



“Creative Peripherals & Distribution Limited Q3 & 9M FY-21 Earnings Conference Call”

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Moderator:

Ladies and gentlemen good day and welcome to the Q3 and nine months FY21 Earnings Conference Call of Creative Peripherals and Distribution Limited hosted by Bridge Investor Relations Private Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on 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. Ketan Patel – Chairman and Managing Director of Creative Peripherals and Distribution Limited. Thank you and over to you.

Ketan Patel:

Good afternoon, everyone. Welcome to Creative Peripherals and Distribution Limited earning conference call for the third quarter of the financial year 2021. I would like to begin by expressing my gratitude to all of you for taking the time to join us. On the call with me today is Mr. Abhijit Kanvinde – our CFO, Mr. Vijay Advani – Whole Time Director of the company and Bridge IR, our Investor Relations team.

Before we get into the business and financial performance of the last quarter, I would like to share a brief insight into our company. Creative Peripherals is a dynamic company which has come a long way and crossed several milestones over the recent past. Today we are not just market entry specialists for niche experiential brands across India and international markets, but also licensee for contract manufacturing for a Fortune-100 global giant Honeywell. Our company specializes in market entry for global brands and works closely with its clients to achieve optimal market penetration and growth. Our network encompasses all three channels online, retail, and general trade thereby giving us a strong leverage to reach out to a wide market base. Furthermore, our value-added business model covers end to end solutions from market research and competition analysis to formulating and executing regional specific marketing and pre-sales strategies for brands. We use a multi-pronged approach to grow our business based on three pillar strategy. The first key aspect of our business is brand licensing and contract manufacturing with Honeywell. We have a long-standing agreement for contract manufacturing and distribution in over 25 countries across APAC and Middle East region. The product portfolio with Honeywell is also growing substantially with air purifiers being a latest addition. Other products cover connectivity as well as audio entertainment solutions. We aim to expand this licensing line of business by adding more international brands. Contract manufacturing is an attractive model of business for various global brands wherein they can leverage local players, market reach to increase and grow their products' market share. We plan to utilize our experience gained with Honeywell for other international brands wishing to follow a similar model.

The second pillar is our expertise and strong hold in market entry and penetration for niche brands. Currently we have a strong long-term association with over 20 global renowned brands, which are leaders in their field. These are categorized in three broad divisions, IT, imaging and

lifestyle and security products. Our value-added service like executing brands marketing strategy and post-sale service along with this wide spectrum of products has helped our company achieve economies of scale and become a single sourcing point to our customers.

Today Creative Peripherals is a much sought-after name among OEM as well as sub distributors and retailers being a critical link in the supply chain. We continuously enhance the bouquet of brands with new and high margin products. One of the high segment potentials among this is gaming products, which is gaining fast adoption in the Indian market.

The third pillar of our products strategy is our recent offering Ckart, our very own online digital B2B e-commerce platform. Ckart is a game changer in our industry and will play a crucial role in expanding our business with new and existing customers at minimal additional cost. Overall our focus is on these three main growth pillars, offering experiential products and enabling niche global brands to enter and establish new markets, expand our licensing business, and become an online platform for all customers through Ckart. We continue to aim for higher operational efficiencies and adding high margin value added products to our portfolio. Association with Honeywell, ZEISS, BaByliss, GoPro, and Cooler Master, etc. are steps towards that direction.

I would now like to take you through some key recent developments. As you are aware, most of the year 2020 faced headwinds for COVID 19 virus outbreak. This pandemic had brought the whole supply chain and entire economies to a staggering halt. It impacted every aspect of our life, including personal life and industries across the world. Like every other business we also faced the impact of the lockdown even as industries reopened gradually. We decided to take this opportunity to further refine our internal practices and improve our operational efficiencies and skill sets. As more and more activities are going online, we expect an upswing in demand for IT and consumer electronics products.

Moreover, I am happy to share that in August 2020 we launched our digital platform Ckart. As I mentioned earlier Ckart is our online digital B2B e-commerce platform built in-house by a dedicated team. Ckart host all the customers in the supply chains and enables them to transact, discover and share products and brands to their buyers in their own company's name. This platform also assists them to showcase their inventory and trade among each other, facilitating higher volumes and expanding the product portfolio being offered through Creative Peripherals. They will also be able to host their white label micro-site on our platform. We even showcased the speed and ease of use of Ckart when we demonstrated the first order online during the launch event. This platform will fortify our presence as a platform for customers as well to improve our working capital cycle and profitability. One of the key purposes of this platform is to help our customers expand their reach and make it easier for them to do business. On the other aspect we recently renewed our contract manufacturing agreement with Honeywell for another 5 years, as well as we expanded our distribution scope with them to 29 countries outside India. This gives us access to Middle East and APAC region. Our deep

association with the Fortune 100 company like Honeywell could serve as a guiding example for brands wishing to leverage the licensing manufacturing model.

On the distribution front we continually update and expand our brand portfolio to keep it fresh and relevant. Some of our recent brand agreements include distribution of ZEISS range of nature observation products like binoculars and monocular and agreement for Honeywell for air-purifier, tie-up with Edelkrone to distribute their range of photography and videography accessories, and the recently launched GoPro Hero9 series camera. Furthermore, we recently tied up with Reliance Retail to distribute a broad range of Marvel and Disney branded products. This includes audio products such as wired and wireless earphones, headphones and speakers, personal grooming products such as hair curlers and straighteners well as small home appliances like toasters and sandwich makers. This tie up gave us access to huge market across multiple product verticals, expand our geographical coverage and would translate to higher revenues taking our business to new heights.

Such associations not only diversify and expand our portfolio, but also enhance and testify the company's recognition among global brands. As the consumer sentiments improve we are expecting strong demand for such products in the Indian market, both online and offline and as Ckart gains momentum we foresee a strong growth in customer base without much additional cost which should translate into higher top line and profitability. In only a few months since launch we have already been seeing significant new orders from existing as well as new customers on Ckart.

So from an overall business perspective that is all from my side. I will now hand it over to Mr. Abhijit Kanvinde, our CFO who will take you through the financials performance of the company in Quarter 3 and nine months FY21. Thank you.

Abhijit Kanvinde:

Thank you, sir, and a very good afternoon to you all. I will share highlights of our standalone financial performance after which we would be glad to respond to your queries. Our financials are reported as per Ind-AS guidelines.

Looking at the Quarter 3 FY21 financial results; in the quarter ended 31st December 2020, our company achieved net revenue of Rs. 161.99 crores, growing 25.11% year-on-year. This was mainly driven by a robust demand for IT and gaming products, including Samsung and Cooler Master, as well as addition new lifestyle products. The EBITDA stood at Rs. 6.51 crores as against Rs. 6.45 crores in the previous corresponding period, increasing almost 1% year-on-year. While our raw material cost increased due to change in product mix, we were able to maintain the EBITDA margins through various cost control exercises, to improve internal operational efficiency. The net profit for the quarter is at Rs. 3.73 crores as compared to Rs. 3.62 crores in Quarter 3 FY20, an year-on-year growth of 2.89%. Our EPS for the quarter was Rs. 3.21 crores.

Now turning to nine months FY21 financial results. In the nine months ended 31st December 2020, our company achieved net revenue of Rs. 338.33 crores representing an increase of 4.38% year-on-year. This is primarily driven by strong recovery in demand for various products over the past months which off-set the impact of nationwide lockdown during the initial months of this period. After we reopened at a lower capacity after lockdown business has been gradually gaining momentum and is now showing the signs of being on the track. The EBITDA stood at Rs. 12.82 crores as against Rs. 14.92 crores in the previous corresponding period. We incurred employee and other fixed expenses during the lockdown which offset the impact of higher margin brands thereby resulting in margin contraction. Raw material costs also grew due to change in product mix during this period. The net profit for the nine months is at Rs. 6.69 crores as compared to Rs. 8.08 crores in nine months FY20. Our EPS for this period that is nine months FY21 is Rs. 5.76. This is all from my side, we can now open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ayush Agarwal from Mittal Analytics.

Ayush Agarwal: I have a couple of questions. One, in the commentary Mr. Kanvinde had mentioned that our growth has come from the IT and gaming products by Samsung and Cooler Master. With other segment that we see the growth the 19-20 crores have turned into 61 crores in Q3, what were the key products or brands that led to this growth and we were under the impression that, this is our highest margin segment, yet we see a huge margin contraction? So I would like your comments on this.

Ketan Patel: Ayush very nice observation. This last quarter has been a quarter where there was a huge turmoil on the logistic side. So most of the manufacturer whom we deal with either are in Taiwan and China, though they maybe US owned companies and the whole logistics chain was a problem, so you could not get containers so usual time for shipping was say 21 days and during this time to get a container used to take 21 days. The freight from \$800 to \$1000 went up to \$3500 to \$4000 and on above that whatever material which you forecasted it was not easy to get. So we were in a dilemma that do we try to maintain our cadence of sales or do we actually stop for a while and then do not take a margin head. Then internally we thought it would be prudent that to get the momentum going because we would have another good quarter this year. And that is why we took an internal call that we will absorb the logistics, absorb the rise in the raw material cost and we will not pass it to our partners and to our end consumer, so that is why you see a dip into the margins there. But we are seeing already a reversal of the same in this quarter and I think net-net we would have a good year in the end.

Ayush Agarwal: Just a follow up on this, had the logistics cost not been there or the container freight as you said and we know the issues pertaining one and these are some other companies as well, so on a normalized basis what kind of profitability would we have seen if this issue wasn't there?

- Ketan Patel:** So currently, we are saying as I have an increase of 2%-2.5% cost both on the freight side and on the import side, that is one part. And second, the aftereffects of COVID the supply chain is now starting to see the problem, so consider one of our faster moving products say in Honeywell is a 4 Port Hub. Now the chips are under allocation and then you have to plan for six months in advance to get the stock and the prices of that chips also has gone higher. So I think Abhijit can ratify it, but I think we would have maybe made easily 2% to 3% higher margin.
- Abhijit Kanvinde:** Absolutely. Yes, the fall in the margin as Ketan said, has been due to the change in product mix in lifestyle products. It is a category where lifestyle and other products including security are clubbed and we have taken some opportunity business there and that has been at a lower margin. There have been products which we have sold to corporates and other entities. There those margins have been in the range of 3% to 4%.
- Ayush Agarwal:** So can we say that there is one off component in this?
- Abhijit Kanvinde:** Absolutely. This is one off and as Ketan said that the logistic is slowly coming on track.
- Ayush Agarwal:** I am not talking about the cost, I am talking about the sales that the security products that you are talking about, can we consider that as a one-off, not the margin?
- Ketan Patel:** Yes. Ayush you can consider that as one off. And one of the key things now is that people used to operate with just in time inventory for a while, now we are trying to operate with just in time plus and this plus stands for the added risk of logistics going haywire or states going into a shutdown, all that. So probably in the next quarter also we may have a slightly higher cash flow thing and working capital thing, but we will not have then a problem on margins because we are now stocking slightly higher quantity of material than required considering that there would be still some disruption for the next three to four months due to this pandemic.
- Ayush Agarwal:** If you can quantify this one of the, that would be really helpful, and like you had mentioned that Cooler Master and the BaByliss brand that we had introduced in the grooming segment that also I think is categorized into the other segments. If you can quantify what kind of growth did we see in that apart from the security, that was a one-off. So one, that if you can quantify the one-off in this quarter and other if you can quantify the growth in our four segments.
- Ketan Patel:** So Cooler Master basically falls into the gaming category, but it is also a high-performance computer component. And it gets used into servers, it gets used into high-end graphic machines and also it gets used into anybody who is into cryptocurrency or other kind of stuff. So what has happened is because certain segments like cryptocurrency or high-end graphics terminal, there is a card which is a graphic card. That graphic card is also into a short supply because of worldwide shortage on the chips. And that's why Cooler Master sales also was slightly affected in terms of margins and other stuff. But I think if everything falls in place and this quarter I think Cooler Master we have already spoken to parent companies also to reimburse a part of freight and also we have told parent companies to reimburse a part of the cost which has gone higher

and they are obliging to that. And plus, we are also now thinking that since the momentum is there we could also pass on some amount of cost on to the partner or the consumer is going to buy that. So, I think in this segment of Cooler Master, BaByliss and other stuff we are sure that close to, in terms of percentage margin we should come to a net gross margin percentage of 8%-8.5% in this quarter, that is what we are seeing.

Ayush Agarwal: We mentioned our different segments in the sense that IT and imaging we also say that the contract manufacturing part and then the market outreach part. So if you can also break up the revenue in that segment and provide in the presentation or the press release, that would be really helpful to track the numbers of Honeywell and the likes of that.

Ketan Patel: Surely. This has been asked by a couple of other guys also, so in the next presentation we would give separate numbers for each of the four segments.

Moderator: The next question is from the line of Anup Sundernathan from Kompas Analytics.

Anup Sudhendranath: Two questions. One from a strategic perspective, can you speak a little bit about Ckart and where do you see that platform helping and how do you see that platform helping you from a longer-term perspective? Also, strategically how do you look at new brands or products that you want to be associated with from a longer-term perspective?

Ketan Patel: Can you repeat the second question about the brands and products, you said for the longer prospective how do we select the brands, is that is what you said?

Anup Sudhendranath: Yes, from a strategic perspective how do you decide brands that you want to work with or where you want to bring in your expertise which is already there in the market? How do you think about it?

Ketan Patel: I will take this question, and both are super questions, very close to my heart. Ckart is a platform which we developed and it is a B2B commerce platform where our partners can transact, discover new products, and share their products to their buyers in their own company's name. And Ckart today, for example, any business has become a platform. Uber is a platform, Ola is a platform, your Swiggy, your Zomato and anything which is between the consumer and the producer will get sold on a platform, it could be a product, it could be a service, that is the first part. Second, if you look at the overall pandemic, online has come out as the biggest influencer during the online. So your groceries, for example, from 16% has gone to 24% being influenced by online. Your mobile phones from 48% have gone to close to 63% being influenced by online. And then a lot of our partners are offline stores, and they do not have an omni channel presence. So Ckart helps them to have their own white label stores where a customer can buy our 4000 products which are populated on his store and also get the flexibility because in the smaller store the customer will get a flexibility of traditional credit. They get the flexibility of buy back, they get a flexibility of buying on instalment and other stuff. So Ckart would really enable our partners to go online. And in a distribution space if you think our working capital gets involved

into basically funding the debtors and second is funding the stock. Now Ckart will help us because as our customer base will keep growing, not everybody will be on credit and they will pay up front. So our debtor's funding will go lower and lower and as sellers themselves start opening their own stores, we will start offering their inventory to our existing partner. So without funding inventory we will be able to sell products to our customers and make a mark up on that. So that way, the fundamental thing of cash flow and free cash flow gets settled. Second is because Ckart has drop shipment, in future we may ask the retailer or the SI (system integrator) to use our warehouses as their stocking point. So that also becomes an advantage to us that the partner does not require a warehouse and since his dependency of warehousing, the platform and also delivery is on us, the stickiness with that partner will be much more. And we have already seen from April 5th, the first month we did a billing of almost Rs. 1,50,000 on Ckart and as of yesterday we were close to Rs. 65 crores sale from Ckart. We had total 65 crore of sales happen through Ckart. We had almost 350 new customers on-boarded besides the customers we have on Ckart. And close to 8,200 orders were executed on Ckart. So that platform is becoming a very important tool, plus it has other benefits of personalized collaterals in the partner's name. It has a smart pricing matrix where a partner can really just add a percentage and the price list will be made as per his choice. It also has drop shipment; it also has training modules. So I am thinking that Ckart over a period of time will help us in both the ways digitizing our customers and digitizing all the internal processes of Creative and it will ultimately help us to save at least 1%-1.5% on the PAT basis I think. So, that's how Ckart works. Coming to brands, India's population is the millennials are almost 65%-68% of our population is now less than 35 years old and each of these populations they value experiences more than anything. So for them a product specification is not important because all products are me-too products, for them pricing is not very important because affordability programs, overall availability of the product and transparent pricing because of the e-commerce and internet. So pricing also does not play a key role, only a product where you have a great community bonding and you can share your content which you create through that product or on that side and which gives you a great consumer experience that kind of brand only will do well. In fact, there is a survey which says that by 2022 the customer experience will be the biggest differentiator ahead of price and products specification. As a company, if you look at our portfolio be it GoPro or be it Olympus or the latest be it ZEISS or Edelkrone or on the other side Cooler Master, they are all products which deliver a very unique customer experience. Usually, we would take brands which are great on customer experience, execute brand strategies for the brand, get evangelist, get influencers, get the social media in place, get the marketing in place and that is how we select a brand. Second, there are also brands which do not deliver a great consumer experience but which are growing at a CAGR of 20%-22% per year. For example, consider the Men's Grooming segment. The trimmer, the shaver, the dryer all has been there for ages but in India this category is growing exponentially close to 20%-25%. In this category Philips rules with almost 80%-85% of market share, in this category online rules by having 65% market share of all the sales. To break into this category becomes an easier proposition so that is why we took a brand like BaByliss. To summarize any brand which gives us great customer experience, any brand which is under penetrated category in India and is growing at a very fast speed, that is the brand and of course

there are other parameters like whether we have the skill set to sell that brand, whether the market share worldwide for that brand is higher or lower. Consider ZEISS for example, these are binoculars which are starting only from Rs. 40,000 and upwards and we have started clocking sales of around Rs. 20-25 lakhs a month in the first couple of 2 months what we have started and we found that there is a huge population of birdwatchers, a lot of people have moved to their native, lot of people because of the pandemic have lot of time on hand so they are following this hobby and that is why these binoculars do well. Now we could easily penetrate this market because we had Olympus and lot of Olympus cameras goes for anybody who likes wildlife photography, and we have the right influencers who could talk to that product. Everything is becoming from a photo to a video, everybody now wants a video of how they make a cake at the house or for example a bike which is done well, they want to shoot that and Edelkrone has got its jibs and its videography equipment which helps even prosumers not professional but pro-consumers to shoot world-class videos with their phone in all the angles possible on a DSLR camera and it's the fastest growing videography accessories brand in US, California and that's how when we spoke to our influencers and they wanted this brand be tied up with them and we got that brand. Usually some sort of market intelligence, then how the brand affinity is for India and whether it is a faster growing category and whether it will deliver a great consumer experience, there are some of the ingredients which we would use to select that brand and sorry to be slightly longish on this answer. Abhijit hates it but these are my favorite passion, so usually I am quite elaborate on that.

- Moderator:** The next question is from the line of Ria Mehta, an Individual Investor.
- Ria Mehta:** How much has Honeywell contributed to the top line? And in terms of EBITDA how much are we earning from it?
- Abhijit Kanvinde:** For the nine-months the Honeywell has contributed across 20 crores to the top line and from the EBITDA perspective Honeywell is at a 15 to 17 EBITDA percentage brand.
- Ria Mehta:** What kind of revenue do we plan to see in the next 2 to 3 years from Honeywell and since Honeywell roughly gives upward of 15% EBITDA margin so going forward overall EBITDA how do we see?
- Ketan Patel:** Ria Honeywell now we have got air purifiers and also we have got license to go to complete Southeast Asia and also the whole of Middle East, Egypt, Saudi Arabia also. Now Honeywell for the next year we are planning close to a sale of +100 crores and so last quarter the sale for Honeywell would be close to 10 crores and now we are thinking that by April-May we would have all the categories so audio would be completely there, we would get the complete season for air purifiers plus the other categories and plus we also think that the project business for government would start because of the new budget and Honeywell Passive, Honeywell fiber cables, Honeywell Passive components all would start doing well. Next year we think that Honeywell should be close to +100 crores in our business so we are looking at a growth of close

to 20%-25% on our March closing business and I am saying these numbers because we have already started planning for April and I think this will get our overall EBITDA between 5% to 7% overall. Honeywell next year should be close to between 20% and 22% of our overall business and then year proceeding that it should be around 35% of our overall business.

Ria Mehta: You mentioned about gaming products in your opening remarks. Can you please throw some more light as to how we see this growing? What kind of revenue are we targeting from this?

Ketan Patel: There is actually when we say a gaming segment, actually gaming products are from the high-performance computer components. So for online gaming you require a computer which has very high efficiency and which is very powerful and this sector because of the lockdown and because overall the youth population has taken up to gaming very well and from what we hear gaming, e-sports would become a medal sports in this Asiad also and there are lot of courses also being started at universities to how to design gaming PCs, to how to run a gaming business, to how to create a gaming team. I think this business will grow upwards and we started with Cooler Master last year. Cooler Master right now is close to, by March we should close it between 55 to 60 crores. Next year I think Cooler Master should be around Rs. 80-82 crores business. There is another brand PNY which is also into gaming, that is having which has graphic cards mainly and every gaming PC or every AutoCAD terminal, or any rendering machine would require a graphic card, any Cryptocurrency machine would require a graphic card and that business is currently at a cadence of say 1.5-1.7 crores a month. Next year it should also move to a cadence of around 3-3.5 crores a month so that would be close to 40- 42 crores. There is another gaming brand which we have Thermaltake and Thermaltake is famous for its coolers, components and it also is famous for designing your own PCs and Thermaltake currently is at a cadence of 50 lakhs a month and next year we think it will go to a cadence of almost 12 to 15 crores a month. Overall gaming is going to do very well. Also in PNY if there is one movie in India which comes like Ra.One or a Robot or something where are lot of graphics will be used. That one movie in Bollywood is enough to give you a sale increase of 50 to 60 crores. So for the last at least 3 years we have not seen 3 to 4 years any movie coming out from the Bollywood or segment but once everything resumes we think that also should be a good thing.

Moderator: We will move to the next question, which is from the line of Aniket Redkar, an Individual Investor.

Aniket Redkar: Which are the top three fetching brands this quarter, revenue fetching brands and which brand contribute more highest revenue growth?

Ketan Patel: This quarter Honeywell, Samsung, Cooler Master and GoPro is there. Fortunately, Honeywell and Samsung both are showing a lot of traction. Honeywell from the point of view because we added air purifiers and certain of our categories like Passive Networking and all has picked up very well. Samsung because everybody is working from home and suddenly, we are seeing a

large surge on 22 inches and above monitors and Samsung for the last quarter is almost 23 crores of our business of the total business of 158 crores.

Aniket Redkar: Which brand contributes the higher EBITDA margin from our portfolio?

Ketan Patel: Honeywell, Cooler Master, GoPro they would also give you a very high EBITDA margin. Aniket while higher EBITDA margin is very necessary for our business, in the business where we are the highest rotation whichever brand can give to our money that is the biggest actually test so for example, a brand like Olympus where we can rotate our cash four times a year and a brand like Samsung where we can rotate our cash nine times a year. Samsung would be our preferred choice than Olympus so how much rotations we could do from a brand that is one of the most important criteria while choosing a brand.

Aniket Redkar: Can you throw some light on the tie-up of the Reliance Retail? Which are the product line we have chosen, who are the OEMs then what is the duration of the agreement?

Ketan Patel: I will give you a brief. Reliance because they have such a huge presence in retail, they have also gone on the licensing way and they have taken the license of Disney Marvel and they have also taken the license of BPL and Kelvinator and this material they want to push it to the consumers through their various formats of stores they have. The Reliance Mart they would want to push it, through Reliance Digital they would want to push it, through Jio Mart, through Reliance Digital online they would want to push this material. Now having said that they really understand that they cannot cater to the complete market and hence they wanted somebody who could also take these brands to the other retail formats, to other smaller retailers and that is what the tie-up is. It is an exclusive tie-up, with Reliance to promote all the brands, other than the Reliance stores, we would be distributing it to across India. The range for Disney is obviously because if the Fan at Heart collection it has audio, it has small domestic appliances and other stuff. In BPL they have large domestic appliances, like fridge, washing machines, they have TVs and also they have fans, lights, LED lights, bulbs, buttons and all these things and with this they small domestic appliances also like toasters, mixers, grinders, everything. It is a huge business opportunity for us and is an opportunity because either you have the channel or you have the product to develop a channel so this will help us to develop the electrical channel plus it also helps us to increase our portfolio on CKart. We probably believe that over a period of time we would have catalogue sales. What is catalogue sales is; that you go to JioMart and you say you have say 100-1000 customers. We have 4,000 products, just make our 4,000 products available to your 100-1000 customers and vice-versa tomorrow JioMart can come to you and say we have say 20,000 products and you have say 10,000 customers make our product available which are relevant to our categories and that also we can make that available so that is the case. Usually these agreements are auto renewable but the period is 1-year, so currently we have an agreement with them for 1-year and if both the parties agree, it keeps on renewing that's the case and Reliance just wants to concentrate more on retail and other stuff. They really wanted one strategic partner for this business and they have chosen us for that.

- Aniket Redkar:** Can you give some idea about the margin we get from the product under this tie-up?
- Ketan Patel:** The margin mix is close to 8% to 10% on gross basis. One of the key advantage also of this is that partly your sales force also gets funded from Reliance. You gain another close to 2% on manpower funding so the agreement stands for between 8% to 10% and because they fund you manpower and the manpower cost is close to 2%, you get that additional 2%.
- Aniket Redkar:** How do we see our imaging product segment right now because last time you said that it is impacted just because of the COVID?
- Ketan Patel:** Yes.
- Aniket Redkar:** Now people are moving out and just spending their holidays. How do you see this imaging products in the next quarter?
- Ketan Patel:** Couple of things are there. Since in the imaging product we are on the higher side of the pyramid so our products are all say (+35,000), (+40,000) and our binoculars are say (+40,000) and our SLR cameras or mirror-less cameras are from Rs. (+1) lakh. The traction would be slightly slower but we are seeing a lot of traction because people have now lot of time for themselves to work on their hobbies, that is one part and second everybody has made a plan to travel some point of time and people really want to create good memories, that's one. Second, the biggest traction would happen is the digitization. Now we just now at a classic example of somebody buying our mirror-less camera and it was a textile house and since their customers cannot travel, they wanted that the customers remotely could see the fabric, the true color of the fabric, how do they do that? As we see more and more amalgamation of digital in our life, we will see, imaging in a new avatar. It would not be just consumer, it would also be enterprise also, that is what we foresee. One more thing to add, everything becomes online for example, then all your products shoots happen and then to do a great product shoot and to sell your product you require a A+ content and something like Edelkrone is the most needed thing to get candid shoots for products from all angles. I think it is time, we may not see a great traction in a quarter but you will see good upward traction in the whole year, next coming year.
- Moderator:** The next question is from the line of Sanjeev Goswami from Fractal Capital.
- Sanjeev Goswami:** I just wanted one clarification before I ask any questions. See the Honeywell relationship, I think you mentioned that you are also doing contract manufacturing for them, is it right?
- Ketan Patel:** Yes, we get it contract manufactured for them through Honeywell audited factories across China, Taiwan, and a couple of them in India.
- Sanjeev Goswami:** Basically they are factories to whom the contract manufacturing orders is placed by Honeywell or is under their arrangement and we get it orders from there. It is not that we are doing manufacturing.

Ketan Patel: No, I will just give you a bits of. So Honeywell has no role to play except getting the factories audited. For example, we get our fibers made at Birla Sun Life for example so we would tell Honeywell that Birla Sun Life is our chosen vendor to make fiber and Honeywell would go on audit for social whether there is insurance being given to all, where there is no child labor, and then they will do the technical audit, whether the company is capable of manufacturing cables for Honeywell standard, and that's where their role ends and then either we set up our own factory or we get some factory to manufacture the product. So currently because we do not have expertise to set our own factory, we get it manufactured through these 8 to 10 vendors, which have been certified by Honeywell. The certification is ours; the design ID is ours and the contract manufacturer manufactures according to that.

Sanjeev Goswami: Second thing is that you talked about this Reliance relationship that you have where you have 1-year kind of license, but you have exclusivity for 1-year for those product, right?

Ketan Patel: Yes.

Sanjeev Goswami: Similarly for all other products that you are distributing, do you have the exclusivity?

Ketan Patel: Yes, usually most of the products we take it is either All India exclusivity or a regional exclusivity for that product. Some brands renew their license 2 years, Honeywell renews its license every 5 years. In Honeywell's case their average licensing tenure has been (+22) years with each partner and some brands would want to do it in 1-years' time but out of the 20 brands what we do, all 20 are either region exclusive or product exclusive with us.

Sanjeev Goswami: In that case do you have the complete pricing freedom in the sense you can decide at what price to sell or there is some gross margin which are fixed and you have to sell within those gross margins?

Ketan Patel: Usually it is a collaborative exercise with the brand because today's consumer is very-very smart. You can't charge him more because he knows the price across the world. So usually for example if a brand say Edelkrone the latest or ZEISS for example so this brand comes to us, we would look at what is the suggested retail price in US and then based on that we work out the price which is a suggested retail price in India. Then looking at the product size, looking at the Indian demographics maybe we suggest them that let's lower the price of it or let's run an affordability program and fund that program. For GoPro we run an affordability program in conjunction with Bajaj, where you can take a GoPro camera as less then Rs. 3000 a month for a 10-month instalment, that is what we do. That helps in people taking an upgrade for that product and also buying the product. So usually, it is a collaborative exercise. Once the exercise is finished then mostly our margins are tagged to that. In Edelkrone, our margin is tagged to say 25% so probably some affordability program is supposed to be run. The company may fund that or may lower the price so that we can fund it from that. So that is how usually it happens.

Sanjeev Goswami: A couple of questions more, one is on the international side. I do understand that you also have distribution rights for some of the brands in the MENA countries as well as Southeast Asia. What is it that we bring to the table in terms of distribution relationships that we have in those regions?

Ketan Patel: So you have a very good question. We realized when we started the Honeywell business in 2017-18, that to get a larger scale and to get lot of people because the consumer in Southeast Asia, consumer in Middle East spends a lot of money on this products than they spend in India and we realized that much earlier and then for example, if you want to go to Germany to get your dye done, then probably your MOQ's for manufacturing should be higher. So we set up a wholly owned subsidiary for us in Hong Kong and that helps us to get our material shipped to the whole of Middle East and when we start Southeast Asia, then the whole of Southeast Asia and then you approach distributors at the various countries, so in Middle East Redington distributes parts of Honeywell products there. And then every country has their own set of smaller distributors who cater to the mom-and-pop stores. And we currently have manpower in Middle East as a part of that and now since our portfolio with audio also would get completed by March-April, we plan to go to Egypt, Turkey, whole of Middle East from the next financial year, that is April. And Honeywell also helps you to take part, so wherever Honeywell takes part in exhibition we can also take part and be as a Honeywell stall and when somebody approaches from the various countries Honeywell helps us to identify distributors for that place.

Sanjeev Goswami: In India, how many dealers or retail customers do you have relationship with or connections?

Ketan Patel: In all we have close to 8000 partners who have built with us, but we do not consider them as our regular partners. So we have internal protocol where a customer if he bought material more than three times a month then only considered to be our active customer. So currently our active customer cadence was always between 2000 to 2200. But after Ckart coming into picture, currently we are at almost close to 3000, because of the drop shipment customers prefer to buy smaller quantity's also. So out of 8000, 3000 customers would buy more than two to three times a month.

Sanjeev Goswami: Last question is I was just seeing a related party transaction, there are 2-3 companies like Compunix Technologies, Secure Connection, BitTech the rule our company seems to have quite a few transactions, and these are promoter owned companies, right?

Ketan Patel: So I will just give you an example so you will get it, you said there are three companies; one is Secure Connection, right? So for Honeywell business we do all our business through Secure Connection from Hong Kong. Because when you go to the market and you carry a Honeywell card, you do not want to carry a Honeywell and a distributor's card because the other distributors may get offended. Second is Honeywell is a very-very strategic business and tomorrow you do not know, probably Honeywell may get interested into this business or somebody else may only get interested in that business, so that is why we got Secure Connection. Also in Secure

Connection because when you want to represent a brand across say Asia, you require somebody who can really be the face of the brand. So we have Mohit Anand who is ex Head of APAC Microsoft in India and he was Head of Belkin also similar product like Honeywell for Asia he was there as a Director. So he is the face for that and that's why Secure Connection exists. BitTech is our services arm and most of the brands like GoPro, like Olympus, like Edelkrone, they do not have service centers here in India plus they do not have offices, so they require somebody for their marketing, material, money, and all they want to pay other than the distributor. So BitTech we used to have before, because before we got listed and I think I am talking to you 7-8 years, 9 years back we used to run Epson service centers, we used to run Transcend service centers through BitTech. So that's why BitTech exists and the whole point of BitTech is to help brands to get the RMA's in place.

Abhijit Kanvinde: Also, in Creative we are not doing any servicing, we are doing only sales. So it is a different entity and different arm which we have created.

Ketan Patel: And last is Compunix. For Compunix is a company where I hold some shares and that is why it comes into the related party transaction (at arm's length) and for a while since it is a small business, we had thought that probably we would close it down. But when the Honeywell opportunity came in 2018 end, we said we should keep this company so that it helps us to foray into Middle East and it can help for a while Secure Connection because it is in Hong Kong to get the manpower and people in places. So that is the logic for all the three companies.

Sanjeev Goswami: And just to clarify is there any plan in terms of clients to consolidate everything under one roof, so that there no questions regard related third-party transactions now?

Ketan Patel: So for Secure Connection we will not be able to consolidate, because a lot of times when you go to hunt a talent for example, I am saying right. A talent wants to not work for a multi distribution or a market entry specialist. A talent wants to work for only a brand, and he wants to carry a brand card. So when my people say go to Sri Lanka they carry a Honeywell brand card and on the backside is written that licensee. So that is why probably this could be there, BitTech is minuscule and if it is of any hinderance, we can really separate that out or probably if Abhijit one point of time says that we want to start RMA services and repair services under Creative then definitely it can get consolidated.

Moderator: The next question is from the line of Prasad Kulkarni, an Individual Investor.

Prasad Kulkarni: This question is regarding our imaging product. We have Olympus and ZEISS in our portfolio. They have very significant presence in medical surgical imaging equipment like, surgical cameras and robotic surgery and all. So do we have any plan in future to capture this market also?

Ketan Patel: Actually I would say that you have studied the brands very-very well and Olympus has 87% market share in medical equipment and endoscopy camera and similarly ZEISS is the leader in

lenses and but one of them is a Japanese company and second is a German company. And they move on their own pace and they want to be really-really sure before going further. So from both the premises while we may be interested the companies may take some time to choose that is the first part. And second also is that we really do not have that required skill set to market because the customer will be a doctor and whether distribution works in this space or whether the distribution does not work in this space. We really do not know that, so whenever we get the opportunity, we will have to reevaluate it. But a straightforward answer to your question is we do not think anything in the next 18 to 24 months happens.

Abhijit Kanvinde: However, I would like to add on ZEISS, ZEISS also has camera lenses and cinematography camera lenses, so that is something which is in line with our strength in the imaging division and possibly if something comes up in that then we are surely going to take it up because it is in the same channel.

Prasad Kulkarni: One more a small addition, because seems we deal in B2B segment, right now almost 80 to 85% of Indian medical sector is still controlled by the individual hospitals and these individual hospitals they do not have direct access to this big brands like Olympics or Zeiss. If someone like our company ventures into this area and we can fill this gap, this can be a very exciting field and the margins can be very high.

Ketan Patel:: Thank you so much for that Mr. Kulkarni and I just tell you that we have an IIT-Bombay alumnus Mr. Anish Kulkarni, who is working closely on Ckart along with Purvi is also a founder and the whole digitization initiative of Creative is under Anish. And Anish used to work with Phillips for 5 years and in their medical equipment division. And he had also suggested a similar thing, but while talking to him we understood that we would have taken a different kind of ISO certification to be into the medical equipment thing. And we had a good discussion now based on your suggestions we will actively look into that and report back to you probably if you are there on the next quarter's call.

Moderator: Thank you. Ladies and gentlemen, as this was the last question for today, I would now like to hand the conference over to Mr. Ketan Patel for closing comments.

Ketan Patel: I thank the entire team of Creative for their untiring efforts, hard work and dedication, which makes the company resilient to upheavals such as the pandemic. Also, I appreciate all of you for participating in our conference call. Please do get in touch with our investor relations team for any other further questions. Thank you so much.

Moderator: Thank you. On behalf of Bridge Investor Relations Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.