



**“Creative Newtech Limited
Q4 FY2022 Earnings Conference Call”**

May 23, 2022

**MANAGEMENT: MR. KETAN PATEL –CHAIRMAN & MANAGING
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CREATIVE NEWTECH**



*Creative Newtech Limited
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Moderator: Ladies and gentlemen, good day and welcome to the Creative Newtech Limited Q4 FY2022 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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. Ketan Patel – Chairman and Managing Director Creative Newtech Limited. Thank you and over to you Sir!

Ketan Patel: Good afternoon, everyone. Welcome to Creative Newtech Limited, Earnings Conference Call for the fourth quarter and full year ended March 31, 2022. Our company as you all could know was formerly known as Creative Peripherals and Distributions Limited. I would like to start by thanking all of you for taking the time to join.

On the call with me today is Mr. Abhijit Kanvinde our CFO, Mr. Vijay Advani our Whole Time Director. Before we get into the business and financial performance of the last quarter, I would like to share some brief insights and recent developments regarding the company.

Starting with some key developments over the year - as we are all aware, the past fiscal year was also impacted by the continued effects of the pandemic especially in the first quarter. In fact, our annual performance practically represents operations for less than 11 months as the initial month of the financial year was affected by the lockdown.

Looking at the present situation, markets have opened, and consumer confidence is firing up well. This year has definitely been better than the last year which was more severely hampered by the lockdown in 2020. The year-on-year growth has come in from a recovery in overall market coupled with our company’s diverse product portfolio.

In the post pandemic lifestyle with standards such as working from home and online educational classes, demand for IT and lifestyle products has been on the rise. Our business and vision far exceed beyond just distribution. Today we are well established as brand licensees, with our long-term agreement with Honeywell and are building further on this line of business. We are also garnering attention of other local brands which are looking at brand licensing as a beneficial approach. With CKart, we have entered the online B2B market vertical, and we see this as a key turning point in our business.

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On the distribution front, we recently rearranged our segmental structure to better align with our business, structure, and strategy. Our brands are now categorized into the following four segments:

Fast moving social media goods ('FMCG') - These comprise new and niche products that appeal to the younger demographic and have a fast turnaround. The brands are driven by social media penetration and wide adoption; this is one of the fastest growing and higher margin segments.

Fast moving consumer technology ('FMCT') - This segment includes established and fast-moving consumer products that cater to personal as well as organizational demand such as Samsung, iBall and ViewSonic.

Enterprise business ('EB') - This comprises of products which are supplied to enterprise and are high volume, some brands in that category include MSI, Printronix and Phillips.

Fast moving social media goods ('FMCG') - This segment covers our alliance with Reliance through which we offer home appliances, bulbs, and lights from brands such as BPL and Kelvinator.

These segments better represent our brand portfolio and gives better clarity on high margin and high-volume products. We expand and refresh our portfolio periodically with new, niche brands and products which are relevant to our times. Some of our most recent brand additions including Insta360, Fujifilm and Hyperice a US based company specializing in technology-based muscle recovery and massage products well known in the wellness and fitness category.

Our tie up with Reliance Retail covers a wide range of Marvel and Disney branded products including audio entertainment products, personal grooming products such as hair color and straightener and small home appliances like toaster and sandwich makers. This tie up gives us access to huge market across multiple product verticals and expands our geographical coverage. We also have lights, bulbs, fan, and home appliances from BPL and Kelvinator to this portfolio. Having such household names in our portfolio also broadens our market reach.

In terms of brand licensing, our association with Honeywell continues to grow stronger. We have got required certification to launch in various countries across the Middle East and APAC region. The benefits of this association are gradually showing effects now as we scale up the line of business.

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Our distribution network covers all three channels- online, retail, and general trade thereby giving us some leverage to reach out to a wide marketplace. Furthermore, our portfolio covers a wide spectrum of products, from enterprise goods to fast moving consumer products. Association with Insta360, Fujifilm is example of social media-based products which targets a young demographic and are high growth potential for us.

Overall, our focus is on the three main growth triggers - offering experiential products and enabling niche global brands to enter and establish in new markets, expand our Honeywell business, and become an online platform all customers through Ckart. Ckart is growing well since launch and has a good adoption rate among our channels. We expect Ckart to expand our customer base without much additional cost.

Overall, the company is gaining wider recognition as the go-to specialist for many niche brands which benefit from our value-added service model.

I now hand it over to Mr. Abhijit Kanvinde who will take you through the financial highlights for Q4 and FY2022. Thank you.

Abhijit Kanvinde:

Thank you and good afternoon to you all. I will share the highlights of our consolidated financial performance after which we would be glad to respond to your queries.

Our financial reported are as per Ind AS guidance. Looking at the Q4 results, in the quarter ended March 31, 2022, the company reported a Total Income of Rs.268.36 Crores growing 50.03% year-on-year. This was partly since last year corresponding period was impacted by COVID induced slowdown. Growth was also supported by the Enterprise business and FMCG segment and the demand for products from Samsung, Honeywell, Cooler Master, and PNY amongst others.

EBITDA stood at Rs.9.28 Crores as against Rs.7.56 Crores in the previous corresponding period, an increase of 22.75% year-on-year. Benefits from changed product mix were offset higher sales promotional expenses leading to contraction in EBITDA margins. The net profit for this quarter is Rs.5.23 Crores as compared to Rs.4.39 Crores in Q4 FY2021 a year-on-year growth of 19.18%.

Coming to full year result in the year ended March 31, 2022 - We reported the total income of Rs.947.81 Crores growing 80.08% year-on-year this was partly since last year was more severely impacted by the nationwide lockdown. Growth was also supported by Enterprise business and Fast-moving computer technology ('FMCT') segment and demand for the products like Honeywell, Cooler Master, Samsung and PNY amongst the others.

It is notable that this represents operations of less than 11 months with lockdown across several states in India during the first quarter.

The EBITDA stood at Rs.32.62 Crores as against Rs.18.73 Crores in the previous corresponding period, an increase of 74.15% year-on-year. The EBITDA margin dipped slightly mainly due to higher promotional expenses and freight charges. The net profit for the year stood at Rs.19.26 Crores as compared to Rs.9.41 Crores in FY2021 and year-on-year growth of 104.61%.

This is all from our side; we can open the floor for questions.

Moderator: Thank you very much. The first question is from the line of Suraj Nawadhar from Sampada Investments.

Suraj Nawadhar: We had higher Other expenses last quarter as well as this quarter on account of some timing expenses. As far as I understand our business model, these expenses are borne by our clients, not by us. So, what are these branding expenses are regarded to?

Abhijit Kanvinde: Absolutely, branding expenses and sales promotion expenses are always passed through. So, we include that expense portion in the gross margin. So, we consider higher gross margins and again spend those expenses in P&L. It is like rent income and rent expense, it cannot be net off, so you have to show gross rent income as well as gross rent expense. Any expense which is reimbursed by the brand it is added to the gross margin and represented in our account, so it not our expenses.

Suraj Nawadhar: These accounting practices have been adopted just two quarters back or it has been like that all along?

Abhijit Kanvinde: No, that has been that all along. It is consistently followed year-on-year.

Suraj Nawadhar: Then what is the reason for increase in Other expenses for last two quarters. I feel they have jumped from Rs.7 Crores – Rs.8 Crores to Rs.16 Crores?

Abhijit Kanvinde: The major Other expenses increase in last two quarters was on account of export freight. The other reason of increase was brand expenses of Honeywell which resulted to a pass through. There have been sales promotion and commission sales which are these two Other expenses which were all product related expenses and that is the reason increase of Other expenses. Now, please also appreciate that there has been increase in Other expenses but we have also grown in turnover. From almost Rs.500 Crores we have reached to Rs.900 Crores. There is an increase of almost Rs.400 Crores in our turnover. Now, this is a commensurate increase, there is no surprising increase in that.

- Suraj Nawadhar:** Sure, and we have also recorded some higher Other income this time?
- Abhijit Kanvinde:** Yes.
- Suraj Nawadhar:** What was it regarding?
- Abhijit Kanvinde:** Other income consists of duty free from MEI benefit that is approximately Rs.13.16 Crores. This is an operational income according to us and we have put a note to that extent. These are the external incentives which we get, which should be part of our COGS. As per Indian Accounting Standards we do show that as separately as other income, we have to classify them as Other income. So, it is an operational income Rs.13.16 Crores out of other income of Rs.13.92 Crores.
- Suraj Nawadhar:** Okay, and Sir on the P&L side we have grown quite significantly over the last year?
- Abhijit Kanvinde:** Yes.
- Suraj Nawadhar:** Cash flow from operations still remains negative. When will our cash flows improve?
- Abhijit Kanvinde:** This is completely a valid question, and I was expecting, and I wanted to answer it. During the last quarter, we launched two big segments in Honeywell. One of the segments was audio wherein we launched on 76 SKUs, and another was Air purifier. All these launches were done in the fourth quarter that is why we had to procure lot of inventory. If you care to look at the cash flow, there is an increase in inventory to tune of almost Rs.25 Crores to Rs.28 Crores this is all because of our major launches of products of Honeywell plus in the third quarter we have launched a product called Hyperice there is an increase in inventory to the tune of around Rs.2 Crores - Rs.3 Crores of Hyperice. Actually, what has also happened is that there have been disruptions in supply chain issues in the last financial year. So, we have decided, and we have taken a conscious call to have enough inventories, maybe 15 to 20 days more inventory for brand so that we do not have stock out situation. The supply chain issue and the transportation issues and disruptions were throughout the year. This was the second reason. Now all this will be liquidated, and I am sure, and we are very confident that if we keenly finalize that next six-month balance sheet and in the month of September all this supply chain issues will be taken care of and COVID situation will be normal and by September we should be to show a positive cash flow for sure. To sum up this has happened in the last quarter resulted in increase in inventory.
- Suraj Nawadhar:** What has been the revenue from Honeywell business in Q2 and FY2022?
- Ketan Patel:** It is Rs.61 Crores, Sir.

- Suraj Nawadhar:** For whole year?
- Ketan Patel:** Yes, for the whole year.
- Suraj Nawadhar:** How much we are targeting for the next year, in last con-call if I remember correctly, you said you wanted to do Rs.250 Crores?
- Ketan Patel:** Yes, we are targeting between Rs.190 Crores and Rs.200 Crores for the next year and that is the lower base and if the supply chain goes well then, we must do Rs.250 Crores this year.
- Suraj Nawadhar:** And how much margin are we earning on this Rs.62 Crores, operating margins?
- Abhijit Kanvinde:** The gross margin is in the range of 60% to 70% and the EBITDA margin is in the range of 14% to 15% in this business, particularly Honeywell business.
- Suraj Nawadhar:** Okay, and Sir in the opening remarks you talked about new brands also approaching new core brand licensing that we are doing for Honeywell. So, can you throw some more light on which brands or which sectors, will we be arranging as Honeywell, we have it Honeywell or there is some different sort of arrangements we are looking at and also on the margins perspective, if you can throw some light on it?
- Ketan Patel:** With Honeywell currently we have an opportunity to expand geographies. So, currently they have given us 29 countries and out of those 29 countries we have been able to reach almost 8 to 9 countries. This year we want to go to Southeast Asia. So, with Honeywell it could be that you expand geographies, and, in those geographies, you take the existing category of products. So, in Honeywell we have three categories, the air purifiers, the home audio, and mobility enhancement product. With these three categories, first, we plan to reach out to all the countries where we have opportunity. Second is, we are approached by a lot of main brands which have taken the licensing route or already in the licensing route that whether we can pick up them for licensing. So, usually licensing process takes a couple of years because they want to understand the whole infrastructure, we want to understand what the licenses are required as far as technical or product specification is there, where the brand licensing will fir, whether our TG is there. We are in talks with a couple of client's brands. Also, as the Honeywell network built up for us outside India, then on the same network with a different set of brands and product, we can piggy bank and go to the market. So, there are three to four brands whom we are talking, as something finalizes, we will come back to you on that.
- Suraj Nawadhar:** Absolutely, thanks. Thank you very much and all the best.

- Moderator:** Thank you. The next question is from the line of Sunil Menezes individual Investor. Please go ahead.
- Sunil Menezes:** Congratulations on good set of numbers. My question is on the Honeywell side of business, which is one of the main growth pillars for us to drive the profitability. With that I think last time you mentioned our target is to reach overall around 5% EBITDA for the business. If we make around Rs.200 Crores to Rs.250 Crores next year with good EBITDA margin, can we assume that we can reach that milestone in FY2023?
- Abhijit Kanvinde:** We had said that by FY2025, we would be targeting an EBITDA percentage of 5% and we had said that our business from Honeywell or any license would be say 30% of almost our total turnover. So, we will be in the range of Rs.500 Crores to Rs.600 Crores. So, next year there will be an increase in the EBITDA margin for sure, today the EBITDA margin consolidated is almost 3.4– 3.5. Going forward in next year, we will be targeting closer to 4.5%. Please appreciate that we will have lot of marketing and promotional expenses to incur, we have already started lot of campaigns in India and next year we are planning to go to Singapore, Malaysia, and Thailand where there will also be promotion and marketing and establishment expenses, and we will need growth capital. So, we have a target to reach 5% by next year in Honeywell and also overall 5% by next year.
- Sunil Menezes:** Second question regarding the Honeywell business with intermittent shutdowns and the lockdowns in China and our secured connection subsidiary based in Hong Kong. So, do you see the impact of supply chain of getting products out of China?
- Ketan Patel:** That is why there is an increase in inventory and on working capital cycle. We had to take a decision that either you pay for stock out situation or let the cash flow get affected for a while, and instead of 45 days inventory you start stocking 60 to 90 days inventory and that is what we decided because we said that we do not want lockdown to affect us but still in spite of all of our efforts also, 10% of times it happens that some of the SKUs even after stocking them for 90 days also, we have stock out for 10-15 days in certain SKUs where there is high demand. Still China continues to be in lockdown; still, we cannot travel factories to talk and develop new SKUs, so the whole process of development also is taking its own sweet time. Now, this has been happening for almost 12 to 14 months, it has become a routine process. Right now, we have taken up all that we would have 90 days inventory anytime and one month inventory in the system, and see if we can get it, we hope that before the Chinese New Year happens, in the coming time everything should settle down or else that couple of months will be a lot of issue. Last year also, if this lockdown would not have been there then we could have been able to launch products faster and we could have had free cash flow from operations.

- Sunil Menezes:** That is good and then now with the Honeywell business ramping up, you mentioned we are targeting around Rs.200 Crores. If the revenues are evenly coming during the next year, can we expect Rs.50 Crores in Q1 of FY2023 or there will be gradual ramp up?
- Ketan Patel:** You will see that the major sales will be in Q3 and mid-quarter 2 when the online starts stocking up that is the case and ours is a bit of cyclical business, Q1 is a bit lower, Q3 is the highest and Q4 is also subdued. So, Q2, Q3 you will see a lot of volumes happening on the Honeywell business plus this year we have also decided that we will have our product launches in June and in October that is the time we will have lot of sales in that two quarters.
- Sunil Menezes:** Thank you very much and good luck.
- Moderator:** The next question is from the line of Aditya Mehta from Dynamic Investments. Please go ahead.
- Aditya Mehta:** Just wanted to know if there are any thoughts on licensing. Do you plan to get into that business to add more brands?
- Ketan Patel:** It depends upon what kind of brand you get and also it could be that once we become proficient in the Honeywell audio business you could have your own private label brand which could be either a premium brand or it could be a tad lower than Honeywell that is on the cards. But currently the whole direction from the board is also that you have to cross Rs.200 Crores mark for Honeywell and as we near 25% to 30% of our overall turnover from licensing business that is when we would start pivoting to look for newer brands or start our own private label.
- Aditya Mehta:** My question is regarding the debt outlook. What are you planning there? Is that like we will be trying to bring it down or are we going to take more debt as the business grows?
- Abhijit Kanvinde:** Right now, there has been more investments in the working capital, so this year we have to take little more debt; however, we are very confident that right now today's working capital, number of days of 52 to 54 we will get that down to 45, we will improve our working capital turnover ratios and therefore we will not finance our working capital by taking more debts, we will improve our working capital cycle, one. Secondly, in case we have already taken equity last financial year, the second tranche will also come in this financial year for the share warrant part so we should be able to manage the growth and our internal accruals. With all these we should be able to manage our growth.
- Aditya Mehta:** Okay, understood. Thank you so much.

- Moderator:** Thank you. The next question is from the line of Mihir Desai from Desai Investments. Please go ahead.
- Mihir Desai:** I had two questions on Ckart, can you please throw some light on your future strategy regarding Ckart?
- Ketan Patel:** Ckart is our own B2B digital platform which allows our captive customers to transact, discover and share new products to their buyers in their own company's name and Ckart currently is intrinsic part of Creative where it also helps our sales team to digitize their process and for the last full year we have felt that the platform business and our product distribution business has different success matrices and we are thinking that we should put Ckart into a subsidiary and in the coming months that would be the plan to check with the board and if they agree then put it into the subsidiary and then get the relevant talent and the relevant resources to grow CKart very well. Because for Creative, the success matrices are PAT, EBITDA, inventory turns, working capital; for Ckart it is lifetime value of the customer, cost of acquisition of the customer, pure reach to the number of customers, and we firmly believe that first you meet people then products and then profit. So, we develop the product in-house with Fujifilm and we did it very well, now we want to have the right skill set of people to run that business.
- Mihir Desai:** Sure, Sir and do we have any specific roadmap for the future for this segment specifically?
- Ketan Patel:** Yes. Mihir, if anybody likes it or does not like it, the future is digital. Anything which is as a service is going to become digital and our whole aspect is that Ckart will lead us to a model where we play on other people's resources and other people's money OPM, OPR as they call it. We want our buyers to become seller on the platform so they can sell their inventory to them and with the digitization, as we raise through more and more people, we want some financial organization or a NBFC to take on the credit fast. So, we do not have debtors on that business that is the strategy and in the coming year our full focus is to roll that out with Ckart.
- Mihir Desai:** Sure, Sir. Thank you.
- Moderator:** The next question is from the line of Ritu Gupta from Bliss Consultant. Please go ahead.
- Ritu Gupta:** Sir, my question is the enterprise business for growth during the pandemic, so how much of it is sustainable and what is the contribution we can expect from this business going forward?

Ketan Patel: Enterprise business is an opportunity business and whenever we have free cash flow, we usually use it into that business. What we are doing in the enterprise side is just the tip of the iceberg; actually, if you have a lot of cash then you can do that business very well. But right now, it does not take any management time to do that business and one of our key matrices also while doing any business how much management time it takes. So, currently Enterprise business is not taking any much of the time and that is why we are doing that. A short answer to your question is that there is enough potential in the Enterprise business and if we have the free cash flows and we keep doing that and it is quite sustainable.

Ritu Gupta: All right, Sir. Thank you so much. My next question is which brands are driving the business in enterprise business?

Ketan Patel: Currently, we have AOC, Phillips both are dominator and also Signages that is doing very well. InVue is another part of which goes into retail security for all Apple store, Samsung Stores what you see, the retail solution they use is of InVue. Printronics is a line printer business that also sells on the Enterprise business plus a lot of your gaming products which are high-performance computer components, HPCC they go into enterprise because lot of people use it for crypto farming, or they use it for 3D and virtual reality. So, we have seen quite a traction of these brands and also, we have Poly, Dell for enterprises. So, we have a good business there itself that comes under this Enterprises business.

Ritu Gupta: Thank you so much, Sir.

Moderator: The next question is from the line of Hiten Boricha from Joindre Capital. Please go ahead.

Hiten Boricha: You mentioned our enterprise business will continue to grow at this level. Do you mean to say the EB business has grown around 200% when compared to FY2021 basis? What kind of growth you are looking in this segment?

Ketan Patel: The EB business can keep growing at that level. The only indicator is that we should have that relevant cash flow to do that business. Every year we do not take such a steep target for that business, we try to limit it close to 20% – 30% of that and actually what happened is during the COVID period, lot of companies balance sheet were not wealthy that the brands would take fund from that and that is why we got this advantage and that is how we got this business and next year also probably it will grow at a similar pace.

Hiten Boricha: Okay, just a followup on this can you elaborate a little more, why do we need more capital for the particular segment?

- Ketan Patel:** Because whatever you do you will require 10 to 15 days; your money will get invested for sure because when you sell to the corporates it may happen that payments approximately 45 to 60 days and you will get 30 to 45 days credit from the vendor.
- Abhijit Kanvinde:** Almost no inventory, it is only the debtors.
- Hiten Boricha:** You mean this EB segment will continue to grow, and the Honeywell business will do around Rs.200 Crores in FY2023. So, what kind of revenue growth we are targeting for this year?
- Ketan Patel:** This year we are targeting close to Rs.1240 Crores.
- Abhijit Kanvinde:** Yes, around that. In the range of Rs.1200 Crores.
- Vijay Advani:** Rs.1210 Crores to Rs.1235 Crores.
- Hiten Boricha:** Okay, that is around 4% – 4.5% kind of EBITDA margin, right?
- Ketan Patel:** Yes.
- Hiten Boricha:** Okay, our tax rate has been very volatile in last three-four quarters what would be our tax rate in this year?
- Abhijit Kanvinde:** 25%.
- Hiten Boricha:** Okay, 25%. Thank you so much.
- Moderator:** The next question is from the line of Sarang A and individual investor. Please go ahead.
- Sarang A:** I just wanted to understand what kind of numbers we have done for Honeywell business this year and our guidelines were somewhere around Rs. 70 Crores to Rs.80 Crores, so just wanted to understand where we are?
- Ketan Patel:** Our guidelines for this year were almost Rs.70 Crores we would do in Honeywell business. We closed at Rs.61 Crores this year on the Honeywell business and before that, the last financial year, we had done Rs.25 Crores and for the coming financial year we are targeting between Rs.160 and Rs.180 Crores and if the supply chain issue gets settled then almost Rs.200 plus Crores we will go on that business.
- Abhijit Kanvinde:** If I may add here, in the last quarter we have launched two big segments in Honeywell: one is an audio segment, and another is air purifier segment, so that is going to add revenue in this financial year. Also, besides Middle East in the second quarter, second

half of this year we would like to expand to Singapore, Malaysia, and Thailand that will also add geography. That geography will add some revenues to this and of course India growth will also be there.

Sarang A: Thanks for that information. One related item is around the EBITDA margin on this. So, this year what kind of EBITDA margins we have in this Honeywell business and overall, this is relatively high margin business, right? Of course, there will be some teething pain in terms of initial setup and but over a period of time next what kind of EBITDA margins can we expect in this business?

Abhijit Kanvinde: I can give you a guidance that by next year the EBITDA margin should be in the range of 14% to 15% in Honeywell business. Today overall, we are a 3.7% to 3.9% EBITDA margin company. Those margins will surely improve, and we will aim to overall margin of 4.5% that would be the EBITDA guidance for next year.

Sarang A: What was the EBITDA margins this year for this Rs.61 Crores revenue?

Abhijit Kanvinde: This year EBITDA margin for Honeywell is in the range of 21%.

Sarang A: Okay, thank you.

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

Ketan Patel: I thank the entire team of Creative for their hard work and dedication in pushing the company forward. Also, I appreciate all of you for participating in our conference call. Thank you.

Abhijit Kanvinde: Thank you very much.

Moderator: Thank you very much. On behalf of Creative Newtech Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

(This document has been edited to improve readability)