laboratories, but we did not find positive results. So, we are not taking up this venture further.
- Anmol Das:** Okay.
- Moderator:** Thank you. The next question is from the line of Ritesh Bafna from RB Securities. Please go ahead.

- Ritesh Bafna:** I would just like to continue on the question that the previous participants asked on our royalty income. So, I would like to understand how do we plan to incentivize our franchisees and dealers on a regular basis? How do we keep them motivated?
- Satish Agarwal:** Actually, after association with Kamdhenu there is a creation of premium in the market over the local brands. If earlier, they were selling their products at the rate of Rs. 40000, after association with Kamdhenu, they are able to sell their products at Rs. 42,500 so, there is a premium of Rs. 2,500 which will be shared by 4 people; Kamdhenu will receive Rs. 360 - 400 per metric tonne, distributor will get around Rs. 350, retailer/dealer will get around Rs. 800 and approximately franchisee unit will earn Rs.1000. So, everyone is in a win-win situation after being associated with our franchisee business model.
- Ritesh Bafna:** Okay and as you mentioned that you have a good brand name so, I would like to understand do you have any ball park number in your mind to spend on creating your brand like say advertisement expenditure or marketing expenditure like do you have a particular absolute amount in the mind that you would spend every year or will it be a percentage of sales on yearly basis or will it be any other metrics?
- Satish Agarwal:** Last year we spent around Rs. 70 crores on branding and marketing activities, of which Rs. 50 crores was spent by Kamdhenu and Rs. 20 crores by the franchisee unit. This year we are planning to increase it to some extent but not in proportion of the sales.
- Ritesh Bafna:** Okay so will that be absolute?
- Satish Agarwal:** Yes?
- Ritesh Bafna:** So, you mentioned that there will be some bit of increase from the last year's amount, so I wanted to understand will that be constant in the future or that will again be dynamic?
- Satish Agarwal:** There will be slight increase but not in the proportion of sales. But we would like to focus on increasing some of the expenditure on the branding and marketing. We will continue to incur.
- Ritesh Bafna:** That will again be a mix of your own expenditure and from the franchises ?
- Satish Agarwal:** Yes, this model will continue.
- Ritesh Bafna:** Okay. Next thing is we have already 3 types of TMT bars with us right now, so are we in the process of innovating some new products in TMTs in the future?
- Satish Agarwal:** Yes, we are working on that. In our own plant R&D process is going on and we are working on the next version. Last year, in 2017 we launched a product Kamdhenu Next. In 2013-2014 we launched Kamdhenu SS 10,000 and every 3 years we generally launch new product.

- Ritesh Bafna:** Okay every 3 years you launch a new product and how do you see the market for that new product?
- Satish Agarwal:** It will be good. Overall TMT demand will be high in the coming periods as there are many ongoing government projects, one of which is Pradhanmantri Awas Yojna, So, overall we expect demand of TMT to grow.
- Ritesh Bafna:** Okay so that brings me to the other question that is about our capacities. So, currently it stands at around 72,000 metric tonnes per annum. So, do we plan to expand it in house or we will go through the franchisee route to expand the capacities?
- Satish Agarwal:** You are talking about the overall capacity or our own plant which is in Bhiwadi?
- Ritesh Bafna:** So, currently 72,000 is the total capacity, right?
- Satish Agarwal:** 72,000 is our own capacity we are working on increase the capacity of our plant and within this year the capacity will be increase to 1,20,000 metric tonnes. We are upgrading our plant.
- Ritesh Bafna:** So, that is our own Kamdhenu's capacity, right, not including the franchise?
- Satish Agarwal:** Franchise is also increasing day by day and by the end of this financial year, the capacity of 2.5 million tonne will be increase to around 3 million tonne.
- Ritesh Bafna:** Okay so that includes both franchisees and you yourself as well.
- Satish Agarwal:** Yes.
- Ritesh Bafna:** And one more thing, can I get a geographical mix of our revenues and the franchise distribution as well?
- Harish Agarwal:** Yes, we have the region wise out of total Rs. 19 crores of royalty income Rs. 5.8 crores from the East region, Rs. 6.25 crores from the North region , Rs. 3.55 from the South region and Rs. 3.34 crores from the West region.
- Ritesh Bafna:** Okay. So, sir, do we plan to increase our geographical presence in the geographies that are contributing less to our revenues right now, any plans as such like we are strong in the North, we have an overall pan India presence but any plans to make our presence more stronger in other geographies?
- Satish Agarwal:** Yes, we are working on that.
- Moderator:** Thank you. The next question is from the line of Diya Thakkar from NS Securities. Please go ahead.

Diya Thakkar: Actually, I wanted to ask you the question about the paint business, like how are we looking forward to grow our paint business? How is the paint business growing and what is the growth in this quarter?

Diya Thakkar: How is the paint business growing and what is the growth in this quarter?

Satish Agarwal: See as you know paint business is a huge market in the country around let's say Rs.40- 50,000 crores and the market is growing at an average of 20% annually. Kamdhenu has put in efforts to grow paint business as well right from the grass route levels like we did for the steel business, we have focused mainly on Tier-II, Tier-III and Tier-IV cities, though we have our presence in metro cities as well. And it is the policy of the company to provide top qualities of the paint product at a reasonable price to the customers. Last year we had achieved a target of Rs. 200 crores from Rs. 167 crores. In the current year, that is FY19 we are planning to achieve a target of Rs. 275 crores. Apart from this, those low priced products liked distemper, putties we have started outsourcing since 2017. And our effort is to come up with new and new premium products as we are seeing demand from the end consumers for this products we are working hard to make our paint business a bigger vertical in coming future.

Diya Thakkar: Okay do you think your paint business will be profitable in the future?

Satish Agarwal: See when it comes to paints, Kamdhenu's products are at par with the big players, The consumers are ready to accept our products at the same price range. Practically Asian Paints and Kamdhenu's paint has the same MRP. As the size of our paint business is small overall expenses to some extent majorly fixed costs are high but gradually as and when things scale up margins will improve drastically,

Diya Thakkar: Okay. My next question is that, from where do you source the raw material, like do you source it in-house

Satish Agarwal: When we talk about the raw materials for the paint business, since this is a chemical industry and thousands of chemicals are used, the whole sourcing is from outside. In house we do not make any chemicals but the we focus on R&D a lot and our R&D team is very strong and it is our responsibility to reduce cost to optimum levels and produce good quality products in the market and for that we have installed a QUB machine, which will help increase durability of the paints for 5 years, 6 years or 7 years. And all our products are tested on the machines before launching in the market.

Diya Thakkar: Okay, do you have any long-term contract with the suppliers?

Satish Agarwal: Yes, in the upcoming 3-4 years we are expecting at least a business of Rs.1,000 crores from the paint business which will help us adding Rs100 Crores to the bottom line

- Diya Thakkar:** What is your capacity utilization, in paint business?
- Satish Agarwal:** At present our capacity utilization is 50%, with some efforts we are adding some new machines in the paint business for few products and we are working on adding more capacity.
- Diya Thakkar:** I wanted to ask you something about the steel business. What is the capacity utilization of steel business?
- Satish Agarwal:** Regarding overall capacity utilization, on an average it is approximately 60-65% because of the power cut problems and coal issues. Last year the capacity utilization of Kamdhenu was more than 65% and we are putting an effort to put new capacities through franchises and we are also trying to improve the capacity of our existing plants. And if we compare Kamdhenu's capacity utilization with the average we feel 65% is a good number .
- Diya Thakkar:** Okay and will the prices of raw material for steel rise or fall going forward? And what is your view on that?
- Satish Agarwal:** See for the last 6 -7 months the prices of steel has increased approximately Rs. 7000 to Rs. 8000 per tonne. I don't think the prices will increase because the prices right now are already above the peak level. It may soften a bit by Rs. 500 - Rs. 1000 per tonne. But I don't think the prices will increase in the immediate future. Our efforts is that whatever existing is there the growth and demand should continue on that.
- Diya Thakkar:** Okay but if the prices increase will there be any impact on our company? If yes, what will it be?
- Satish Agarwal:** See all our franchises including our own plant, the raw material for these are sponge iron, billet, ingot so in the rolling mill structure not much affect comes on this as the prices of raw material increases, the prices of finished products increased accordingly. If finished products prices decrease, the raw material also decreases. So, in that hardly 0.1 to 0.2 impact comes, it does not impact anything.
- Moderator:** Thank you. The next question is from the line of Mangesh Bhadang from Param Capital. Please go ahead.
- Mangesh Bhadang:** I have two questions, one is, in FY19 and FY 20 what will be the CAPEX? And second thing is, what is the thought process for adding capacity at our existing plants, because anyways we are going to grow through our franchises routes. So, what is the difference in terms of the capacity addition that we are doing at our side?
- Harish Agarwal:** Actually, we are de-bottle necking our plant or you can say upgrading our plant and the capacity would be increased from 72, 000 to 1,20, 000 metric tonnes. And CAPEX would be around Rs. 10 crores with regard to our own plant and with regard to franchisee model we are planning to double our capacity over a period of 3-5 years. This year we are planning to have capacity of

around 3 million tonne. And CAPEX would be made by the franchisee units we are not seeking any CAPEX through the increase of capacity in the franchise unit.

Mangesh Bhadang: Our working capital will remain the same?

Satish Agarwal: Yes.

Mangesh Bhadang: So, in existing units it will only be de-bottle necking, right?

Satish Agarwal: Yes. You can say upgrading the plant

Moderator: Thank you. The next question is from the line of Amit Shah, an individual investor. Please go ahead.

Amit Shah: My question is based on the paint business, the government has reduced GST rates from 28% to 18% so how has our business benefited from this move, and how do you see this going forward?

Harish Agarwal: See the benefit is directly passed on to the consumer as per the guidelines of the governments. As soon as the GST reduces the respective benefit has been passed on to the consumer. We have given an ad in the newspapers and our website, that the reduction of 10% in price on account of GST the MRP has been reduced accordingly. And the business will grow, as the prices of the products reduce, the buying capacity of the consumers will increase and the working capital requirement will also be low, be it from our point of view or from the dealer's point of view, the requirement of the working capital will reduce to the extent of 10%, the business will grow and the ultimate consumer will be benefited because his buying capacity will increase. So, the paint business is going to increase and there will be positive impact on the paint business.

Amit Shah: And do you see a shift in the demand from the un-organized sector to the organized sector because of GST rate reduction?

harish Agarwal: See in this, unorganized sector use to evade tax before the introduction of GST, but the fact that now there is GST they won't be able to evade tax and after paying 18% they cannot even compete with the organized players. So, the unbranded products, those which used to be in the grey market, they are compelled to move to the organized sector. And as soon as they move to the organized sector and pay 18% tax then the viability of those people will not be there. So, people like us who are the big players will be benefited because the un-organized sector will be eliminated.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to the management for their closing comments. Over to you sir.



*Kamdhenu Limited
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Harish 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 us or SGA, our Investor Relation Advisor. Thank you once again.

Moderator:

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