"Creative Newtech Limited Q3 & 9M FY-22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Creative Newtech Limited Q3 and Nine Months FY22 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the belief, 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, Creative Newtech Limited. Thank you and over to you, sir.

Ketan Patel: Good afternoon, everyone. Welcome to Creative Newtech Limited conference call for the Third Quarter and Nine Months ended December 31 2021. Our company as you all would 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 us. On the call with me today is Mr. Abhijit Kanvinde, our Chief Financial Officer; Mr. Vijay Advani – Whole-Time Director.

Before we get into the business and financial performance of last quarter, I would like to share some brief insights and recent developments regarding the company. Starting with some key recent developments.

This quarter witnessed the third wave of pandemic affecting markets to some extent. However, luckily the wave was not as strong as the previous ones and its impacts are already weaning. However, our nine months' performance practically represents operations worth less than eight months as the initial month of the fiscal year was affected by lockdown. Looking at the present situation, markets have opened up and consumer confidence is firing up well.

These nine months has definitely been better than the corresponding period last year, which was more severely hampered by the lockdown in 2020. The year-on-year growth has come in from a recovery in the overall markets coupled with our company's diverse product portfolio. In the post pandemic lifestyle with standards such as working from home and online education 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 a long term agreement with Honeywell and are building further on this line of business. This is also garnering attention of other global brands, which are looking at brand licensing as a beneficial approach. With Ckart we have entered the online B2B marketplace vertical.

And we see this as a key turning point for our business. On the distribution front, we rearranged our segmental structure to better align with our business structure and strategy. Our products are now categorized in the following four segments. Fast moving social media goods, FMSG. This comprises new and niche products that appeal to the younger demographic and have fast turnaround. These brands are driven by social media penetration and wider adoption.

This is one of our fastest growing and higher margin segments. Fast moving consumer technology. 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, these comprise products which are supplied to enterprise and are high volume. Some brands in this category include MSI, Printronix and Phillips.

Fast moving electronic goods. This segment covers our alliance with Reliance through which we have offer home appliances, bulbs and lights from brands such as BPL and Kelvinator. These segments to better represent our brand portfolio and give 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 addition including Insta360, Fujifilm and Hyperice, a US based company specializing in technology based muscle discovery and massage products, as well as well-known in the wellness and fitness category.

Our tie-up with Reliance Retail covers the range of Marvel and Disney branded products, including audio entertainment products, personal grooming products, such as hair curlers and straightener and some home appliances like toasters and sandwich makers. This tie-up gives us access to huge markets across multiple product verticals and expands geographical coverage.

We also added lights, bulbs, fans 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. We also recently launched a wide range of Honeywell air purifiers. The benefit of this association should show effects now onwards as we scale up this line of business. Our distribution network covers all three channels online, retail and general trade, thereby giving a strong leverage to reach out to a wide market base.

Furthermore, our portfolio covers a wide spectrum of products from enterprise goods to fast moving consumer products. Associations with Insta360 and Fujifilm are example of social media based products, which target the young demographic and are high growth potential products.

Overall, our focus is on three main growth triggers, offering experiential products and enabling niche global brands to enter and establish newer markets, expand our Honeywell business and become an online platform for all customers through Ckart. Ckart is growing well since launch and has a good adoption rate among our channel partners. We recently incorporated a wholly owned subsidiary which would be dedicated to this e-commerce business. We expect Ckart to expand our customer base without much additional cost.

Lastly, it gives me great pleasure to see that Creative is gaining recognition as the go to specialist for many niche brands, which benefit from our value added service model. I will now hand it over to Mr. Abhijit Kanvinde, who will take you through the financial highlights for Quarter 3 and Nine Months FY22. Thank you.

Abhijit Kanvinde: Thank you and good afternoon to you all. I will share highlights of our consolidated financial performance, after which we will be glad to respond to your queries. Our financials are reported as per IND-AS guidelines.

Looking at the quarterly results, in the quarter ended 31st of December 2021 the company reported a total income of Rs. 302.36 crores growing 79.47% year-on-year. This was mainly since the last year third quarter was impacted by the COVID induced lockdown. This growth was also supported by improvement in our enterprise business segment and demand for our products from Samsung, Cooler Master and PNY amongst others. The EBITDA stood at Rs. 10.56 crores as against Rs. 5.21 crores in the previous corresponding period, increasing 102.52% year-on-year.

Higher sales promotion expenses were offset by impact of change in product mix and overseas sales leading to improvement in EBITDA margins. The net profit for the quarter was Rs. 7 crores as compared to Rs. 2.42 crores in the Q3 FY21 an year-on-year growth of 189.39%. Coming to nine months results. In the nine months ended 31st of December 2021 we reported total income of Rs. 679.45 crores growing 95.55% year-on-year.

This was mainly since last year corresponding periods were severely impacted by national lockdown. Growth was also supported by enterprise business segment and demand for products like Samsung, Cooler Master, PNY, Honeywell, amongst others. It is notable that this represents operations of less than eight months due to the lockdown across several states in India during the first quarter.

The EBITDA stood at Rs. 23.34 crores as against Rs. 11.22 crores in the previous corresponding period, increasing 108.12% year-on-year. EBITDA margin improved slightly despite of higher promotional expenses.

The net profit for the period is Rs. 14.03 crores as compared to Rs. 5.05 crores in nine months, FY21 and year-on-year growth of 177.52%. This is all from our side. We can now open the floor for the questions.

Moderator: Thank you very much. We will now begin the question-and-answer Session. The first question is from the line of Digant from SVIP Capital. Please go ahead.

Digant: Sir, just wanted to know, what is the reason for the other expenses to be so high it is about Rs. 16 crores versus a normal run rate of Rs. 7 crores? That was my first question.

Abhijit Kanvinde: This quarter, we had higher sales promotion expenses, that is advertising and sales promotion expenses. And we had some clearing charges, which were higher. So, if you compare it for a quarter the clearing charges were almost Rs. 2 crores, the sales and promotions was in the range of Rs. 5 crores. That is the exact addition to as compared to the last quarter.

Digant: So, should we take this as the number going ahead in the future quarter?

Abhijit Kanvinde: Actually it all depends on the performance of the particular brands, you know, it varies from product mix perspective. So, we cannot take this as a run rate . Next time for sure the sales proportion and advertising will be lower as compared to this quarter.

Ketan Patel: And this quarter is also the festive quarter so you actually because there is a huge problem in logistics happening. So, we are trying to not keep stocks in Hong Kong and keep it here. So, for a couple of months, so the logistics does not hamper the sales. So because we launched the Honeywell Audio and Honeywell Air Purifiers during this quarter, we got the inventory worth almost Rs. 12 crores to Rs. 14 crores imported this quarter, and some of them came by air also. So that is why you see that, but that will get amortized as we sell the inventory in the next quarter.

Digant: So can we expect some better run rate in the revenue for the next quarter?

Ketan Patel: I think we will be able to maintain the previous quarter's numbers in the coming quarter.

Abhijit Kanvinde: The guidance what we have given and hopefully that is what we will meet this time. The guidance was in the range of Rs. 825 crores to Rs. 850 crores for the full year. And yes, we are hopeful that we will reach and maybe cross that number.

Digant: So, if it is around Rs. 850 crores, that would be much lower number compared to even the September quarter?

Ketan Patel: Yes, Digant. So usually under commit and over deliver, thats the principle has been. So I give you that probably we will do as much as what we did in the previous quarter. So we will probably exceed. That is what.

Moderator: Thank you very much. The next question is from the line of Sunil Menezes, an individual investor. Please go ahead.

Sunil Menezes: I have a couple of questions. One is if you can throw some light on Honeywell business in, you know, we had just started; this is a new product line for us. So how is the Honeywell performance in Q3 and in Q2? So just sequentially just want to see if there is any traction on this business and then how you will see going forward in Q4 and then FY23? Because in the past two calls you have guided that Honeywell should contribute around Rs. 250 crores to our revenue in FY23?

Abhijit Kanvinde: Honeywell this quarter, we just launched a new range of Air Purifiers in this quarter, the new range and audio was launched almost November end till December. So the real firing of these two categories will happen in next quarter.

However, to answer your question, this quarter we did Honeywell altogether in consolidation of almost Rs. 18.5 crores and year to date Honeywell would be for nine months would be in the range of around Rs. 45 crores. So we are hoping that by end of this financial year, we should be in the range of Rs. 65 crores to Rs. 70 crores only Honeywell.

Sunil Menezes: And what about next year target?

Abhijit Kanvinde: Yes, I think the audio I think I will hand over to Ketan for your answer.

Ketan Patel: So Sunil, for the next year, a couple of things are there. Our aspiration is to do between Rs. 225 crores to Rs. 250 crores in Honeywell, and that is what we are planning also. So by expanding geographies, so Middle East, we have now Ali Bin Ali as our distributor for Qatar. Jabar Ali as our distributor for UAE. Blooms as our distributor for Kuwait and Egypt, and whatever statutory compliance is there for those particular regions and countries necessary that is going on.

So as we expand region, and as we expand the product category, I think the aspiration of Rs. 225 crores to Rs. 250 crores would be met in the next year. In just these regions, where we are talking about now. Saudi remains to be opened. And then probably if we have the bandwidth, then we will start from next July to open SEA, that is Southeast Asia. So Singapore, Malaysia if we get the right talent.

And a couple of now we have also decided even in Honeywell, we will have two launches a year. So we will have a launch in June for the summer products and in October for the festive season. So with the launching of the new products and filling the product gaps, we should be there. And considering that COVID would not impact further than what it is been impacting. So that is where we are.

Sunil Menezes: Okay, so, the reason why, you know, I think we talked about it, you mentioned in I think last couple of calls as well, because end of the day, I think a lot of the improvement in EBITDA and net profit will definitely come from this investment as we have higher margins, right. So, it is very important to know where we are going with that.

So my second question is, if you can just explain, why our EPS at the consolidated level is lower than the standalone, whereas in Q3, it was other way and I see that our consolidated net income is higher than the standalone. So, just if you can throw some light and mention the performance of subsidiaries on that? Because I understand that we have three subsidiaries there, two are fully owned by Creative and one is Secure Connection, which is 52% owned by us.

So if you can just throw light on why EPS at the consolidated level is lower than standalone?

Abhijit Kanvinde: Yes, let me answer this question. Our standalone performance was Rs. 12.14 crores and our consolidated profit after tax was Rs. 14.02 crores inspite of that our share of consolidated profit has been Rs. 10.68 crores. So your question is from Rs. 12.5 crores it should have been higher, why it is low.

The reason behind this is that there has been we like to have audio launch of products in this quarter. So, a lot of material inventory was sold by subsidiary to our holding company. Almost Rs. 12 crores to Rs. 14 crores of extra inventories was sold.

Now, as per consolidation norms, you know, you need to remove the profit which is the markup on the inventories and do an inventory adjustment. Therefore, some of the inventory adjustment was done and therefore, the profit is Rs. 10.68 crores, our share of profit is Rs.14.20 crores.

Now, what is going to happen is this inventory was taken in the month of almost November. This inventory is going to be sold in next quarter. Therefore, all these markdowns will be added at profitability in the next quarters plus the normal profitability. So we are expecting and hoping that next quarter will be a bumper kind of profitability. Have I answered your question, first part?

Sunil Menezes: That is fine. I think I did not get details, but what I expect is that with our Honeywell revenue….

Ketan Patel: So Sunil, explains me because I am slightly from the engineering background. So, finance is a challenge sometimes. So, there was a, so for example, whatever Secure Connection sells to Creative India, if that inventory is not sold in India, that inventories again return-back.

Abhijit Kanvinde: The profit is adjusted.

Ketan Patel: So, Secure Connection sent a lot of stuff to India, which is not sold because it came in the end of November and December. And we got slightly higher inventory, which will get sold in January, February and March. So that profit in the subsidiary was showing higher. And then we had to write it back when we take it in the consol. because that is the statutory guideline. So, when this inventory moves out, that profit will come back to us.

Abhijit Kanvinde: So, next quarter you will see higher profits as we expect are higher than the there will be synergy higher than the results will be higher than the normal, you know, standalone profit.

Sunil Menezes: Then I think with this, that should be a kind of windfall gain for us in Q4 when we sell this inventory plus on top of it with the Honeywell business firing in Q4 we should see a substantial increase in our margins in Q4 at consolidated level. Am I correct?

Ketan Patel: Yes, and then our endeavor in next year to get the PAT from say 1.8% to 2.5% to 3% and then eventually in 2025 to 5%. That will start showing. That will show that we are on that trajectory as Honeywell starts doing Rs. 200 crores plus.

Moderator: Thank you very much. The next question is from the line of Love Sharma from Evolz Private Limited. Please go ahead.

Love Sharma: So, we had a 70% stake in the Secure Connection as per the financial year 20 whereas in as per the financial year 21 that stake goes down to the 52.48%. And I have seen that the stake sale was not disclosed to shareholder. Can you please share details about how the valuation and usage of the fund from this transaction? This is especially important, because Secure Connection is going to represent a lot of our growth in coming years. So it would be great if you can clarify on this?

Abhijit Kanvinde: Yes. One thing is that we have taken opinion of our counsel and as per their opinion; we have to only disclose this in the balance sheet and consolidation whenever the share valuation was done. This was done last year. This is one answer to your question. The second point is that this was done; let us understand the philosophy of valuation.

And I will tell you the valuation also. The philosophy of valuation is that in Creative we were doing other businesses. So Honeywell per se, needs lot of working capital to grow. So that is the reason we diluted at around Rs. 45 crores. 25% of our share and received Rs. 10.5 crores to a group from UK called Sapri Trading.

The other shareholders in Honeywell is Mr. Mohit Anand. So, he also had to dilute. Earlier it was 70:30, Creative and Mohit Anand. Now he had to also dilute and become at 22.5 almost and Creative has become 52.5. So, the dilution is basically to fund and help grow Honeywell business. From the compliance perspective, we are completely sure that we have not done any violation to that extent.

I have personally checked this with my counsel's corporate professional in Delhi. Do you have any other question, sir, on this?

Love Sharma: No, that was a useful answer.

Moderator: Thank you. The next question is from the line of Saranga A, an individual investor. Please go ahead.

Saranga A: So, pretty much most of my questions are answered but I had some more on our Honeywell business. So, you mentioned we have done about Rs. 45 crores so far in the nine months. In terms of margins, is it possible to kind of highlight what kind of margins have been on this Rs. 45 crores? I understand that this is early stage. So I think that we will have some front ended costs in terms of setting up all in different countries and all, but still is it possible to give some guidance around that?

Abhijit Kanvinde: At this juncture, it is very difficult for me to pinpoint the margins on going forward. But, you know, holistically what are our endeavors on margin I will say. Please appreciate that in India our gross margin has been in the range of 37% to 42%. And whatever we sell to Middle East and other countries, our gross margin has been in the range of 50%.

Now, what does that boil down to as far as EBITDA is concerned. Right now, the numbers are in the range of Rs. 65 crores to Rs. 70 crores in this year, and there are lot of setting up of expenses, new recruitment and things like that. But going forward, we see that the EBITDA margins for Honeywell business will be in the range of 13% to 17%.

Now, and our share after PAT will be 52% of that, because when we consol., we will have to take 52.5% to our Creative kitty. But this is going to be a fabulous opportunity I feel. The margins, if you grow the Honeywell business, this Creative and other consolidated entities, we will go to the next level will be very good. If we grow Honeywell business the way we want to.

Saranga A: I have been following the commentary for last year or so. And it is heartening to see the strategy unrolling and the execution. So definitely congratulations on that and thanks for that. One small related question is, is it possible to kind of give some kind of split between India Business of Honeywell versus overseas? So basically the idea is how much of that business comes under Creative and how much of that comes under Secure Connection? Or is it too early to talk about it?

Abhijit Kanvinde: Mostly 95% right now is India business. Because the first two quarters were lockdown condition for Middle East and other countries. So this quarter the Middle East business has started firing. This was almost Rs. 4 crores in this quarter. And that means out of Rs. 45 crores, Rs. 4 crores is Middle East for this quarter. Going forward we see that it will be 60%:40%, India 60%, 40% abroad. It is a benchmark we would like to go.

Ketan Patel: I will just give you a perspective. So for example, we want to go to Saudi Arabia. So they require something called as SASO certification, which we already have, because we did SASO for Saudi

Arabia. Now, when we have to get into Saudi Arabia, we have to get some products certification with the name of a local entity there. In our case, it would be the name of the distributor who chooses to do Honeywell there.

So sometimes that takes a couple of months' time to do that. So, as far as Middle East is concerned in countries like Kuwait, Egypt, Qatar, and UAE, everything is done, the first orders have come in and it will move ahead. Now, when we try to go to say SEA, that is Singapore and Malaysia and other places, there, they do not have such a norm.

So you just have to be CE certified, that is certified in Europe and you have to be ROHS compliant, which normally all factories have this because normally this product sells there well. So we think that over a period of time, we would have a balance of 60% sales in India, and 40% sales abroad in these territories.

And then as we keep expanding the territories, probably it will get reversed, 40 would be there. But that is for couple of years. Second thing is the margin because most of these countries have lower GST The margin in abroad is also higher. So even if 60:40 we will be able to deliver say margins what it delivers in India. So in the Rs. 18 crores business, what we did Rs. 4 crores was Middle East and Rs. 14 crores was India.

Moderator: Thank you. The next question is from the line of Ayush Agarwal from Mittal Analytics. Please go ahead.

Ayush Agarwal: Sir, my first question is, I mean, thanks for all the details on Honeywell business. So that was my first question. But that got answered. My next question, sir, is on our enterprise business. We have seen huge growth happening in this. And I mean, you have been saying that, you know, it is because of work from home and everything that is happening.

But do you think what amount is sustainable like in FY23, and beyond, because this is contributing significantly to our top line, and it is also helping us in the profitability as well. Some commentary on that side will be helpful.

Ketan Patel: So Ayush, couple of things. The COVID turbulence brought two, three things very forward. First of all was stock was king, whoever had the material available, they will do well.

Second was logistics was hampered. So you had to forget just in time inventory and move to just in time plus, where plus stands for taking into account the COVID logistics problems into that. That is the second point. And third fundamentally important was that any company should be very liquid in terms of his cash flow and money. And that is what for the last six to nine months we have been kind of our endeavor is to do that.

And because of that, a lot of opportunity used to come in because larger corporates who really wanted to buy stuff brand wanted to give stuff, but brand would want a person whose credibility was much higher, because they also did not want to take the risk or brands wanted to do the business in cash. They wanted upfront payment and whereas we also wanted upfront payment from the partners, which really suited our EB business.

We think at whatever circumstances this is, till the next financial year also the same growth will be maintained. Second is because we saw the opportunity into this, we have started building up our skill set on this business. So initially, we did not deploy any special manpower to build this business. So currently, as we are working on the next year plan, we will start building this business. So it would be safe to say that this business for the next year definitely would be there without any issues.

Second is, yes, you are very right that it adds something to the bottom line also. So we have internally the guideline is that in the enterprise business, we will not have a working capital of more than five to six days. So our working capital does not jeopardize our long term goals of building Honeywell very well, building FMSG Very well.

That is the first thing Abhijit has told us. So, that we keep into mind while building this business. So the financial year 2022-23 will not have a problem. Plus, we are sacrosanct of the fact that after certain turnover, everything gets into the bottom line because you meet the minimum expenses.

So, that is really fueling the profitability. And we are not taking very large numbers on that. We are just taking quarter-by-quarter, but it seems that the next four quarters, we should not have a problem for sure.

Ayush Agarwal: Sir, my next question is on the Honeywell business itself. First, you know, continuing on earlier participants' question I understand the need to dilute equity in Secure Connection, but when we ourselves have been so bullish on this entire business, do not you think that Rs. 45 crores has a valuation was too low for Rs. 10 crores funds, which could have been raised, you know, in a much cheaper way?

Ketan Patel: Ayush, when we give that Rs. 45 crores, according to me was a very terrific valuation, because Secure Connection did not have any kind of revenue at that point of time and Creative's market cap that point of time was closer to Rs. 65 crores to Rs. 70 crores. So, we had to really convince them on that valuation, then that and we just took Rs. 10 crores because at that point of time see the company was also kind of considered as a mere distributor kind of thing. And that point of time, the working capital cycle, every investor we met, the working capital cycle would crop up.

And then Honeywell business also was a miniscule then. And it was taking up 120 days working capital, because we were developing all the products then. So that time we thought that that decision is right. On the hindsight now it feels that we sold ourselves cheaper at that point of time, but that point of time, we thought that it is the right decision. And I think that Rs. 10 crores really helped us to scale up very well at that point of time.

Ayush Agarwal: And sir, my last question is, you know, I think I may have misheard this but did you say that we are targeting Rs. 200 crores plus in Honeywell in FY23 itself?

Ketan Patel: Yes.

Abhijit Kanvinde: Financial year 2023-24.

Ayush Agarwal: Okay, FY24 you are targeting Rs. 200 crores plus?

Abhijit Kanvinde: That is right. It is our endeavor. This is the plan on which we are working and God has to support us. That is what I can say.

Moderator: Thank you. The next question is from the line of Jinesh Shah, an individual investor. Please go ahead.

Jinesh Shah: So, just very not financial questions as such but generally on the GOPRO business. So I understand that we had an exclusive agreement with GOPRO but nowadays we are seeing advertisements from a Delhi based distributor called as Luxury Personified. So I was just curious on how this arrangement works and where is the role that Creative plays because I see that they also distribute to Reliance Digital, which we also have a direct partnership with. So, maybe if you can throw some light on that one first?

Ketan Patel: So a couple of things usually whatever brands we tie up our endeavor is to tie up with that brand exclusively, either you tie up exclusively across India or you tie up exclusively across customer. So for example, you can take the whole of large format retail or the modern retail whether Reliance Croma falls in or the E-commerce falls in. That is how you take it.

When the COVID happened, GOPRO was a very high ASP product. So each GOPRO camera is close to Rs. 30,000, Rs. 40,000. That was one. Second is a product which people usually use for outdoors when they travel, right. So that product got the maximum beating for two reasons. One, it was a high ASP product and it was for travel, both were not shooting. Third, the chip shortage was also affecting the supply of the product.

And so GOPRO kind of laid off 270 people in their headquarters, and the whole of Asia team was dissolved. And then they had somebody new, who wanted to do direct to consumer, that is D2C. So GOPRO was selling cameras at $100 cheaper on their website, than they were selling through the channel.

So most of us who had built the GOPRO brand and who understood our territory is very well understood that this strategy would not work off because nobody takes a subscription of $100 in India. So that strategy will not work. But again, we had nobody to talk to because the whole of Asia team right from Asia Pacific director to everybody was not there.

So, internally we spoke internally and then we said that let us talk to GOPRO and split ways and they were not getting any newer products on virtual reality and other stuff. And then we had this opportunity with the brand called Insta360, which is camera right from Rs. 18,000 to camera worth Rs. 8 lakhs, which are to build virtual reality products because the meta works and all those coming.

And it will be not prudent that you are exclusive to GOPRO but you have another competing brand also. So, then we spoke to GOPRO and we split and I think Luxury Personified saw this as an opportunity so they would have taken it.

Jinesh Shah: So now we are no longer associated with GOPRO as such and entire thing. The business distribution has been shifted to a new player, is that the correct understanding?

Ketan Patel: Yes.

Jinesh Shah: And another question was on since we are, you know the Honeywell business you have given a very detailed presentation on how the way looks forward and the potential that Honeywell has for us. Is there some also discussion that purchasing a strategic stake in our company considering we are expanding product lines that currently Honeywell does not have at all and they would also like to be a part of the growth journey?

Abhijit Kanvinde: Who Honeywell would be like the growth journey you are saying? I did not get the question right. I got it I just lost you for a second.

Jinesh Shah: Okay. So, my question is that since we are launching a lot of new products for Honeywell right, which are not directly sold by Honeywell as on today and we are manufacturing for them and also distributing. So is there any possibility or is there any discussion for Honeywell to take a stake at let us say Secure Connection level or at a Creative Newtech level to also be a part of this growth journey with Creative or is it just going to be a distributor and like an outsourced manufacturer kind of arrangement?

Ketan Patel: I think it should be more of that model because Honeywell more and more wants to become a firmware company for devices. So they want to become the Microsoft of industrial devices. So they had their iconic product the thermostat also which is now licensed to Honeywell 100% owned subsidiary Resideo. And Honeywell in previous has done acquisition. So for example, they took the largest distributor under their fold and then they took switch manufacturing company under their fold.

So that could happen but right now, there are no cases nor they have indicated nor we have spoken. Currently our endeavor is that when 2025 comes in and Creative says the top line is close to between Rs. 2,000 crores to Rs. 2,200 crores, Rs. 2,300 crores, Honeywell business should at least be 30% of that business.

So we want it to be Rs. 600 crores to Rs. 800 crores. That is when probably Honeywell may even start noticing us because it is a large conglomerate, right. They have $35 billion upwards this and for there is nothing which they have spoken or there is nothing they have indicated. And when time will come only then we will come to know. Right now there is nothing.

Jinesh Shah: And the Just last question I will try to squeeze in was that we have certain partnership with Reliance Retail where we are supplying a lot of appliances mainly from the Marvel and the Disney part of it. So, wanted to understand that arrangement where maybe on the MRP typically how much does Reliance Retail have a buffer? Because I was just recently at a store and I saw one of the speakers which was costing around Rs. 9,000 selling for as low as Rs. 2,500.

So, I was wondering that why would there be such a big gap? One, maybe the inventory is not moving quick or two, maybe they have such a large margin that they are willing to offload at a lower rate? So, I was curious on that part.

Ketan Patel: **O**kay. So, two things for you. When the excise duty went off and the GST came in right before that, the government had a norm that when you import a product, you have to declare the MRP. Till today also we are declaring the MRP, but then it was that whatever MRP you declare less 30% rebate you get and then on that you have to pay the duty. So, people kept very realistic duties at that point of time. After GST came in there is nothing, you pay GST on your import price and MRP is still a norm.

So, what people do is then they have an MRP which is on whim and fancy. So, they may seem to have an MRP twice, thrice the value because there is no duty, they are paying on that, right. So, that is why to show the customer a larger discount a lot of companies would have a higher MRP for products which are very realistically non-comparable model wise with other people and the customer sees that he is getting a 30%, 40% duty.

So, currently how the trade work is there is an MRP which have no relevance, then there is a MOP, that is Market Operating Price. So, when we go to sell a product for example to the Reliance, say Honeywell we go and sell them, right. So, we will say sir, the MRP say Rs. 100, but the market operating price of this product is say Rs. 60 and then we will give you 30% lesser than the MOP. So MOP is something which is relevant. So that is what you saw at Reliance is just that they might have put a higher price. So that could be the case.

Moderator: Thank you very much. The next question is from the line of Suraj Nawandhar from Sampada Investments. Please go ahead.

Suraj Nawandhar: Sir, my first question is on the Rs. 250 crores revenue on the Honeywell side that you indicated. Is it that our share is Rs. 250 crores or the overall business will be Rs. 250 crores and our share will be 52% of it?

Abhijit Kanvinde: So, the total business will be Rs. 250 crores and our share will be 52.5% of the profit.

Suraj Nawandhar: And sir, is it possible to start giving segmental reporting for Honeywell business separately so we will all know how much is the business going and what are the margins and everything?

Ketan Patel: We can do that. So for you, whatever happens in the Secure Connection subsidiary is Honeywell business entity, 100% business of Honeywell. So whatever is the standalone of Secure Connection you can consider is that is Honeywell. But I and Abhijit will figure out whether we can give segmental here also for India if you want to know that.

Suraj Nawandhar: Sure. And just one small suggestion regarding the earlier participant's question regarding the stake dilution in Secure Connection. You said that it was not required by the regulation to disclose it, but as a good corporate governance standard, you could have done it because that Secure Connection is going to be the face of the company from now onwards. It is going to be the growth engine for the company. So even though it was not required by the norms, you could have done it as good corporate governance. So in future just a small suggestion to you that anything as major as this comes up you please disclose it to the exchanges?

Ketan Patel: Suraj, it is a lesson well learned and we understand that this is a very important part and that is what our endeavors would be there. But the smallest or smallest detail even if from the compliance point it is not necessary, but say from the investor point if we feel necessary, we would definitely publish it on the NSE website.

And that is a lesson we have learned. Last quarter also, somebody gave us the suggestion on the same topic. And that is what we will do 100%.

Moderator: Thank you. The next question is from the line of Sunil Menezes, an individual investor. Please go ahead.

Sunil Menezes: Hi Ketan, just back with the favorite subject that you always like, you know, Ckart. I know there is no question so far. And I think last time, we had a lot of questions, and you were very passionate about it, right. So I know that Ckart is one of the pillar of our strategy. And in December, we have formed another subsidiary, which is I think, Creative Retail. Maybe by that announcement, we could make out that maybe it is something to plan with the Ckart.

So just want to know, is the Ckart going to facilitate Creative business? Or is it going to be contributor for growth in Creative's profitability? And if it is latter, then how it is? If you can just throw some light on that?

Ketan Patel: Yes, Sunil. So Ckart is a very important pillar of Creative. Its inception was to facilitate Creative. As we went through, we thought that it can add profitability to Creative right. And in Creative if you see the working capital gets involved, it only two places. One is to stock the inventory and second is to give credit. And Ckart actually resolves both those problems for Creative because as our buyers become sellers, then we sell on their inventory.

So we do not have to really block our capital on inventory so much. And as our sellers keep increasing, and they go online, then we do not have to extend credit. So Ckart, we see real advantage. Now from our standpoint of view and bandwidth point of view, there is an opportunity here where Creative itself could become a Unicorn in some period of time, if we really concentrate around the Honeywell business.

And there is another opportunity in Ckart where also it can do well. But we have to have the right skill sets, the right measures, right matrices to measure the performance of Ckart. And we are kind of in a dilemma whether we because it is a separate business, you have to build in, right? And it is a business where you may have to cash burn and we do not understand any business where cash burn is required, right.

So our DNA is not of that kind. So and while Honeywell distribution, FMSG products all we understand very well. So we internally think that we will keep growing Ckart either through a subsidiary or a part of business to really achieve the Honeywell numbers of growth and then start fueling Ckart as well as scout for right skill set of people to do that, right?

Because currently due to investors like you, at least the resources problem is solved. But second biggest thing for business to succeed is the right skill set of people. So if we get the right skill set for Creative, then we will push the pedal for Ckart, then we will push the pedal there. But right now we think that Creative with lesser effort can really create value for all of us. So that is what we are going to do.

And as we get the right skill set, we will do that. But yes, Ckart considers is very dear to us. And it will keep building efficiency for us. And also it has an opportunity to start becoming a contributor to Creative if we can do the other part of skill sets. So, one endeavor is that now we are going to measure the revenue of Ckart separately over a period of time.

Sunil Menezes: The second follow up question is on I think you touch base today as well when I asked the question at the beginning. You had mentioned earlier that our immediate target is by FY25 maybe around Rs. 2,500 crores and out of that, you mentioned that 30% of the revenue should be from our own brands like the Honeywell or Hyperice you know other stuff. So are we quarter-on- quarter measuring on that? So are we progressing in the right direction in this regard?

Ketan Patel: That is what is my goal sheet. So the board also has my goal sheet. So my goal sheet is all about that business from Honeywell and licensing and our brands should grow up. And when we do our annual numbers also there is a measure to see whether the business is increasing. So for example, for next year we take a modest growth of say 20%, 25%, and we end up between Rs. 1,100 crores to Rs. 1,200 crores. That is the time if Ckart is Rs. 200 crores or Honeywell is Rs. 200 crores then it would be almost 18%, 19%.

Abhijit Kanvinde: Just to add to what Ketan said, our board has given us a clear indication and a guidance that you must do Honeywell or take Honeywell to a size before you add, any other licensees. And that size is between the board has given us a guidance that it should be between Rs. 180 crores to Rs. 220 crores. If you achieve that, then that is not an aberration, and then you can think of adding more licensees.

So, we are going back to the board guidance. So, next year we may not add any more licensees, okay, and focus on growth of Honeywell.

Moderator: Thank you. The next question is from line of Amit from World Foods LLP. Please go ahead.

Amit: Is there an internal target on how many new brands we add for our distribution?

Ketan Patel: So every brand goes through the lens, whether it is a brand which is being built on customer experience or not, that is the case. So, usually we would review almost six to seven brands a year and out of that, we will take two to three brands. Now the current guidance is do not take very small brands, which cannot scale up very well. So I think in a year if we can add two good brands, I think it would be a good number for us. So, two brands a year is what we are looking at.

Amit: And how long is the agreement with the brands? I mean, if they become large enough do they move to their own distribution network we saw it in the case of in the FMCG space with Red Bull? So Red Bull did some work with a brand in India and then eventually moved to their own distribution. So how do we de-risk when certain brands grow?

Ketan Patel: So couple of things are there. There are two cases, right either you have outgrown the brand, the brand might have outgrown you or no longer your objectives meet that per se. So that is the whole reason that when we take up a brand we execute the brand strategy, we look after their after sales service, we look at the training, the brand pays for the point of sale solutions in the stores, the retail POP is the brand pays for it but it is into kind of our control all that POP.

So usually this goes well. So for example, the Hyperice brand which we took up right it is an Inc 500 company from US. Last year, their revenue from Hyperice was $300 million, just in US. We picked it up. They have signed up for three years exclusive with us and then they want us to do Hyperice in three years and they want us to do say sale in another three years of $10 million a year that would translate to almost Rs. 200 crores if we add our margin and other stuff.

So, if all that moves well and we keep adding value add to the brand that relationship will keep continuing but sometimes there may be a change of guard or somebody coming in then Hyperice may think that no we want to go direct to the consumer or something. Here the D2C is also being handled by us in the case of Hyperice because that is the learning we got from GOPRO. So this time when Hyperice came in we said that your India handle Hyperice.in also will manage as a service for you.

So, ideally there is no magic formula that I can say that the brand will stay for a long time but for in our case if you say all the brands average they have stayed with us for more than 12 to 14 years.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

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