



“Kamdhenu Limited  
Q2 & H1 FY2020 Earnings Conference Call”

November 14, 2019



**MANAGEMENT:**

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KAMDHENU LIMITED**

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**Moderator:** Ladies and gentlemen good day and welcome to the Q2 & H1 FY2020 Earnings Conference Call of Kamdhenu Limited. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as from the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Satish Agarwal, Chairman and Managing Director of Kamdhenu Limited. Thank you and over to you Sir!

**Satish Kumar Agarwal:** Good afternoon and a very warm welcome to everyone. Along with me, I have Mr. Harish Agarwal, Chief Financial Officer of the Company and SGA, our Investor Relation Advisor. I hope you have received our results and investor presentation by now. For those who have not received, you can view them on our website.

Friends, let me start by giving you some key updates regarding Kamdhenu’s steel business. The steel sector has faced multiple headwinds with imports from China increasing to a large extent which has caused disruptions in the domestic markets.

During the first half, the average price of TMT bars have reduced by 14% which has led to lower profits in the steel business. Despite of all these, our volumes have grown by over 17% and our profit before tax in the steel business has grown by 8%.

This is on account of our strong execution strategy, brand pull, created through our large distribution and marketing strength. Our like-to-like profit after tax for the steel business has grown by 43% on year-on-year basis to Rs.17.8 Crores on account of adjustment in the deferred tax.

The situation in the steel market is now improving and we are seeing certain green shoots. Traction for TMT bars have improved significantly on account of increase in government expenditure on the sector and retreat of monsoons. We believe the demand for TMT bars will grow manifolds with the pickup in the infrastructure activities such as affordable housing in the country. Kamdhenu being the strong player in the TMT business through its strong dealer network in India is well positioned to capture the benefits of this trend.

The company has always believed in taking challenges head on and with their belief. We have managed to achieve a total brand sales turnover of Rs.5,519 Crores, even in this challenging business environment. We had a target of reaching total brand revenues of Rs.20,000 Crores by FY2022.



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We have decided to bring in more efficiency in our own manufacturing and increase our market share by leveraging our brand and our asset light business model.

In line with this we have reduced our focus and sales done in B2B segment which in fact is a trading sale. The shift in strategy has led in increase margins, better efficiencies with higher return ratios and reduced working capital requirements.

Our sales volumes excluding trading sales have gone up by 24% as compared to the first half of FY2019. Our steel franchisee operations have continued the excellent performance which is an evident as our royalty income has also shown significant improvement and has grown by 26% to Rs.48 Crores for H1 FY2020.

The company is on course of to beat its target of Rs.100 Crores through royalty income during this financial year. We endeavor to extend our franchise operations by reaching an overall capacity of 5 million metric tonnes per annum by FY2022 which will help us to achieve our long term target of Rs.150 Crores through royalty income by FY2022.

Kamdhenu has always believed in continuous communication and consumer engagement. The company has spent Rs. 37.1 Crores on branding and marketing and another Rs.15.2 Crores were spent by our franchises on the Brand during the first half of FY2020.

Now coming to our paint business, in April 2019 a major fire broke out in the paint factory of the company due to which the inventory at the factory, property, plant and equipment got damaged substantially. The damages were to the tune of Rs.45.68 Crores. The company has filed insurance claim of Rs.45 Crores with an insurance company and the process of assessing the claim settlement has been initiated and is underway. The management of the company is confident that the amount claimed from the insurance company is certain to be realized based on valid and subsisting insurance policies.

Accordingly the company has recognized insurance claim receivable amounting to Rs.45 Crores (to the extent of amount claimed) in the books of account.

Post our fire at the paint plant it was decided on immediate basis to outsource production of the paint products from third party manufacturers at various locations. The company has ensured the quality standards by deputing its own technical team at the manufacturer's plants. Recently, the manufacturing operations at the stainer and emulsion divisions of the paint plant has started in the month of August and September 2019 respectively. We will soon start restoration of the remaining plant in phase II at our own unit at Rajasthan.

Coming to the hive off of the paint division, the board of directors of the company have already recommended the hive-off of the paint division through a demerger into a separate mirror image shareholding company. Due to the fire at our paint factory, the process of the hive off has been



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slightly delayed and we expect the hive off to be completed by the end of this financial year. This will result in independent and better management focus on both the businesses, better operational efficiencies and unlocking value by listing both as different companies.

Now I would like to handover the line to Mr. Harish Agarwal to update on the financial performance of the company. Thank you.

**Harish Agarwal:**

Thank you Sir. I will take you all through the financials of Q2 & H1 FY2020.

First about the steel business, Despite of such slow down in the steel industry, our overall steel volume including franchisee route has increased by 17% to 12.6 lakh metric tonne as compared to 10.8 lakh metric tonne in H1 FY2019.

Total brand turnover including franchisee was Rs. 5,519 Crores, which was slight de-growth of 2.4% as compared to Rs.5,657 Crores in H1 FY2019 mainly due to reduction in steel prices. Royalty income through franchisees up by 26% to Rs.47.7 Crores as compared to Rs.37.8 Crores in H1 FY2019.

Profit before tax for that steel business grew by 8% to Rs.20.7 Crores as compared to Rs.19.1 Crores in H1 FY2019.

Profit after tax for the steel business also grew by 43% to Rs.17.8 Crores as compared to Rs.12.4 Crores in H1FY2019.

While for Q2 FY2020:

The steel volume including franchise route has increased by 14.3% to 6.1 lakh metric tonnes in Q2 FY2020 as compared to 5.3 lakh metric tonne in Q2 FY2019. Total brand turnover including franchisee grew by 5.7% to Rs.2,890 Crores as compared to Rs.2,735 Crores in Q2 FY2019. The royalty income through franchisee is up by 23% to Rs.23.4 Crores as compared to Rs.18.9 Crores in Q2 FY2019. Profit before tax for that steel business stood at Rs.7.9 Crores.

Profit after tax after for the steel business grew by 42% to Rs.8.3 Crores as compared to 5.8 Crores in Q2 FY2019.

Since the last one year company has recouped its business strategy by reducing B2B trading sales and focus on improving efficiencies in own manufacturing and on franchise based business model which has led to increased margins and better efficiencies with higher ROE and ROCE. Our adjusted ROE of the steel business as of September 2019 stood at 25.3% and increase of 720 basis points from 18.1% in March 2019. Our ROCE stood at 26%, an increase of 160-basis points from 24.4% of March 2019.



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Now coming to paint business, due to fire incident at our plant, the business was hampered and reported a turnover of Rs.86.1 crores with de-growth of 17.8% as compared to Rs.104.7 Crores for H1 FY2019. While for Q2 FY2020 paint turnover come at Rs.46.5 Crores which is de-growth of 15.9% on year-on-year basis; However, to meet to the substantial demand of our paint products and to reduce the impact of disruption of our manufacturing facilities, we outsourced the paint products at different locations in the country. Our quality standards though have remained the same even when manufactured at third party.

In August 2019 we started manufacturing operation at our stainer division at the paint factory of Chopanki, Alwar, Rajasthan. Soon after that in September 2019 we even started manufacturing in our emulsion division. The positive impact will be seen in the next two quarters.

We continue to spend behind our brand Kamdhenu and our total spend including franchise spends for H1 FY2020 stood at Rs.52.3 crores while for Q2 FY2020 it stood at Rs. 25.7 crores.

Our return ratios have been continuously improving on account of increased efficiencies in the business. On overall business level, our adjusted ROE has improved by 80-basis point to 13.2% as on September 2019 mainly driven by profitability in the steel business. Our ROCE stands at 13.2% as of September 2019. We expect these to improve further going ahead.

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

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

**Kunal Koladia:** Thanks for taking my question. Sir my question moreover pertains to the slowdown in demand. So I just want to know that what kind of volume growth we are expecting from the steel business including the franchises sales?

**Satish Kumar Agarwal:** In fact, every time we are growing with the pace of at least 20%. This time we have also grown up by 17% in spite of the slowdown in the industry. In the coming times we are expecting at least 20% growth over the previous year.

**Kunal Koladia:** My major concern for asking this question is like even the slowdown in the real estate market right now and the overall economic slowdown, so are we witnessing any slowdown right now like for the quarter gone by or what do expect in the coming quarters for the same?

**Satish Kumar Agarwal:** There will be improvement in the coming quarters which we are seeing but there will be pressure on the margins. As the price of the raw material has not decreased in the proportion to the decrease in the selling price so there is a pressure on the margin. But for the further demand, we are witnessing little bit growth in the quarters to come.



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**Kunal Koladia:** Sir like in the last quarter, we have seen flood situations in several parts of the country along with prolonged monsoon. So did it have any impact on our sales or from the franchisee business or any problem as such?

**Satish Kumar Agarwal:** No, we are not seeing any major problem and even we have not faced any problem. But if you there was a few, then too you can see our result we have achieved a growth of 17% in the volumes.

**Kunal Koladia:** What are the current prices of our TMT per ton and are they expected to be in same range going ahead? What are the trends you are seeing in its sale?

**Satish Kumar Agarwal:** Mr. Kunal right now the prices for the TMT is running at around Rs.40,000 a tonne and as you just asked earlier because of flood, definitely the result would have been much better. Most of the country was facing the flood situation and after that the company has achieved a growth of 17% otherwise would have done much better. Definitely the prices which I think these are the lowest prices at the moment. Effective from November onwards, we feel that the prices will pickup but not very fast may be slowly as the demand will increase., But as you understand that the total economic slowdown is there even in the infrastructure sector or any other sector, so definitely the effect of all those things are there on each and every company, on each and every segment, but still we hope our company will do much better in the next half than the first half..

**Kunal Koladia:** Rs.40,000 per tonne the price which mentioned are those, our prices, because I assume that Kamdhenu brand commands a premium of around Rs.2,500 to Rs.3,000 per tonne. So are these our prices which are prevailing in the market and general.

**Satish Kumar Agarwal:** Whenever we talk about the prices of Kamdhenu, it is understood that they command a premium of Rs.2,000 to Rs.3,000 depending on various parts of the country and that is inclusive of the demand. The other brands are selling at lower price of less than Rs.2,000 or Rs.2,500 in the different parts of the country.

**Kunal Koladia:** Recently we have seen that government is having a lot of push to the affordable housing segment, so how do you see the demand coming from that area in TMT sector. If you can throw some light on that?

**Satish Kumar Agarwal:** Mr. Kunal, first of all, I would like to tell that once the demand is slow in the market, there is more dependency on a brand. That way whenever the demand is lean in the market, Kamdhenu brand is much more needed by each and everyone, apart from franchisee even the other units are very keen to have the Kamdhenu brand. Definitely that enables us to grow similarly and only in the affordable segment, I think it cannot drive the market. All the segments need to be simultaneously growing, may be it any sector, or be it in terms of the housing or affordable housing, so there are so many reasons everywhere and it is necessary that there is growth. But I



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think our business model or franchisee business with the brand leverage is our greatest strength in a retail and distribution network across the country, will lead the demand and we would like to capture our share in the market demand.

**Kunal Koladia:** Thank you that is all from my side. Thank you and all the best.

**Moderator:** Thank you. The next question is from the line of Vijay Sarda from Crescita Investment. Please go ahead.

**Vijay Sarda:** Congrats on good set of numbers. Just wanted to get more clarity in terms of the paint division. What is the update on the paint division, in terms of the insurance claim and what is the update post the fire? Have you started the facility again and do we normalize the production from this quarter onward and what is the status there? Secondly in terms of the growth if I see most of the paint companies they have grown from high single digit to meeting kind of growth, whereas are left out of this, because of the problem of the fire and all that. So do we feel that we will be able to cover up for these in the next half?

**Satish Kumar Agarwal:** Sardaji, the question that you asked, in the first six months we had disturbance in sales. We had started with the outsourcing of paints from Udaipur and Noida and in August, we partially started at our stainer division and in September month, we had started with the emulsion division in our plant. Also, I would like to share that in the month of October, 2019 we have sold around Rs.30 Crores worth of products. We already have so much capacity in our plant including the two outsourced units, with that we think that in the next six months that is in H2 2020 and the current year targets which we had targeted, we will definitely be able to cover in the next six months. But our main motive is that the deficits which we had for the past six months we should be able to cover it as soon as possible. Hopefully we should factor this as we are currently able to operate at about 70% of the building and for remaining 30% we will have to demolish the building and we have to construct it. That will take another four to five months, but from the 70% capacity which is there, we are making the high end products. We make sure that the shortfall which is there, we should be able to cover it as soon as possible and the targets which we have projected for the second half, we will definitely achieve it.

**Vijay Sarda:** Any update on the insurance claim?

**Satish Kumar Agarwal:** For certain stocks of the building and machineries, we have submitted and lodged that with the insurance company. They are processing it and the reports related to the fire incident which have come from the forensic labs, from the police, from the fire departments all those reports have come in our favour. I think now the company will pursue it at fast pace and we are also pressurizing them so that it is settled quickly. It will be good and we are going to claim the investments which we have done as the final bills have come to us. I think by December we should be able to submit all the bills to the insurance companies.



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**Vijay Sarda:** In the current scenario where everyone is talking about extended monsoon and all that which were impacting the overall sales, so according to you, since our sales has improved by 17%, going forward do you feel the sale buoyancy will improve from here on or do you think that it will be at ~18%-20% growth?

**Satish Kumar Agarwal:** As per the brand, we have been able to achieve 17% growth in sales. Also if we see, sales has improved at our own manufacturing capacity.. But unfortunately since the prices fell to Rs.5,000 to Rs.6,000 in this period, then there is a pressure on the margins and also in our own manufacturing there was pressure on the margins. But for franchisee business, whatever sales we were able to sell, in that our royalty income has remained intact and you can see that it is growing. Last year we had a target of Rs.100 Crores, hopefully we will be able to achieve it in March.

**Vijay Sarda:** How many of the new franchisee have we added in this quarter.

**Satish Kumar Agarwal:** We are not adding the new franchisee. We are doing expansion on the existing franchisee.

**Vijay Sarda:** Only for expansion and that is why we are seeing the growth.

**Satish Kumar Agarwal:** Yes.

**Vijay Sarda:** Thank you.

**Moderator:** Thank you. The next question is from the line of Ritesh Bafna RB Securities. Please go ahead.

**Ritesh Bafna:** Good evening Sir. Thank you for the opportunity. Congratulations for a good set of numbers in your challenging time. Sir I have a couple of questions. First of all with respect to our TMT bars, can you just highlight what is the current market size of the TMT bars in the retail segment and in that segment if you can share what is the organized and unorganized breakup? How has the share of the organized grown over the period after the implementation of GST, if you could throw some light on that? Who are our main competitors in this segment especially in the retail space?

**Satish Kumar Agarwal:** I think we have three, four questions integrated in one question. Right now the prices are the lowest price in the market and the price of our Brand in the market is Rs.40,000 a tonne, earlier the prices were to the tune of Rs.47,000 to Rs.48,000 a tonne, that way the prices have reduced by Rs.6000 - Rs.7000 a tonne at least. Definitely the margin pressure is there everywhere. Secondly, in infrastructure sector, the growth is hardly 5%-6% but the company is planning a regular growth of more than 20%. We could achieve 17% in spite of the worst period during the month of July to September 2019 which had excessive flood across country and as the sales pressure was there But just because of our leverage of Kamdhenu brand and our very strong retail marketing network, we could achieve these numbers and hopefully we will achieve the full





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numbers which we have planned for the current year by second half. Hopefully for the overall growth throughout the year, we will be aiming to clock at the rate of 20% or much more.

**Ritesh Bafna:** Okay, but Sir here I just want to ask that what is the total size of the market of the TMT bars, can you just enlighten me on this. How much big is the market and how much is our share in it?

**Satish Kumar Agarwal:** It is tough to make an exact prediction on the overall market, but the branded products which are sold by the retailers in that we have Tata Steel, Kamdhenu, and other local players. There are many regional brands coming in. I think it is almost about 1.5 Crores tonnes of market which are of branded and there are many substandard products which are sold in the market. So, I think we sell around 27-28 lakh tonnes of products of Kamdhenu brand. We are almost commanding more than 20% share of the retail market. Tata Steel hardly sells about 10 lakh tonnes but Kamdhenu was able to do about ~28 lakh MT worth of orders.

**Ritesh Bafna:** Can I expect Tata Steel is our close competition in this business?

**Satish Kumar Agarwal:** Nearest and the closest competition, but they also appreciate the working of Kamdhenu. They also recognize us as the biggest competitor

**Ritesh Bafna:** Okay noted that, Sir how has the organized market share increased post the implementation of GST? It was expected that the organized market shall grow so has there anything happened on ground?

**Satish Kumar Agarwal:** Yes, yes definitely. If you see our growth rate over the last two years, in the last year we had sold about 23 lakh tonnes, so as compared to this, it was about 15-16 lakhs tonnes before the pre-GST. We are planning about 26-27 lakhs tonnes this year, out of which 12.5 lakh tonnes sales has been done in the first half. GST has played crucial role in terms of players moving from unorganized to organized segment. So I think the GST has played a great role in the growth of Kamdhenu. Our royalty was Rs. 84 crores previously and this year we are planning to achieve about Rs. 100 Crores and I think the GST has played a great role in the growth of Kamdhenu.

**Ritesh Bafna:** That was helpful. Sir my last question, can you just throw some light on our royalty income of the steel business? How has the growth been there in that business and how does this business look for the second half of FY2020?

**Satish Kumar Agarwal:** I think the growth rate would be much better than the first half, definitely.

**Ritesh Bafna:** Okay and what will be the major driver for this growth?

**Satish Kumar Agarwal:** Ultimately the demand is a major driver and once the demand is there, we can pull the demand just because of our brand and distribution network.



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- Ritesh Bafna:** Thank you so much for answering my questions. All the best.
- Moderator:** Thank you. The next question is from the line of Ankit Agarwal from ARC Capital. Please go ahead.
- Ankit Agarwal:** Thanks for the opportunity. I have two questions here. Sir what is our profit guidance for the current financial year?
- Harish Agarwal:** There would be better growth in current year than the last year and the tax benefit should be there on our bottomline.
- Ankit Agarwal:** Sir what is our capex plan for the coming year?
- Harish Agarwal:** We do not have any capex plan for our steel business. In our paints business there will be renovation work there at our paint factory. Otherwise our business model is asset-light model being in the franchisee business, and branding business so we do not have any capex plan.
- Ankit Agarwal:** Okay. Thanks Sir. That is it from me.
- Moderator:** Thank you. Ladies and gentlemen that is the last question. I now hand over the conference over to the management for their 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 queries. For any further information, kindly get in touch with me or SGA, our Investor Relation Advisors. Thank you once again. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, On behalf of Kamdhenu Limited that concludes today's conference. Thank you for joining us. You may now disconnect your lines.