Creative Newtech Limited
Q4 & FY24 Earnings Conference Call
May 17, 2024

Moderator: Ladies and gentlemen, good day and welcome to Q4 and FY24 earnings conference call of Creative Newtech Limited. This conference call may contain forward looking statements which are based on the beliefs, opinions and expectations of the company as of this call. These statements are not guarantee of future performance and involve risk and uncertainties that are difficult to predict. As a reminder, all participants' 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 touch-tone phone. Please note that this conference is being recorded. At this time, I would like to hand over the conference to Mr. Ketan Patel, Chairman and Managing Director of Creative Newtech Limited. Thank you and over to you, sir.

Ketan Patel: Good afternoon, everyone. Welcome to Creative Newtech Limited's Earning Conference Call for the fourth quarter and full year ended March 31, 2024. I would like to start by thanking you all for taking time to join us today. On the call with me are Mr. Abhijit Kanvinde, our CFO; Mr. Vijay Advani, Wholetime Director; and Ad Factors, our Investor Relations team.

I am happy to say that we closed the financial year on a strong note. Creative's expansion has persisted amidst the dynamic market changes supported by efficient business framework and selectively crafted product lineup. The year gone by has been particularly eventful for us with several of our initiatives bearing fruit. I would like to take this opportunity to quickly recap the major business updates and milestones that we have achieved during this fiscal year.

To start with, overall, we grew our topline by 24.15% and profit by 77.08%, in spite of our March quarter being negative by around Rs. 90 crores year-on-year. This is due to decline in enterprise business as enterprise business is opportunity business and our minimum benchmark is 20% ROCE. We are also in a period of transition where we want to focus on high growth, double digit, profitable businesses.

Coming to Honeywell, from a base of Rs. 80 crores odd, we grew the business by more than 100% to Rs. 170 crores. We announced the global launch of the next generation of Honeywell branded soundbars through our Hong Kong-based subsidiary, Secure Connection. This launch underscores our commitment to delivering cutting-edge audio solutions to customers worldwide. And we are confident that these soundbars will revolutionize the way people experience sound. We believe this category of product has immense potential for adoption among the masses and grow into a significant revenue on its own.

We also launched our new range of car air purifiers. Air purifier business is a multi-decade growth opportunity business. It's still a newer category, so not much data is available. But we believe that the opportunity is as huge as how air conditioners' opportunity was there 30 years back. Today, almost more than one crore AC are now sold in India. As a leading brand in air purifier category, it is our responsibility to create the market also. Besides this, we launched almost another 50 SKUs for different geographies. Honeywell is growing into a robust business for us and we expect it to contribute incrementally to our topline as well as our profit. We also expanded our brand licensing line of business with the addition of CyberPower PC which is a major milestone in our overall journey. CyberPower Inc is a US-based gaming system giant. Through this licensing agreement, we are not only gaining access to cutting-edge technology, but also aligning ourselves with the global leader in gaming innovation. This partnership allows us to tap into growing demand for high-performance gaming computers, equipments, and accessories in the Indian market. By tailoring our offerings to meet the unique preferences of Indian gamers, we are poised to capture a substantial share of this flourishing industry. Our aim is to set new benchmarks for gaming experiences through various offerings and establish Creative as a frontrunner in the Indian gaming ecosystem.

In terms of geographical expansion, we have taken several initiatives to proliferate our network across overseas market as well. Through Secured Connection, we partnered with Trigon LLC for distribution of our range of Honeywell products in United Arab Emirates. This partnership will ensure that our Honeywell products portfolio reaches customers efficiently in that region, which is a high margin area for us. Furthermore, we are thrilled to have joined hands with PT Bintang Mas Rezeki Nusantara, a leading technology product distributor in Indonesia, to enhance consumer experiences by leveraging their extensive distribution network and Honeywell's innovative product offerings, helping us to establish strong presence in the Indonesian market. Moreover, continuing on our selective strategy to add niche products in our portfolio, we signed up several new brands over the last few months, like Ruark, pTron, Nokia, Dawa**,** Holoware, to name a few. There are several brands in pipeline which we have been evaluating. The momentum that we are bringing into the new fiscal year gives us an optimistic outlook for the near future in terms of both distribution as well as licensing. The rate at which Honeywell business is growing is in line with our strategy to increase our revenue share from licensing business which is a higher margin business for us. Our successful partnership with leaders like CyberPower Inc and Palred Electronics underscores our ability to forge strategic alliances and capitalize on emerging market trends.

Moving forward, our focus will remain on securing more such segments and expanding our presence in those areas with a view to deliver sustained value to all stakeholders. Going forward, we want to simplify our segmental revenue reporting as our business primarily is divided into three categories, licensing business, distribution business, and enterprise business which is part of distribution.

Now I hand it over the floor to Mr. Abhijit Kanvinde who will take you through the financial highlights of the quarter and full year.

Abhijit Kanvinde: Thank you, sir and good afternoon to you all. I will share the highlights of our consolidated financial performance after which we will open the floor for questions. Our financials are reported as per IndAS guidelines. Looking at consolidated Q4 FY24 results, the company reported total income of Rs. 320.44 crores, declining 20.48% year-on-year. Relatively muted sales in enterprise business segment offset the growth in FMSG. However, we are seeing continued demand for several key brands like Samsung, Cooler Master, Honeywell, amongst others. In terms of segmental performance during the quarter, the FMSG segment accounted for 24.69% of revenue, FMCT accounted for 18.98% of revenue, and enterprise business comprised of 56.31% of revenue.

The quarterly EBITDA stood at Rs. 28.05 crores and it was against Rs. 11.49 crores in the previous corresponding period, an increase of 144.05% year-on-year. The EBITDA margin for this quarter stood at 8.75%, higher by 590 basis points as compared to the corresponding quarter last year. Operational efficiencies and higher contribution from Honeywell helped us improving the margin. The PAT for the quarter is Rs. 20.36 crores as compared to Rs. 6.45 crores in Q4 FY23, a year-on-year growth of 215.55%. During the quarter we undertook a slump sale of our Ckart division for a consideration of Rs. 10 crores. The company earned a profit of Rs. 9.9 crores on this transaction which is included in the other income for this quarter. The EPS for the quarter is 15.11.

Looking at the consolidated full year's results, the company's total income for FY24 stood at Rs. 1,740.91 crores, growing 24.15% year-on-year. This was mainly driven by healthy demand for the products like Samsung, Cooler Master, Honeywell, View Sonic, and complemented by growth in the EB sector. EBITDA for FY24 stood at Rs. 69.22 crores as against Rs. 45.12 crores in the previous corresponding period, an increase of 53.42% year-on-year. EBITDA margins for this period stood at 3.98%. Better operational efficiencies coupled with high contribution from Honeywell helped improvement in margins. The PAT for FY24 came in at Rs. 48.25 crores as compared to Rs. 27.25 crores in the FY23, year-on-year growth of 77.08%. EPS for FY24 is Rs. 32.58. The board of directors has recommended a dividend of Rs. 50 paisa per equity share of face value of Rs. 10 and this is subject to approval from shareholders. This is all from our 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 Deepa Shah, an individual investor. Please go ahead.

Deepa Shah: I just wanted to check, sir, if we have any new tie-ups in pipeline for the coming years?

Ketan Patel: Mrs. Shah, usually we are always evaluating brands and products continuously around the year and the process at least takes 3 to 4 months before you can sign a brand. So that's a whole year round process. Currently also we are talking to a couple of brands. If the terms of trade and if all other conditions both parties like, then we will go ahead with that.

Deepa Shah: So do we have any specific target in mind that every year we need to add X number of brands to our portfolio?

Ketan Patel: Usually every year we get an opportunity to add 2 to 3 brands to our portfolio and the brand selection also has a couple of our internal criteria, whether it's an experiential brand, whether it has a good amount of sale in the country where it is present, whether they will have manpower years, all that kind of criteria are there which we do. Usually our thought is because we are in technology business and technology gets obsolete every 2 to 3 years, our thought process is that our business from new age products should be at least 30% to 35% on rotation basis. So whenever a brand becomes 3 years old, we put it into an old brand bucket. So if that brand is doing Rs. 100 business, then we'll have to have a Rs. 30 crore or a 30% business coming from a new brand. So that's what is the internal criteria we follow.

Deepa Shah: Okay, so sir, coming to the marketing of these brands, so is that marketing done by Creative in-house and what is the percentage in terms of expenses, in terms of revenue, or is it done by the brands themselves?

Ketan Patel: So two things are there. The money is paid by the brand through us, because a lot of brands are not present in India, so they use the partner in India to pay for the marketing. That's the first part. Second, certain brands. For example, Samsung would have their own marketing, and they won't require somebody like us to market that. And certain brands like Cricut, which is an experiential printer, which can cut, emboss, print, write on a variety of surfaces. That kind of a brand when it comes here, they usually have a brand strategy which they want us to execute, and our internal team executes that. Sometimes the brand has their own marketing agency and PR agency to build that up. So they do the topline execution and we do the below the line execution in terms of going to the market, road shows and other parts. That's the case. But except Honeywell, for none of the other brands, we pay anything from our pocket for marketing.

Deepa Shah: Noted. And just one last question with regards to Ckart. So like we have sold Ckart, so what was the specific reason of that? And how much percentage of revenue loss can we expect from that in the coming year? And basically how is it going to affect our financials?

Ketan Patel: So two, three things are there. First and foremost, we will not have any revenue loss because Ckart was more of a go-to-market engine where we used to use it for people to order directly on our site. We have before selling of Ckart, we already have another software in place which can help us to take orders from customers which can help our field team to go to the market and take orders that's already in place. The major reason for Ckart was that marketplace was a big opportunity and a B2B marketplace definitely had a lot of traction but the success metrics of a B2B marketplace and a success metric of a physical brand and distribution company is very different. The investors, primarily in our company, are who like physical business. They are really wanting good PAT, good rotation, good EBITDA. That's the case. If we had to build the Ckart business, it is all about lifetime value of customers, cost of acquisition of a customer. It is about burning a lot of money to get these customers. And we were in a dilemma, but then we decided that our balance sheet can't afford burning money for a business and we already have Honeywell and CyberPower. Both are high margin businesses, and we would not be able to devote time nor we had the resources to scale it up. And as you know, right, any opportunity if you don't exploit it in a particular period of time, then that opportunity will cease to exist. So we got a good offer and we said that let's do that. That's the reason. Again reiterating in terms of our revenue or profitability, there would be no loss in that space.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: First of all, I just wanted to understand now this Rs. 10 crores of other income was due to this sale of Ckart division. But still I think we reported other income about Rs. 15 crores -Rs. 15.5 crores around. So what is the other 5 crores?

Abhijit Kanvinde: So normally, if you say, the total other income for this quarter was Rs. 16.29 crores. Out of that, Rs. 10 crores was Ckart. So rest of the major items were exchange formation gains that was Rs. 4.5 crores. Interest on FD that was around Rs. 23 lakhs and MEIS Duty Refund h was around 97 lakhs. So, exports incentive 97 lakhs gain on foreign exchange Rs. 4.5 crores and our rest was other interest and other income.

Deepak Poddar: So majority about Rs. 14.5 crores is due to Ckart and foreign exchange gain, right?

Abhijit Kanvinde: Rs. 4.5 crores, not 14.

Deepak Poddar: So I included the Ckart as well.

Ketan Patel: And this foreign exchange gain actually is, we hedge completely, but the case is that when you import any consignment custom levies, 1% charge. So you have to calculate the dollar 1% higher. But when you remit, it is 1% lower, actually. So that's why, due to statutory, we have to put it into foreign exchange gain. Actually, it's a part of cost of goods only.

Abhijit Kanvinde: Yeah, it is a part of cost of goods. But as per IndAS, you have to report that way.

Deepak Poddar: And then you spoke about so many brands that we have tied up recently in terms of agreements and many more we are looking at. So how do we see the growth, if I have to look at next 2 to 3 years?

Ketan Patel: Okay, so currently what has happened is after the Make in India initiative by our government, a lot of Indian brands are coming up, right? So for example, there's a brand called Holoware. It's a commercial PCs which compete with the likes of HP, Dell, and Lenovo. It's a product which is made in India. 54% of their PC components are now made in India. Now these are technology companies who have this opportunity, and they are looking at somebody who has all India reach, who can help them scale, take to the market. So one is that that kind of brands are coming to us for that. So for example two companies, Palred which was a predominantly online company now wants to enter offline and they approached us and Holoware too. Now looking at some brands like say Cricut, Ruark world over our demographics is in India's favor right. 75% of our population is millennials. The China plus one strategy, so the de-globalization, right? That's also in our favor. So all these brands really want to enter India and most of these brands are premium and are looking at giving a great experience to consumers because the millennials, they value life experiences more than anything else, right? And these kind of brands then kind of want to enter India. These are all new age brands, always connected devices to the internet, and they help today's consumer to either consume content or create content or share content and be a part of that community. So that kind of brands opportunities coming.

Deepak Poddar: Correct sir, but given this new opportunities, so what sort of growth we are looking at for us over next 2 years, maybe some CAGR growth?

Ketan Patel: Yeah, so Mr. Poddar, mainly we have two businesses. One is the market entry business getting brands to India. And second is our licensing business, which is Honeywell business. And we see that there's a huge opportunity and that's our aspiration that every year we can easily grow by at least 25%-30%. And our aspiration is that every year we at least for the next 4 to 5 years kind of increase our PAT by 40% to 50%. That's the aspiration.

Deepak Poddar: Next 4-5 years topline by about 25% to 30% and bottom line by about 40% to 50%, right?

Ketan Patel: Yeah.

Deepak Poddar: Okay. But that's very clear. And just one last thing, what's the margin differential in licensing versus distribution? I presume licensing would have much higher margin, right?

Ketan Patel: Yes. So licensing, usually the gross margin is close to 35%-36%. And in the distribution space, it varies from 7% to 10%, depending upon the mix of the products that point of time with sales. That's the case. But both businesses cannot live without each other because distribution business really amortizes the cost, increases our visibility, gets our foot in door, and also helps us to see the market trend. That's the case. So on the back of distribution business, if you can build a good licensing business, it's a great opportunity. So we had Honeywell till now. Now we have also the CyberPower PC. It's a US number one e-sports gaming PC brand, which has come here. And they sell online and they sell through Amazon and they sell through Best Buy and similar channels are available here and we have just tied up with them. So that will be our second brand in licensing. So that's the aspiration that once Honeywell grows to the threshold of say Rs. 270- Rs. 280 crores, then we would have one more licensing brand. That's the aspiration.

Deepak Poddar: Correct. And what would be our revenue mix in licensing versus distribution right now?

Ketan Patel: Currently, it is probably 1,750, right? Roughly still licensing close to 11% to 12% of our business. Aspiration is slowly take the licensing business to close to 25% to 30% in the next 2 to 3 years.

Deepak Poddar: Next two to three years. And that will drive your PAT right? By 25-30%, your margin has to increase?

Ketan Patel: Correct. And we are quite confident on that because now we have a grip on launching products. And Air Purifier category, we are seeing a good amount of traction there. In the home audio segment, especially the soundbars, also we are seeing a good traction. Now we also have partners in the remaining countries. The licensing business is not just for India. It is for 38 countries. So now already we are present in some other countries also. So we are already in Middle East, we are already in Indonesia, we are already in Singapore. So that also is going to help us to grow the business overall.

Moderator: Thank you. The next question is from the line of Jyoti Singh from Arihant Capital. Please go ahead.

Jyoti Singh: So just wanted to confirm that topline, we have guided 20%-25% growth and bottomline we are expecting 40%-45% growth?

Abhijit Kanvinde: Yeah, that's our aspiration, it is not the guidance.

Jyoti Singh: And sir, just wanted to understand this new brand that was supported by the government, made in India. How big is this opportunity we are thinking going ahead in next 3 to 4 years?

Ketan Patel: So government also after Make In India has its own buying portal called GeM, Government e Marketplace. Last year, a business of total 3 lakh crores happened on that platform. And electronics also is a key part of that space. Now on that platform, you cannot have products listed which are from where your borders touch. You cannot have any products from neighboring nations where your borders touch. So that's a great opportunity for Indian brands to really grow in that segment. And because of the PLI also, a lot of brands will grow. So the opportunity is huge. It depends upon how our manufacturers and brands really scale up.

Jyoti Singh: On this other segment that we have Honeywell is our biggest client, so any other in the pipeline or in active discussion we are expecting?

Ketan Patel: So currently we had Honeywell, now we have Cyberpower, so currently these are the 2 only which are there on the plate in the licensing space.

Jyoti Singh: So any other big brand that we are expecting or in active discussion, sir?

Ketan Patel: No, in the licensing space, no, in the distribution space, yes, but in the licensing space, no. So you have something like Honeywell. Honeywell is our licensed brand**,** so nothing on the licensing space currently.

Moderator: Thank you. The next question is from the line of Pooja Thakkar from Seven Islands PMS. Please go ahead.

Pooja Thakkar: Sir I have one question. Creative has recently signed a brand licensing agreement with Cyberpower for gaming computers, so what kind of opportunity with respect to this gaming computer you foresee in India?

Ketan Patel: As I mentioned previously, India's millennial population is 75%, of our population is less than 35 years of age and they prefer a lot of online interaction. They play also a lot of games where there is a large community playing the game and they play games with people whom they don't know also. The company we tied up has almost 33% market share along with them, there is another company called iBUY POWER, so they together have given the license for India both put together they were 66% market share and US both put together do almost a business of a billion dollars. Coming to data, IDC says that the gaming overall is growing at a space of 23%-24% the e-sports gaming and e-sports gaming is also now a part of Asian Games also, so it is a huge opportunity. Second we have the first mover advantage today if anybody wants to buy a gaming PC, there is no one website which will come to your mind and the websites which are there also they don't have their configurators where you could configure your PC right from scratch**,** they don't have frames calculator because that is very important aspect for a game. Plus, you also require partnerships to come from NVIDIA, Intel, Microsoft, AMD. So with our partner, all these partnerships also come on a platter plus they are our tech partners, so they have been in this business for 25 years, so how to build a great website, how to sell on a website all that also they bring to the platter. What we bring to them is the on ground logistics, the knowhow of the Indian market and we have picked up the best team from the industry who have been in that business and I think we will be by 22nd of this month the website will also go live, so by the next quarter we will be able to tell you that how we are striking on that.

Moderator: Thank you. The next question is from the line of Rohan Patel from Turtle Capital. Please go ahead.

Rohan Patel: How big is Honeywell opportunity for us at this moment like it is a big brand, So can we expect that Honeywell can be a Rs. 500 crores business for us in 5 years to 6 years?

Ketan Patel: Yes, definitely that is our aspiration that the Honeywell business should become a Rs. 500 crores business in the next 2 years to 3 years and I will tell you why because if you see overall in the categories we are, in the Honeywell space we are in the air purifier category. Air purifier almost is a large opportunity, I said in my opening remarks that it is like how air conditioners were there 30 years ago. Last year, 1 crore air conditioners were just sold in India. So it is a multi-decadal opportunity in air purifier and if air purifier does well also it could be close to that. Second category is Honeywell Passive business, so Honeywell Passive is our networking cables business and if you see my Indian counterparts also, they would do around Rs. 800 crores, Rs. 900 crores, just one brand is doing Rs. 800 crores to Rs. 900 crores in that Passive business. Plus we have audio, audio is again a 2 billion to 3 billion means a Rs. 25,000 crores opportunity for that. In the audio space, Honeywell brand resonance is not so great, but I am sure that the opportunity is so huge that we can really make some dent with the Honeywell space. So looking at all this, if we get great products and if we get the right skill set, we can do very well. Plus we just don't have India as an opportunity we have another 38 countries also as an opportunity. So yes, that is why we aspire that we should do Rs. 500 crores in Honeywell.

Rohan Patel: Talking about Cyberpower, so we have started the manufacturing of Cyberpower PC?

Ketan Patel: So I will just say we will not be manufacturing, we will be assembling the PC's and so basically it is that you go on a website, you decide what is your budget, what kind of a PC you want to buy and then you start picking up products, cabinet or power supply or motherboard or cooler hard drive or memory, the type of monitor, the type of keyboard, the type of mouse, all that and it also keeps telling you what will be the performance of that PC and then once you order it your custom made PC is then assembled in a small factory and then it is shipped to you directly and plus you get 3 year warranty, 5 year warranty, you get onsite warranty all that you get with that.

Rohan Patel: Understand the India is dominated by millennials and young crowds, but still the gaming culture in India is at nascent stage. It is not that much big as it is in US or it is in China, so what steps are you taking with Cyberpower to increase the penetration or creating a gaming ecosystem?

Ketan Patel: So what is the gaming PC basically? So there is a big creator’s community also. So your consumer has 3 avatars. The first consumer avatar is the young millennial who want to play games, that is the first avatar. The second avatar is the creator’s community, so people who do animation, people who do ad films, do products they require a high performance PC component. So third somebody who requires to do stock trading he require faster desktops for SFT trading, somebody in mining of crypto, so all this requires high performance computer component. Gaming is the fastest and it has the best computer components. Today with the boom of AI, all this machine because it has an NVIDIA graphic card all these machines can go to build a large LLM network, so that also is a part of that. So gaming, as you see the core component in the creator's community, the core component in crypto currency trading or everywhere else would remain the same, so it is a very huge opportunity in that space. Second, we already have the ecosystem because we do a brand called Razer, which is an apple of gaming. We do a brand called Cooler Master; it is also a big brand for us. So we really are very gung-ho and we have seen in Cooler Master also, so many of our power supplies are not bought by gamers but are bought by server companies. So many power supplies go into people who are making their own servers or data centers and other stuff. So there is a huge opportunity in that space.

Rohan Patel: End consumer is well diversifying Cyberpower PC?

Ketan Patel: Yes.

Rohan Patel: And another question is how much will Cyberpower PC would add in to your topline in next 3 years-4 years? Like will it take some time to create a market?

Ketan Patel: So when we went on the drawing board, our aspiration was to do in 5 years close to $ 80 million to $100 million in that space, but we are still learning and India is a very different market from elsewhere. So I will be able to better answer you in couple of quarter's time and second it is a part of our subsidiary and I don't run that business. There is a gentleman, Vishal Parekh, who runs that business, so over a period of time he will be able to give a better idea and let us launch this 22nd May and then we will see how it goes.

Rohan Patel: And just one last question, so as of FY24, how much is contribution of Honeywell?

Ketan Patel: Current year is 12%, so Rs. 170 crores in a total business of Rs. 1,713 crores around Rs. 1,700 crores, so 10% will be the contribution.

Rohan Patel: And how much it was in FY23?

Ketan Patel: In FY23, we did Rs. 1,375 crores and in Rs. 1,375 crores, it was Rs. 80 crores, it was almost 5.8%-5.9%.

Moderator: Thank you. Our next question is from the line of Aniket Redkar, an Individual Investor. Please go ahead.

Aniket Redkar: So I just want to understand that is there any new market or the region that the company is targeting for expansion?

Ketan Patel: Currently, no. Currently because we have 38 countries, we want to first console and establish that and go further for Honeywell. So out of 38 countries still we have reached 12 -13 countries, so we want to build that and go further.

Aniket Redkar: And how do you plan to increase that in the existing market?

Ketan Patel: Usually first you take manpower in that country, so currently in Middle East we have the Middle East sales director, we have GCC sales director, we have the Passive components, sales guy plus we have marketing team there. So then this team once we have that in place, then we will get distributors in place. Check whether all certifications to launch product in that country is there and then take it further. So for Middle East all our certifications are in place, all our manpower in place. Similarly for Singapore, so Singapore is a smaller market, but if you want to go to Southeast Asia, it is a very strategic market. So Singapore we have Christina, who is our director of Southeast Asia under her leadership, we opened up Indonesia, Thailand now Malaysia is opened up, Singapore is opened up, so that is the plan. Then we have also seen that countries which have a higher population, we want to go there. Then Egypt and Turkey and South Africa these countries can really pop up. Saudi Arabia pops up, we have a person in Saudi Arabia also. But Egypt and Turkey, there is a huge problem in terms of exchange. So if we get the right partner who is ready to pay cash, pick up the material on their own risk, then we will go there. Egypt Amazon we just started. We picked up order with Egypt Amazon also. And as for building a consumer brand nowadays first you have to build the brand online, you require number of reviews you require number of glance views then the brand gets built so we have spent a lot of time on Amazon currently if you see most of our products air purifier is more than 3,000 reviews, surge suppressor is more than 3,000 reviews, audio we are building that space. Once that review starts flowing in then you will have a good traction in the coming times. So as we get the right skill set in terms of manpower and our certification is almost done, but in certain spaces it is that though you have the certification done, you have to transfer that certification on the distributor, so as we get the right distributors, we will go ahead.

Aniket Redkar: And Sir, are we leveraging any technology to stay competitive in terms of cost cutting?

Ketan Patel: Currently, so whatever we can do in our space like having the right ERP software, having the right system and processes, having the right website builders, having the right sales management tools, all that is in place. AI as of now only like how a KG student uses, so to generate your content for your social media, to generate your content or dealer postings all that, our marketing team does that, but are we doing anything on the cusp of cutting edge technology in terms of our system processes and cost cutting, currently, no.

Aniket Redkar: And so one last question, what is your outlook for the next quarter and the next full fiscal year? Are there any specific milestone or targets you aim to achieve?

Ketan Patel: So as I answered in my previous question also every year we want to grow our topline by 25% to 30% and bottom line the same around 40% to 50%, so that is what is kind of we are looking at.

Moderator: Thank you. The next question is from the line of Jyoti Singh from Arihant Capital. Please go ahead.

Jyoti Singh: My question is on margin side, what are the expectations going forward?

Ketan Patel: I will ask Abhijit to take that question.

Abhijit Kanvinde: Overall margins in distribution business as Ketan mentioned is in the range of 8% to 10% and in this I am talking about gross margins and overall margins in Honeywell business is in the range of 34% to 38%. Enterprise business also gives us a margin in the range of 1.5% to 2% that has been the gross margin. So this is a blend of these 3 businesses as you are aware, as and when we will increase contribution of Honeywell business then our margin structure would improve. Today we are at a PAT margin at consol level of 2.36, I am removing the extraordinary tax after tax profit of Ckart, so we are at 2.36 almost. We should going forward in coming years as our aspiration is to grow Honeywell and we are working very hard towards that and if that happens, then within 2 years-3 years the PAT margins will look in the range of 4.5% to 5.56% that is going to be our endurance.

Jyoti Singh: Just wanted to understand this 1.5% to 2% for which segment?

Ketan Patel: That is the enterprise business segment, so usually my business it would be futile to look at the gross profit margin basis. We have an internal about ROCEs, so we usually look at any business which gives us 20%...

Abhijit Kanvinde: Today our ROCE is at around 23% for the company.

Ketan Patel: So if anything which can give us a ROCE about 20% is a good business.

Jyoti Singh: So these are guidance on the gross margin side, not on the EBITDA margin side?

Abhijit Kanvinde: No.

Jyoti Singh: What are expectations on the EBITDA margin side, sir I think 7% to 8% that we are estimating?

Abhijit Kanvinde: Today, yes, we would like to move from 4.5%, 5% to almost 8% to 9% that is the endeavor and the aspiration.

Moderator: Thank you. The next question is from the line of Manoj an Individual Investor. Please go ahead.

Manoj: First of all congratulations on a wonderful set of numbers. So just wanted to ask that if we exclude the other income from the sale of Ckart, our profit margin would be lower, so like what levels of EBITDA margin can be considered sustainable?

Abhijit Kanvinde: So clearly Manoj, as I said, at a consol. level we have reported a PAT margin of 2.8 and an EBITDA margin of 4, if you remove post tax effect of the profit which is generated from the Ckart**,** your consol. margin as a percentage goes to 2.36 and EBITDA would not fall so drastically, so it will be around 3.6, 3.7, so my point there is with this we are aspiring to go take this EBITDA to almost 7%-8% or more and PAT from 2.36 from this level to 4.5%, 5%. This has been the aspiration. What you have to remove is Rs. 7.71 crores from the EBITDA and PAT, so you will get the figure.

Manoj: Sir just my last question was about basically the motive behind the share swap agreement to increase our stake in the Secure Connection Limited if you could answer that that would be great?

Ketan Patel: So in Secure Connection, we had an early investor in that space and when we used to do a consol. obviously, the minority share would go out and it was not adding any value to him plus it was not a tangible holding for him that was the case.

Abhijit Kanvinde: Basically in a closely held company or a private limited company what happens is if it is not listed then exit to be given for a shareholder is very difficult you will appreciate. So this person saw an opportunity and he got, I think 2x to 2.5x his investment overall in 4 years - 4.5 years he saw an opportunity, please appreciate and our entire Honeywell business which is profitable business is there in our subsidiary Secure Connection Limited Hong Kong. So any improvement in the holding by Creative Newtech Limited we will flow more money to the consolidation and ultimately to the shareholders. Do you do you agree. So what we have done is we have taken our investment in phases we have done it in 2 tranches. It was a herculean task to convince existing investors and we did it in 2 tranches. So from 52.5, we took it to 77.5, I think, so now there are only two shareholders, one is Creative Newtech Limited and one is Mohit Anand at 22.5.

Moderator: Thank you. The next follow up question is from the line of Akash Jain from GT Financial Services. Please go ahead.

Akash Jain: Sir, even though our other income increased because of sale of Ckart, but our overall total income for the quarter fell by around 28%, so what was the reason for the same?

Ketan Patel: You are talking about the topline?

Akash Jain: Yes, sir I mean the total income?

Ketan Patel: When you say income is the turnover or the profit?

Abhijit Kanvinde: Total income has 2 components, one is the sales, revenue from operations and another is other income. So I am talking of consol. numbers the growth in revenue from operations has been from Rs. 1,376 crores to Rs. 1,713 crores. The other income obviously has grown from Rs. 9.49 crores to Rs. 20.28 crores if you knock off almost Rs. 10 crores of that, then your other income becomes Rs. 9.49 here and it is 10.28 almost. What has fallen in the other income from operation, if you care to look at, is the export incentive income from export incentive last year the income from export incentives was Rs. 16.53 crores to Rs. 7.5 crores. Why has it fallen in spite of increase in our turnover of enterprise business and exports, the reason being that there is a change in the incentive calculation structure it is now ad valorem and earlier it was calculated on a per piece basis if I export something I used to get a per piece export incentive. So in ad valorem, the rates are lower and therefore the calculation of incentive has gone down for us, so have I answered your question?

Akash Jain: Yes, sir. And what led to a significant drop in the revenue for EB?

Ketan Patel: EB is a very opportunistic business if we do not make a ROCE of 20%, then we will not do that business because capital is limited and we want to put that capital on high margin business. In the month of JFM overall traction on the EB business was lower and we could not make that ROCE, so we did not go for that business that is the only case. And overall, because that business is between 1.5% to 2% gross margins we only do it when it is an opportunity business.

Akash Jain: And my last question is that it seems that pTron seems like a high volume and low margin brand, so what impact will there be on our revenue and margins?

Ketan Patel: So committed margin with pTron, we have already double digit, it is between 10% and 12%. It is online only brand. They want to get into the channel and they are Indian company, so the supply chain overall is much shorter. So we think in pTron, our ROCE will be close to 32%-33%. So it is a good business to be in if we can do higher volumes, say we feel in pTron for the first year, if we can do Rs. 30 crores in the next year Rs. 100 crores it is a good business to be in.

Abhijit Kanvinde: We have just started pTron, so it will take time to settle down, this is our aspiration.

Moderator: Thank you. Ladies and gentlemen, we will take this as a last question. I now hand the conference over to Mr. Ketan Patel, Chairman and Managing Director of Creative Newtech Limited for closing comments.

Ketan Patel: Thank you everyone once again for your participation in our Q4 and FY24 Earnings Call. In case of any further queries, you may get in touch with Adfactors PR or feel free to get in touch with us. We look forward to interacting with you in the next quarter. Thank you so much.

Moderator: Thank you. On behalf of Creative Newtech Limited, that concludes this conference. Thank you for joining us and you may now disconnect your line.