



“Kamdhenu Limited
Q3 & 9M FY2020 Earnings Conference Call”

February 03, 2020



MANAGEMENT:

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MR. HARISH AGARWAL – CHIEF FINANCIAL
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Moderator: Ladies and gentlemen good day and welcome to the Kamdhenu Limited Q3 & 9M FY2020 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as from the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Satish Agarwal, Chairman & 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, CFO and SGA, our Investor Relation Advisor. I hope you have received our results and investor presentation by now, for those who have not you can view them on our website.

Friends, let me start by giving you some key updates regarding the Kamdhenu steel business. Over the past year, we have seen a downturn in the economy especially in the steel industry. We have seen prices of steel reducing to multi-year low mainly due to increased import from China, which has caused disruptions in the domestic market. 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’s expenditure on the infrastructure sector. This is on account of our strong execution strategies primarily created through our large distribution and marketing strength. During the quarter Kamdhenu limited has once again presented innovative steel in the field of construction and brought one of its own type of steel Power Alloy Steel 10000 that is PAS10000 in the country. PAS10000 is capable of giving unmatched strength and safety to the construction. Its unique design gives 360 degree locking with the concrete, which a gives strength of up to 10000 PSI with the concrete. We have done research in the field of Rebar and have presented Rebar with ultimate capability. The research of the company will take the Rebar Steel Industry to the next level. This alloy steel gives it better rustproof qualities and gives this rebar capability to be at 28% more weight along with that it also gives double earthquake prevention to the building.

We believe the demand for TMT bars will grow manifold with the pickup in the infrastructure activities such as affordable housing in the country. Kamdhenu being a strong player in the TMT business through its strong dealer network in India is well positioned to capture the benefit of the strength.

The company has always believed in taking challenges head on and with that belief we have managed to achieve total brand sales turnover of Rs.8,131 Crores. Even in this challenging



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business environment we have a target of reaching total brand revenue of have Rs.20,000 Crores by FY2022. We endeavor to expand our franchise operations by reaching an overall capacity of 5 million 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.58.9 Crores on branding and marketing and another Rs.22.7 Crores were spent by our franchise on the brand during the first nine months of FY2020.

Now an update on onetime exceptional item of Rs.24.39 Crores. The Company has very old pending excise & service tax matters pertaining to the period from 2004 to 2012 under various stages of dispute totaling amount to Rs.49 Crores. In order to clear the old disputes and litigation, the Company had decided to settle all these pending matters by opting for this Sabka Vishwas (Legacy Dispute Resolution) Scheme, 2019. The Company has accounted for an amount of Rs.24.39 Crores towards the settlement of various old excise and service tax disputes. The decision to settle the pending matter will save management bandwidth and also substantial litigation expenditure in future.

An update on scheme of amalgamation, the Company has acquired 100% shareholding stake at face value in Kamdhenu Ventures Limited whereby Kamdhenu Ventures Limited has become wholly owned subsidiary of the Company. Further, Kamdhenu Colour and Coatings Limited has become wholly owned subsidiary company of Kamdhenu Ventures Limited and accordingly, Kamdhenu Colour and Coatings Limited has become a step down subsidiary of the Company. Presently both the company is not having any business operations. It is hereby pertinent to mention that Kamdhenu Ventures Limited and Kamdhenu Colour and Coatings Limited were 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 January 31, 2020 has proposed scheme of arrangement subject to the requisite regulatory approvals.

Rationale of the Proposed Amalgamation,

The proposed amalgamation will simplify and streamline the shareholding structure of the Transferee Company. The Scheme will enable to remove multiple layers of the holding companies in tune with the Government policy, the amalgamation will result in significant reduction in multiplicity of legal and regulatory compliances, which at present is required to be made separately by the Transferor Companies and the Transferee Companies.

Rationale for the proposed demerger of Paint Business of Kamdhenu Limited into Kamdhenu Colour and Coatings Limited are, inter alia, as follows: It will impart better management focus. It will facilitate administrative convenience and also ensure optimum utilization of various



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resources by these Companies. The proposed demerger will provide a scope for independent expansion of the business. It will strengthen, consolidate and stabilize the business of these Companies and facilitate further expansion and growth of their respective business. The proposed demerger will enable the Transferee Company and the Resulting Companies to raise necessary funds, invite strategic investors, employ specialized manpower, etc., for the respective businesses.

Now coming to our paint business, post the fire in our paint factory we have 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 plant. The manufacturing operations at the exterior and emulsion divisions of the paint plant have started with restoration of the remaining plant started in phase II. We expect the paint business to be stabilized by the end of this year.

At Kamdhenu, we always believe in improving cost efficiencies and are conscious of product development and we are fully committed for the same. We are also looking to penetrate further into markets where our presence is less and strengthen our footprints in existing geographies. Now I would like to hand over the line to Mr. Harish Agarwal to update on the operational performance of the company. Thank you.

Harish Agarwal:

Thank you Sir. I will take you all through the financials for Q3 & 9M FY2020.

First about the steel business, see the last three quarters the Company has recouped its business strategy by reducing B2B trading sales and focus on improving efficiencies in own manufacturing and on franchisee-based business model, which have led to increased margins and better efficiencies with higher ROE and ROCE. Volume through the franchise route, which is our main business model, has remained flat at Rs.6.03 lakh metric tonne and for nine months it has grown by 11% to 18.19 lakh metric tonne. Our aim is to increase our capacities to 50 lakh metric tonne by FY2022. For the quarter, the steel turnover including all franchise was at Rs.2,612 Crores, for nine months it was Rs.8,131 Crores. Royalty income through franchise is up by 9% for the quarter to 24.3 Crores as compared to 22.4 Crores in Q3 FY2019. For the nine months, royalty income has increased 19% to Rs.72 Crores. We are on target of achieving Rs.100 Crores Royalty in the current financial year. Profit before tax for the steel business grew by 15% to Rs.9.9 Crores as compared to 8.6 Crores in Q3 FY2019, for the nine months PBT has grown by 10% to Rs.30.6 Crores.

Now coming to the paint business, as mentioned earlier we had fire in our paint plant in April this year, which has disrupted trade business for some time, but we have been able to start operation at the Stainer and Emulsions division of the plant. Since last quarter our own manufacturing volume has increased from 351 tonne to 2,831 tonne overall too. For the quarter our sales volume had increased by 2% on year-to-year basis and by 50% on quarter-on-quarter



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basis. We expect this momentum in the paint business to continue in the next year too. Total sales from paint for the quarter stood at Rs.75 Crores whereas for the nine months it is stood at Rs.161 Crores. We expect full year revenue in excess of Rs.250 Crores and for the next year we are targeting the revenue of over Rs.400 Crores. With this, I would like to open the floor for question and answers.

Moderator: Thank you. Ladies and gentlemen, we will now begin with 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 Anova Capital. Please go ahead.

Kunal Koladia: Sir my first question pertains to the opening comment of Satish Sir where he mentioned that we have started seeing some green shoots in the steel industry. Could you tell us what are the current prices of TMT per tonne and how has it been like in the quarter?

Satish Agarwal: Good afternoon. In the end of December 2019 that is the Q3 the prices were to the tune of Rs.35,000 a tonne and now the prices have been increased by almost Rs.2,500 a tonne. Now the prices have come down on overall basis and it stands at Rs.37,000 plus GST. That will come to say about to the tune of Rs.43,500 a tonne and there is an increment of Rs.2,500 a tonne whereas in the last year the prices were Rs.44,000 a tonne.

Kunal Koladia: Okay so are we expecting the prices to stay in this range for the quarter?

Satish Agarwal: I think in this particular quarter, during the month of January the prices are revised to the tune of Rs.2,500. We expect that during the month of February again there should be a price increase of up to Rs.1,500 to Rs.2,000 a tonne and that totally depends on the demand of the market.

Kunal Koladia: My next question pertains to our trading sales. I was looking at last few quarters' presentation, so looking at those presentation it seems that our trading sales has increased however we have been mentioning that we are trying to reduce our trading sales and are focusing purely on own manufacturing so is this like one-off or then we have specific reasons for it?

Satish Agarwal: Actually, I would like to tell you that during the month of October 2019 and November 2019 the climatic conditions had worsened in the Delhi NCR area. Due to that particular reason, our own plant was almost shut down for a period of 20 to 25 days and moreover the sales in the NCR area were almost nil because construction activities in the NCR area were totally closed down. So, for that particular period we had purchased some material from the other outsourcing units and sold into the market in different areas. So that way there is a marginal difference in the trading sales otherwise trading sales are continuously decreasing.

Kunal Koladia: Sir like as you mentioned that there was shutdown of the plant for few days, was , have we seen any volume loss from that?



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- Satish Agarwal:** No, there was no volume loss majorly because our plant capacity was increased. It is almost on the same level in comparison to the last quarter. It was supposed to increase by 20% to 40%, but due to this particular reason that is not reflected in this particular quarter.
- Kunal Koladia:** Sir from the next quarter should we expect it to normalize?
- Satish Agarwal:** Of course, let us hope.
- Kunal Koladia:** Thank you so much.
- Moderator:** Thank you. The next question is from the line from Chintan Desai from Param Capital. Please go ahead.
- Chintan Desai:** Sir my question pertains to the scheme of demerger, I just wanted to understand that we have given the exchange ratio, so in terms of number of shares to be issued to our six companies. In terms of equity shares, would the promoter group companies remain same at the Kamdhenu level? How does it work out, can you just give us some more details on it?
- Harish Agarwal:** The promoter holding was in the individual name as well as in the name of some companies. So there were 78 lakh shares held by these companies so what is going to happen in this scheme is that these 78 Lakh shares will be cancelled in the Kamdhenu Limited and reissued to the shareholder of these companies, which is going to be amalgamated with Kamdhenu Limited. So there is no change, it is only the calculation procedure, which we have indicated in the stock exchange intimation.
- Chintan Desai:** Okay, so the equity capital remains the same and the structures also remain the same?
- Harish Agarwal:** Yes, remain the same.
- Chintan Desai:** Got it Sir. Thank you.
- Moderator:** Thank you. The next question is from the line from Ritesh Bafna from RB Securities. Please go ahead.
- Ritesh Bafna:** Thank you so much for the opportunity Sir. I have a couple of questions, one of this is related to our capacity. We have recently expanded our manufacturing capacity to around to Rs.1.56 Lakhs metric tonne per annum. So, I just wanted to get a color on it that by when do we expect this capacity to be fully utilized or optimally utilized and how much revenue do we expect to generate from this for the full year?
- Satish Agarwal:** You see we have already achieved almost 80% of the total steel capacity, but we are just manufacturing the product as per market demand. Right now we are achieving 80% of the steel



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capacity and I think in the current quarter that is Q4 FY20 we will be achieving 80% of that. In the coming year and next financial year 2021 from first quarter or second quarter we expect to achieve 80% to 85% or 90% of the total steel capacity.

Ritesh Bafna: So, what is the maximum capacity you can go up to, is it 90% to 95%?

Satish Agarwal: I think as per any Rolling Mill, the best that can be achieved is 90%.

Ritesh Bafna: How much you would be that in revenue terms?

Satish Agarwal: I think that revenue values are based on the prices of the product.

Ritesh Bafna: Any ballpark figure?

Satish Agarwal: You can calculate Rs.40,000 a tonne and approximately Rs.500 Crores. ~Rs.500 Crores will be my own production.

Ritesh Bafna: What will be the overall total capacity of Kamdhenu including the JVs or tie-ups that you have or the outsourcing that you have? Along with that what will be the total capacity right now?

Satish Agarwal: Right now, the total installed capacity is almost 32 to 33 lakh metric tonnes and this year we are going to achieve total capacity. We expect that our total production will be to the tune of 26 lakh metric tonnes and as Harish told you that by 2022 we have a plan to have the installed capacity of 50 Lakh metric tonnes.

Ritesh Bafna: Wonderful. So 50 Lakhs tonnes, will that be the highest in India?

Satish Agarwal: If you say for the retail segment that will be the highest.

Ritesh Bafna: Wonderful on that part. Coming to my next question, I would just like to followup on some gentleman's question before we have acquired like this 100% stake in Kamdhenu Ventures and Kamdhenu Colour and Coatings, which becomes wholly owned subsidiary of Kamdhenu Ventures, which we enter later on. So can you explain this arrangement and the rationale behind this?

Harish Agarwal: Incorporated two companies, Kamdhenu Ventures Limited and Kamdhenu Colour and Coatings Limited in the vanilla matter. Later on, these companies have to be wholly owned subsidiary as per the requirement of the scheme so there is no business in these two companies and capital is only Rs.3 Lakh, which has been taken by the Kamdhenu Limited. Kamdhenu Venture Limited has taken over the equity of Kamdhenu Colour & Coatings which becomes the step down subsidiary of Kamdhenu Limited. So only Rs.3 Lakh Capital is there. These have been incorporated for the purpose of this scheme only, so there is no transaction.



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- Ritesh Bafna:** I understand this, but why have we done this arrangement is it because of some statutory requirement?
- Harish Agarwal:** In order to become tax neutral under the scheme.
- Ritesh Bafna:** One more thing on this Kamdhenu paint, which is getting demerged from Kamdhenu Limited, so can you explain this arrangement to me?
- Harish Agarwal:** Yes, the business will go, Kamdhenu paint business from Kamdhenu Limited will go to Kamdhenu Colour & Coatings Limited, which is a subsidiary of Kamdhenu Venture Limited and Kamdhenu Venture Limited is a subsidiary of Kamdhenu Limited.
- Ritesh Bafna:** Kamdhenu Limited right, so basically standalone figures will now not include the paint business?
- Harish Agarwal:** No, it will be included.
- Ritesh Bafna:** Thank you so much for answering my questions.
- Moderator:** Thank you. The next question is from the line of Amit Shah from PS Securities. Please go ahead.
- Amit Shah:** Sir my question is post the fire incident in our factory we have started with exterior and emulsion division at our paint plant. But by when do we expect all the operations to start completely?
- Satish Agarwal:** It will be by the end of this year. At the end of 2020, meaning you can say November 2020 and December 2020, it will be fully operational.
- Amit Shah:** What is the total loss expected from this?
- Satish Agarwal:** In fact, we had initially assessed the loss of Rs.45 Crores and which is recoverable from the insurance company based on the valid policy and the assessment given by our consultant. So we are not seeing any loss from this side.
- Amit Shah:** So, it is completely covered. One more question, since we do outsourcing for our paint products, could you just give us some details on these third party manufacturers?
- Satish Agarwal:** We have deputed our own team in their plant to monitor the quality. We have given the specifications to them and we are taking material from them on outsourcing basis under our own brand name and transferring these materials to our sales depot, from there we are supplying to our retail dealers.
- Amit Shah:** So, can you give details of the size of their capacities?



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- Satish Agarwal:** They have a capacity of around Rs.300 Crores from where we are outsourcing.
- Amit Shah:** Are they exclusive manufacturers?
- Satish Agarwal:** No, one is exclusively doing for us, which has a capacity of around Rs.100 Crores. However, the other unit is also doing for some other paint companies like Berger.
- Amit Shah:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Neeta Jain from NJ Limited. Please go ahead.
- Neeta Jain:** Sir my question pertains to your paint business. So, you have plans to demerge this business, can you just throw some light what type of synergies you are looking out and what is your growth plan in this? how is the industry panning out & what is the growth rate you are expecting for say next two to three years? can you throw some light on that part?
- Satish Agarwal:** As you understand the paint is a growing business across country and all the major five to six companies are doing excellent in the paint business. Right now, through outsourcing model and our own production we are in a position to even cater to the tune of Rs.400 to Rs.500 Crores in the market requirement and paint market is growing at a pace of more than 15% every year and during the next three to four years. Next year as Harish Ji told you that we have a plan of Rs.400 Crores, this last year we achieved a target of Rs.250 Crores. This year again even after this severe fire and disruption for at least three to four months, we would be able to achieve a target of Rs.250 Crores for this current year also. In the next three years we hope to achieve the target of Rs.600 to Rs.700 Crores and hopefully we will do it.
- Neeta Jain:** Will it be turn positive next year?
- Satish Agarwal:** I think it should be positive next year. For that we are putting all our efforts. The demand is increasing, the confidence in the market is increasing. As you understand the brand equity of all the companies is very old and in particularly paint that is why we are looking for the Tier-II, Tier-III, Tier-IV cities where the brand pull is limited to certain extent. But our dealers are doing good, the demand is there, painters are happy, all the stakeholders are satisfied with the quality of the Kamdhenu Products. The only thing is we have to leverage the demand and we have to leverage our sales. That way we can become positive in way.
- Neeta Jain:** Are you planning to replicate your franchisee model for paints business also going ahead?
- Satish Agarwal:** For steel, in the franchise model, we have allotted dedicated area for each franchise to sell their material to our dedicated dealer network. But in paint we have to have total control on the market and formula of manufacturing also. We have also deputed our technical team in the plant of third party manufacturers and we are just procuring the material to save the logistics cost of the



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transportation and the entire material sold through our own depot similar to peer companies. To all my dealers I am selling from my own depot, therefore, the model has a larger difference. I cannot say right now if in four or five years what will be the model. This can be changed or not, but right now in the next two to three years till the sales are achieved to the tune of Rs.800 Crores or 1,000 Crores I think this model will work and hopefully we will add more plants where we think it is viable to cater the southern India or other different parts of the country.

Neeta Jain: Fair enough Sir. Sir on your steel business, this quarter we saw some increase in the trading business, I know you explained a while before but just wanted to again just have an idea whether this will be continuing in this quarter also. Can we see a trading business going up?

Satish Agarwal: Trading business has almost come on a standstill. Only earlier we were having four, five depots in our company and right now we have only one depot in Rajasthan because our unit is situated in Rajasthan and we are just catering the requirement of some corporates and distributors in Rajasthan. We are outsourcing the material from our franchise. I think we are focusing on our own production because the margins are there in our own production but that also depends on the market demand and supply.

Neeta Jain: No Sir because this quarter your trading sales have gone up because you explained that there was a shutdown you took. So just wanted to know whether the things have normalized and hopefully from this quarter four onwards, can we see the trading sales going down again, which is your long term target, to bring down the trading sales and increase the manufacturing sales?

Satish Agarwal: Trading sales are almost in the decreasing trend and hope that in future this should be decreased substantially except if there is any huge demand in the market directly in Kamdhenu then only in that particular case this can be more. Otherwise we are hopeful to reduce the trading sales.

Neeta Jain: Got it Sir. Got it very well, just a last question just wanted some profit guidance for this current financial year and say for next two years for your steel business and paint business?

Satish Agarwal: Actually, the steel business profits will be definitely in line as you can see the trend in the last two to three years that will be in the same line. Only we suffered from losses due to fire incident, when we could not supply the material for three to four months. There was total expenditure of marketing team, other expenditure in the factory and there were so many costs involved there during this year and actually the next year the expenses will be much reduced.

Neeta Jain: Great. Fair enough Sir. Thank you so much.

Moderator: Thank you. As there are no further questions, I now hand over the conference over to the management for their closing comments.



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Satish 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 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.