



“Kamdhenu Limited Q4 & FY20 Earnings Conference Call”

July 1, 2020



**MANAGEMENT: MR. SATISH AGARWAL - CHAIRMAN & MANAGING
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Moderator: Ladies and gentlemen, good day and welcome to the Kamdhenu Limited Q4 FY'20 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.

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 Relations 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.

Before we proceed with the highlights for the year and the quarter gone by, I hope you and your near ones are safe and healthy. The last few months have been tough for everyone and I am sure all of us both in work and personal life have discovered a whole new way of working.

I am pleased to inform you all that the board of directors of the company have recommended a dividend of Rs.0.50 paise per share for the financial year 19-20.

Now, I would like to give everyone "Update on the COVID Situation." Since the nationwide lockdown was announced in March '20, the company had closed its paint manufacturing operations at Chopanki and steel manufacturing operations at Bhiwadi. Both located in Rajasthan. Our company has adopted work from home policy. Safety and well-being of the employees remain on top priority.

Post the unlock of COVID pandemic lockdown, the company restarted its operations at steel and paint factory and supply has started as per order booking and as per the available workforce since May 2020. Our company has resumed effective operations of more than 60% at the steel TMT manufacturing unit. Our company is having all safety precautions at all offices and manufacturing unit in terms of social distancing, sanitization, wearing of hand gloves and thermal temperature checking of all employees at factories and offices.

Our business has been impacted temporarily during nationwide lockdown in the months of March, April and May '20 and it will be reflected in the revenue and profitability of the company to some extent. Since our facilities have resumed operations, we are hopeful that the business environment improves in the second quarter and we get back to normalcy in the second half of the year. As I mentioned that we are currently working at 60% capacity and the ramp up is increasing on a continuous basis. Since the situation is exceptional and changing dynamically,



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the company is not able to gauge with certainty the future impact on its operations. However, the company is confident about adapting to the changing business environment and response suitably to fulfill the needs of the customer.

Now let me give you some “Key Updates regarding Kamdhenu Steel Business.”FY20 has been challenging year for the Indian Steel industry. The industry has faced challenges with slowdown in the economy, weak demand for steel, huge import of the steel and the COVID-19 pandemic which led to shutdown of operations of all steel companies. Despite of these unprecedented times, we have increased our volumes by 6% to 24.9 lakh MT for FY20.

Here at Kamdhenu, we believe in innovating products, with this belief during the year FY20 Kamdhenu launched one of its own type of a steel, Power Alloy Steel (PAS 10,000) in the country. PAS10,000 is capable of giving unmatched strength and safety to the construction. Its unique design gives 360 degree locking with the concrete, which gives strength of up to 10,000 PSI with the concrete. We have done research in the field of rebar and has presented rebar in ultimate capability. The research of the company will take the steel industry to the next level. Steel Alloy gives a better rust-proof quality and give this rebar capability to bear 28% more weight. Along with this, it also gives double earthquake prevention to the building.

Secondly, the government imposed anti-dumping duty on certain steel products imported from China, South Korea and Vietnam. The positive move shall boost the domestic steel manufacturer with current situation expected to normalize the demand of the steel is likely to rebound with double-digit growth in calendar year 2021.

There are many stalled projects both in construction and infrastructure. Along with capital expenditure plans coming back on track, demand for steel is likely to improve. Government spend in this sector is really a significant driver of demand. Affordable housing and rural development can improve construction activity further.

The government is also looking at coming up with the measures to incentivize the steel industry. It can be anticipated that the demand for steel will get back to normal by second half of FY21. With pickup in construction activity gradually, we believe there will be increase in demand for TMT Bars. Kamdhenu being a strong player in a well placed position to capture the opportunity as and when it comes.

Here at Kamdhenu, we have been committed to our goal and have managed to achieve total brand sales turnover of Rs.10,851 crores even in this challenging business environment wherein prices of a steel is reduced by ~15% in FY20 as compared to the last fiscal.



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Our steel franchisee operations have continued the excellent performance which is evident as our royalty income has also shown significant improvement and has grown up by 12% to Rs.94.2 crores for FY20. Post lockdown, not only have all our franchisees resumed operations, but also are increasing the production on ongoing basis.

We have a target of reaching total brand revenue of Rs.20,000 crores by FY22. We endeavor to expand our franchise operations by reaching an overall capacity of 5 million MT pa by FY22 which will help us to achieve target of Rs.150 crores through royalty income by FY22.

Now, I would like to Update on “Scheme of Arrangement.” During FY’20, the company has acquired 100% shareholding stake at face value in Kamdhenu Ventures Limited whereby Kamdhenu Ventures Limited has become wholly-owned subsidiary company of the company.

Further, Kamdhenu Colour and Coatings Limited being a wholly-owned subsidiary company of the Kamdhenu Ventures Limited has become step-down subsidiary of the company. It is hereby pertinent to mention that Kamdhenu Ventures Limited and Kamdhenu Colour and Coatings Limited was incorporated by the promoters of the company to give effect to the proposed scheme of arrangement of multiple entities. The board of directors of the company in its meeting held on 25 January, 2020 has approved the proposed scheme of arrangement subject to the requisite regulatory approval. The company has already filed the application with the stock exchanges for their approval and observations on the said scheme of arrangement.

Now, coming out to the “Paint Business.” During the first quarter of FY’20, as you are well aware that a major fire broke out in our paint factory, due to which inventory at the paint factory, property, plant and equipment got damaged substantially. The carrying amount of such property, plant and equipment and inventory on the date of such fire was earlier estimated to be 45.68 crores against the company filed initial insurance claim of Rs.45 crores. The process of assessment of claim settlement is still underway and has not been approved till date of approval of financial statement. The company based on valid and subsisting insurance policies has also on the basis of various discussions with the loss surveyor and also with the insurance company have reassessed the expected settlement amount of Rs.42.04 crores against the damage of Rs.42.84 crores. Post the fire at our paint factory, we outsource production of the paint products from the third-party manufacturer and assured the quality standards by deputing our own technical team at the manufacturer’s plant. The manufacturing operations in our own paint factory has started smoothly along with the restoration of the remaining plants which started in Phase-II.

At Kamdhenu, we always believe in improving cost efficiency and are conscious of product development and we are fully committed for the same. We are also looking to penetrate southern market where our presence is less and strengthen our footprint in existing geographies.



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

Harish Agarwal:

Thank you, sir. I will take you all through the Financials for Q4 and Full Year FY20.”First, about the “Steel Business.” Despite several challenges faced by the steel industry, our overall steel volume including franchisee route have been increased by 6% to 24.9 lakh MT as compared to 23.5 lakh MT in FY19. Total brand turnover including franchisee was Rs.10,851 crores which was a de-growth of 10% as compared to Rs.12,027 crores in FY19. It is mainly due to reduction in steel price by over 15% in FY20. Royalty income through franchisee is up by 12% to Rs.94.2 crores as compared to Rs.84 crores in FY19. Profit before tax excluding exceptional items for the steel business stood at Rs.37.3 crores for FY20. Our ROE of the steel business as on March 2020 stood at 24.5%, an increase of 640 basis points from 18.1% in March ‘19. Our ROCE as on March ‘20 stood at 22.9%. While for Q4 FY20, steel volume including franchisee route was 6.1 lakh MT as compared to 6.5 lakh MT in Q4 FY19. This was mainly on account of loss in sale in March due to nationwide lockdown. Total brand turnover including franchisee stood at Rs.2,720 crores as compared to Rs.3,275 crores in Q4 FY19. Royalty income through franchisee stood at Rs.22.2 crores as compared to Rs.23.8 crores in Q4 FY19. Profit before tax for the steel business stood at Rs.6.7 crores.

Now, coming to the Paint Business. For Q4 FY’20, our paint sales volume are at 7,560 MT, for FY’20 are at 29,539 MT. Total sales from the paint business for the quarter stood at Rs.64.2 crores whereas for FY20 it stood at Rs.225.7 crores. We expect the momentum in paint business to pick up once the situation of COVID normalizes.

For the overall business, revenue for the year FY’20 are at Rs.962 crores as compared to Rs.1,232 crores in last fiscal. This drop is mainly because of our trading sales from steel business have reduced from Rs.557 crores to Rs.308 crores.

The company has reequipped its business strategy by reducing B2B trading sales of steel business and focus on improving efficiencies in own manufacturing and branding business.

Our profit after tax has remained flat at Rs.22.3 crores excluding the one-time exceptional item and tax calculated at normal rate after adjusting the deferred tax. The company had spent Rs.73.5 crores on branding and marketing and another Rs.30 crores was spent by our franchisee on the brand during the financial year 2020.

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

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mulesh e Savla from M Savla. Please go ahead.

- Mulesh Savla:** My first question is to Mr. Satish Agarwal. Sir, as I look at the balance sheet, we have paid some Rs.5 crores to IIFL PMS Fund. Could you tell us what is the purpose of this amount paid to that fund?
- Satish Agarwal:** Actually, we had a plan to create a treasury for the company for future expansion and acquisition of any other unit. That was the main plan before the COVID-19. And just to create a treasury, we started with an investment of Rs.5 crores and the planning was that we will invest at least Rs.2.5 crores per month and we will create a treasury so that in future if we want to go for any expansion or any acquisition of any other unit, this investment will be helpful and that was the motto. And that is why we started this creation of treasury and investment was made in IIFL as a treasury.
- Mulesh Savla:** But our borrowing has also gone up by about Rs.30 crores or so odd amount in current year. So, I am just wondering whether was that a right strategy or not. And what is the current status of that investment?
- Satish Agarwal:** Still that is there and no doubt just due to fluctuation in the market due to COVID the valuation of that investment is definitely on a lower side. But we had received the COVID limit from banks at a lesser rate of interest and that way they were cheap and they are still lying unutilized. All the bank accounts are regular and below the limit.
- Mulesh Savla:** So, are we planning to further continue with Rs.2.5 crores every month or is this just a full and final that we have done?
- Satish Agarwal:** No, every moment looking at the market situation we have deferred this decision and ultimately if we get the return over and above the bank interest, then only we will go forward with that.
- Mulesh Savla:** And another question to Mr. Harish Agarwal. Sir, we have inventories which has gone up by about Rs.20 crores as per the balance sheet. However, when I look at the cash flow, the inventory increase is shown as Rs.40 crores. I was unable to reconcile these two figures. And in balance sheet in the current assets, there is one amount of other financial asset which has gone up by about Rs.42 crores. So may I get the detail of what is that increase all about?
- Harish Agarwal:** In Cash flow inventory Lost in fire has added back of Rs,20 crores while in Balance Sheet it has booked as claim from insurance company. You have to see the cash flow in totality. In the presentation it is a brief cash flow which you have seen. And it is all matched in the balance sheet with the point also not only in the crores or lakhs. So in case you want to see the entire cash flow, may call either me or SGA, will provide the detailed cash flow to you.
- Mulesh Savla:** Another question on current assets. We see a spike of about Rs.42 crores in other financial assets. May I have idea on that please?
- Harish Agarwal:** This is insurance claim receivable.



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- Mulesh Savla:** Why we were not able to convince our auditors for the claim and why they have to modify the report and say that there is uncertainty in receivables and all those things? I was not able to understand it properly.
- Harish Agarwal:** They have given a number of examples where the claim was pending and the auditors have modified their report. So it is only observation which they want to bring to the notice of shareholders. It is not a qualification.
- Moderator:** Thank you. The next question is from the line of Pankaj Jain from Mahavir Investment. Please go ahead.
- Pankaj Jain:** I have two to three questions. The first would be given the current COVID situation, we see that the demand was reduced because of expenditure lowering on infrastructure. So what should one expect volume growth for franchisee for FY21 and FY22, any ballpark number?
- Satish Agarwal:** I would like to tell you that at the end of the April when the government has given the permission that you can start the industry, so in the last four to five day at the end of the April from out of existing stock, we have achieved about 20% sales through franchise. In the month of May 2020 almost 2 lakhs tons of target which was there of the last year, from that we have achieved 80% in the month of May and in June we have achieved almost 90% target and I think in the coming days we expect to achieve more. I would like to share one thing with you when there is a less demand in the market then the requirement of the brand by everyone in the industry is more because branded products only gets sold first and sold at margin and realization is good and as Kamdhenu fully is in retail segment and in tier-1, tier-2, tier-3, tier-4 cities we have full networking during the COVID. In the month of April in the rural area construction activities were going on so I think that we would bring this year's target on track.
- Pankaj Jain:** As you mentioned that our products would be sold at margin then that should have a good impact on the margin but are we also looking to control cost? Especially on the branding cost, we spent about Rs.70 crores, so are we going to curtail that because if that then there would be pressure on margin. What would be the outlook for branding cost in the next year?
- Satish Agarwal:** April onwards and in the months of May, June we have an ad campaign on TV which we have withhold and we have not done our TV campaign. Our effort is how to minimize the cost and we are working on that. And now that the operations have started, we are, now working on detail planning on the cost cutting measure for the Company. I think we will do some bit of cost cutting in this year.
- Pankaj Jain:** Sir, what would be the current market price for TMT Bars in retail segment? Who are the main competitors in that segment or how much is their capacity in the retail space for TMT Bars?

- Satish Agarwal:** See in retail space the nearest competitors of us is TATA Steel. TATA Steel in retail sells 12-15 lakhs tons of TMT bars, Kamdhenu sold 24 lakhs tons TMT bars last year. At the regional level whatever the best local brand, we command a premium over them or according to that we fight with local brand. As far as demand is concerned as I have told you when there is a less demand in the market, so the branded product gets sold more and they get sold on the margin and this time also I think we have a good demand. Only Delhi and Maharashtra are two places such that where there is more impact of COVID but over there also the retail work is going on but projects are getting impacted in Delhi and Maharashtra. Apart from it Hyderabad or Bangalore has a little effect but it is in the city however the demand in the surrounding areas is good. It depends on how the situation of COVID pans out.
- Moderator:** Thank you. The next question is from the line of Kunal Koladiya from Anova Capital. Please go ahead.
- Kunal Koladiya:** Sir, my first question pertains to the amalgamation. So any deadlines like when are you expecting this to complete?
- Harish Agarwal:** In fact, we have submitted our scheme to the stock exchanges in the month of Feb 2020. And now it has come to our knowledge that NSE and BSE both have forwarded their comments to the SEBI. And now SEBI is examining the scheme. And we are expecting that in the month of July 2020 SEBI will revert with their comments. Even you can say within this financial year, we are expecting to conclude this scheme.
- Kunal Koladiya:** Wanted to know what are the advantages of considering this scheme of arrangement? what is the rationale behind it?
- Harish Agarwal:** There are three-four advantages for this scheme of arrangement. One is that we want to have more focus on the paint business by the dedicated team of management and dedicated team of the HODs. So in a separate company, the paint business would be more focused, Some investors are interested to invest in the paint business whereas some are interested to invest in the steel business. If the business is combined in the one company, then there is a confusion. That is why we have decided to make separate steel business and paint business to give more focus on the business.
- Kunal Koladiya:** So sir, my second question was that our paint business is not doing that great and considering the lockdown situation and all migrant labors issue, how are we seeing our paint business panning out in the short-term? Secondly, what is our revenue target for FY21 and FY22?
- Harish Agarwal:** We are assessing the position of sales as well as production as well outsourcing as well as restoration of our remaining portion of the plant. So this assessment will take at least one month. We are closely monitoring the situation of COVID. There is impact on the paint business more as compared to steel business.



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- Kunal Koladiya:** Like other companies in the paint segment, have we launched some products like 'Safe Painting' services and something to fight this COVID out. So are we planning to launch something of that sort in our paint business?
- Harish Agarwal:** No, we are not planning anything right now in this direction.
- Kunal Koladiya:** My last question was pertaining to the steel business. So now like most of the economies have opened up but we are seeing that some of the states are implementing lockdown restrictions again. So are we seeing any problem at our franchisee end or we are facing any supply chain issues or demand issues? Could you can give us like geographical detail, that would be helpful?
- Harish Agarwal:** I can give you the details up to March and if you want the geographical detail for FY20 I can give you. But for the current quarter I have to collect the data because today is 1st July. So right now I am not having, but our most of the franchisee units have resumed their operations.
- Kunal Koladiya:** If you can provide geographical distribution of royalty collection, then that would be helpful?
- Harish Agarwal:** Out of Rs.94 crores, for the East, we have Rs.30.15 crores, for the North we have Rs.31.54 crores, for the South we have Rs.14.76 crores and for West we have Rs.17.68 crores.
- Moderator:** Thank you. The next question is from the line of Priyanka Singh from Optimum Securities. Please go ahead.
- Priyanka Singh:** In continuation to the previous question, as per the presentation we have mentioned that we are targeting Rs.150 crores of royalty income in the next two years. So do you think we will be able to achieve it? Also, what are our targets for FY21?
- Satish Agarwal:** I think we have set the target for not just the number but to achieve it. We are trying our best for this through backward integration. We are going for the expansion of capacities through our old franchisees as well as we are appointing new franchisees in different parts wherever the demand and supply gap is there. And we are working out for this and hopefully we will do it.
- Priyanka Singh:** Also, we have recently expanded on our steel manufacturing capacity to 1,56,000 MTPA. By when do you expect it to be fully utilized? And what would be the expected revenues that can be generated from this entire capacity?
- Satish Agarwal:** Say, 1,20,000 MT installed capacity we have already achieved. But due to this COVID we are particularly supplying our own products from our own unit in the total NCR area which is badly hit by the COVID. Whereas our franchisees are working at 90% level, we are just able to achieve a target of 60%. Now gradually demand is increasing. The capacity utilization depends on the running hour of the company. Usually, running hour for the rolling mill is 20-hours. And we are working right now only for the 10-hours per day just because of short of demand or shortage of labor in Delhi/NCR. There are certain limitations during the COVID. We cannot appoint 100%



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workers in the factory. We have to utilize only 60%-70% workers in the factory. That is where the present capacity utilization is 60%-70% and gradually it is increasing.

Priyanka Singh: A few months back, we had launched “Power Alloy Steel.” So, could you comment on the unique feature and the quality this possesses? How was the demand for this product? And what sales do we expect going ahead?

Satish Agarwal: Unfortunately, this product was commercially launched in the month of March and immediately after the launch the COVID started. This is a unique product having extremely high strength and it is basically designed for the high rise building up to the 100-storeys. It is a rust proof and you can stay it with 100% security in the earthquake. No one can guarantee 100% security, but what I mean is that we can say 99.9% secured. It is designed especially and it is our own R&D result which we carried in the last two years. Demand is gradually increasing and hopefully I think we will be able to establish in the market. We are supplying only in Delhi, Haryana and Rajasthan.

Priyanka Singh: So do we expect any new product to be launched in this year? We know that the situation is evolving.

Satish Agarwal: Recently, in this financial year just three months ago, we have been spreading the reach of this Power Alloy Steel product throughout the nation. As per the result and demand we can think in future, but right now we have no plan at all for any new product launch.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Harish Agarwal 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 your all queries. For any further information, kindly get in touch with me or SGA, our investor relations advisor. Thank you once again.

Satish Agarwal: Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Kamdhenu Limited we conclude this conference. Thank you all for joining us and you may now disconnect your lines.