

**“Creative Newtech Limited Q2 FY '23 Earnings
Conference Call”**

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

**MR. ABHIJIT KANVINDE – CFO, CREATIVE NEWTECH
LIMITED**

**MR. VIJAY ADVANI – WHOLE TIME DIRECTOR, CREATIVE
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Moderator: Ladies and gentlemen, good day, and welcome to the Creative Newtech Limited Q2 FY '23 Earnings Conference Call.

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 & Managing Director. Thank you, and over to you, sir.

Ketan Patel: Good morning, everyone. Welcome to Creative Newtech Limited Earnings Conference Call for the second quarter ended September 30, 2022. I want to start by thanking all of you for taking the time to join.

On the call with me today are Mr Abhijit Kanvinde – our CFO, and Mr Vijay Advani, our Whole Time Director.

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

Our Second quarter results were stronger than expected, with consolidated sales and adjusted EPS ahead of our outlook. The sales comparison is our sweetest quarterly compare of the year and even represents strong growth over our Pre-COVID base of FY22, reflecting the strength of our brands, ongoing consumer loyalty and solid execution.

Consistent with our track record of adapting quickly to changing consumer preferences and highly dynamic operating environments, we are planning several new initiatives designed to reduce the total cost structure of the company and unlock new efficiencies.

We are excited to be in position this FY23 to use the strength of our results and balance sheet to make long-term investments needed to catch up with our rapid growth over the past several years and to invest in the building blocks and capabilities we believe will create incremental revenue and earnings growth during the rest of Phase-II, i.e., half year H2 FY23. We like our chosen initiatives, remain focused on leveraging our diversified portfolio and expect to continue developing additional opportunities to supplement future earnings growth as we head into FY24.

We have robust plans to mitigate the market pressures, including revenue management initiatives, ongoing cost management and supply chain optimization. On top of that, the streamlined operating model will further support our margin efforts. We are also working with our partners to help them grow their categories through innovation while emphasizing our strong value proposition to give consumers more reasons to choose our brands.

Looking ahead, we are focused on improving our D2C services to Brands as we launch new D2C platforms this financial year for Hyperice and Olympus and are closely working with brands to scale up their D2C websites. Also, we are evaluating more brands to add to our portfolio during the year, which will help us achieve higher growth through higher-margin products and a quick working capital cycle.

Furthermore, we are back with our Annual Roadshow “Creative Connect” this year in which we have planned to visit eight new locations: Bhopal, Bhubaneswar, Dehradun, Jammu, Kolkata, Patna, Varanasi and Vadodara in November and December 2022 to showcase our product basket to the partners present at those cities and nearby areas.

Our business and vision far exceed just distribution. Today we are well established as brand licensees, with a long-term agreement with Honeywell, and are building further on the line of business. This also garners the attention of other global brands looking at brand licensing as a beneficial approach. We recently rearranged our segmental structure on the distribution front to better align with our business, design, and strategy. Our brands are now categorized into the following four segments:

FMSG - Fast-moving social-media gadgets, these comprise new and niche products that appeal to the younger demographic and have a fast turnaround. The brands are driven by social media penetration and wide adoption. This is one of the fastest-growing and higher-margin segments. FMCT - Fast-moving consumer technology, this segment includes established consumer products that cater to personal and organizational demand, such as Samsung, iBall and ViewSonic. EB - Enterprise business, this comprises products supplied to enterprises and of high volume. Some brands in that category include MSi, Phillips, AOC etc. FMEG - Fast-moving Electronic goods, this segment covers our alliance with Reliance, through which we offer home appliances, bulbs, lights from brands such as BPL and Kelvinator.

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

Our license agreement with Honeywell continued to grow stronger. We are pleased to announce that we have expanded the geographic outreach to 38 countries for Honeywell. We are constantly working to increase our footprint in these regions. This allows us to further increase our scope in terms of geographies and our license business overall. We will also work towards scaling up this line of business in this fiscal year. Given that we are present across multiple channels, it gives us substantial leverage to reach a broad market base. The synergy from Honeywell business will continue to grow this fiscal year.

Coming to Ckart, Ckart is our online digital B2B e-commerce platform that will aid in the growth of our businesses while catering to existing and new customers with nominal additional costs. It hosts our customers in the supply chain and enables them to transact and share the products with their buyers. This allows the users to share their inventory and transact with each other. It aids higher volume and expands the product portfolio offered through Creative Newtech. Ckart will continue to be our one-stop solution for customers and improve the working capital cycle and profitability.

I now hand it over to Mr. Abhijit Kanvinde, who will take you through the financial highlights of Q2 and H1 FY23.

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

Our financials are reported as per Ind AS guidelines. Looking at Q2 results, in the quarter ended 30th September 2022, the Company reported total income of Rs. 326.27 crores, growing 35.36% year-on-year. This was partly since last year's corresponding period was impacted by COVID induced slowdown. Growth was also supported by Enterprise Business and Fast-Moving Computer Technology segments and the demand for products like Samsung, Honeywell, Cooler Master, ViewSonic amongst others.

The EBITDA stood at Rs. 13.47 crores as against 8.67 crores in the previous corresponding period, an increase of 53.1% year-on-year. The benefit from better gross margins of Honeywell products has offset the higher other expenses leading to better EBITDA margins. The net profit for the quarter is Rs. 9.10 crores as compared to Rs. 5.84 crores in Q2 FY22, year-on-year growth of 55.79%.

Now I come to first half year results. In the first half year ended 30th September 2022, we reported the total income of Rs. 570.31 crores growing 51.24% year-on-year. Growth was also supported by Enterprise Business and Fast-Moving Computer Technology segments, and the demand for products like Samsung, Cooler Master, ViewSonic amongst others.

The EBITDA stood at Rs. 20.94 crores as against Rs. 12.78 crores in the previous corresponding period, an increase of 63.7% as compared to previous period. The EBITDA margins stood at 3.67% as compared to 3.39% in the previous corresponding period. The better EBITDA margin is mainly in view of the better gross margins of Honeywell products.

The net profit for the half year ended 30th September 2022 is Rs. 13.13 crores as compared to Rs. 7.07 crores in the corresponding previous period, a growth of 85.77%.

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 Suraj Nawandhar from Sampada Investments. Please go ahead.

Suraj Nawandhar: Sir, my first question is, we have done very good on P&L side, but our CFO, cash flow from operations is still negative.

Ketan Patel: Yes.

Suraj Nawandhar: When can we expect that to become positive on a consistent basis, sir?

Ketan Patel: So, first of all, Mr. Nawandhar, yes, we are cognizant of the fact that we will have to improve the negative working capital cycle. We were focusing last quarter also, but usually we have to carry a bit of high inventory because of the season time, and the supply chain is still not getting into place. But by the end of this fiscal year, we should be at least in a better position than today on the working capital cycle.

Suraj Nawandhar: And sir, last ConCall we highlighted that we are looking out for some business head for Honeywell business. Is there any update on it?

Ketan Patel: I didn't get the question. We were looking at what?

Abhijit Kanvinde: Honeywell.

Suraj Nawandhar: A new business head for Honeywell.

Ketan Patel: Mr. Nawandhar, we were actually looking at business heads not in India for the Honeywell business. We were looking at finding good people to take Honeywell abroad. So, currently, we have Mr. Habilash Hamza as our Director, Middle East sales for Honeywell. Also, we are already in process of interviewing the Sales Director, Southeast Asia, and he should also be finalized this quarter. Also, we have signed up our distributor for Singapore and Malaysia. So, we should start our operations for Singapore this quarter, and hence we are looking at a business head for that. We are quite qualified in terms of doing the Honeywell business in India, but this new tariff phase is why we require somebody who has a local language skill sets and also has local connects. So, that's what we were looking at.

Suraj Nawandhar: Sir, this new hirings which you are doing, so will it put a pressure on our margins in the short run?

Ketan Patel: No, it would not because we our support center and our product development center is back in Gurgaon, New Delhi, and we are just looking at two or three people in each country. And it will be easily offset by the new orders we get and the new sales we get from these countries.

Abhijit Kanvinde: Yes. And we are expecting higher gross margins from these countries. For example, in Middle East, you get at least 5% higher margin than India. Okay. So, these expenses are well budgeted, and I don't think that will put pressure on us on the gross margin front. Also, on the overheads front, when you are opening new country, we are cognizant that we will not be increasing high overheads there. So, we will be taking a small office, which will have only seating capacities or Wework types in the beginning till the time we settle down properly.

Suraj Nawandhar: And sir, what was the Honeywell business in this quarter?

Ketan Patel: So, totally, we are now with the Honeywell business of 50 crore plus in this half year. So, we were at 21 crores in the first quarter, and now we are 30 crore in the second quarter.

- Suraj Nawandhar:** And sir, we had guided for some Rs. 200 crores, if I'm not wrong.
- Ketan Patel:** Yes. When the initial guidance was that. Last quarter we said that we would be between Rs. 120 to 130 crores, and that's where we would be in the Honeywell business this year.
- Suraj Nawandhar:** And sir, in your opening remarks, you highlighted some new initiatives that you are taking for better cost efficiency. Can you elaborate more on it because your voice was breaking that time?
- Ketan Patel:** Yes. So, we are trying a couple of things. Ckart is scaling up very well, and plus, a lot of new NBFCs have come which do Buy Now Pay Later for our customers without any recourse to us and without any effect to our balance sheet. So, we have tied up with three to four NBFCs so that the working capital cycle for us improves very, very much.
- Second, we have taken the process optimization process, which is happening from the last four months. We have a special focus group, which is checking each process and looking at how we can optimize our workflow which can in turn reduce the cost.
- Lastly, during the COVID times, we went up and opened up seven distribution centers across India. So, that will also start helping us now in reducing the logistic cost overall.
- Suraj Nawandhar:** That's great, sir. Thank you and all the best.
- Ketan Patel:** Thank you, Mr. Nawandhar, for always being on the call. Thank you so much thank.
- Moderator:** Thank you. The next question is a follow-up question from the line of Suraj Nawandhar from Sampada Investments. Please go ahead.
- Suraj Nawandhar:** And just last one suggestion that can we give separate numbers for Honeywell business every quarter in our presentation or in our press release so that it would be easier to keep a track of it?
- Abhijit Kanvinde:** Sir, actually, it's very difficult to do that because we are not allowed to give any futuristic statements in the presentation. So, for the past if you are saying, then yes, we can. We can. For the future, we cannot.

- Suraj Nawandhar:** No,. Not for the future. I mean, for the quarter gone by, how much Honeywell business we have done? And what are the margins? And what is your outlook?
- Abhijit Kanvinde:** Yes. That we can do, of course. It's a valid suggestion. Going forward, we will do it.
- Moderator:** Thank you. The next question is from the line of Mihir Dhami from Lucky Investment Managers. Please go ahead.
- Mihir Dhami:** Sir, after the quarter, what would be the revenue target for the year? Previously, we had Rs. 1,200 crores for FY23. So, how does that shape up now?
- Ketan Patel:** I think we are on course to do between Rs. 1,150 to 1,200 crores, if that was your question.
- Abhijit Kanvinde:** Your question was not audible, sir. Can you repeat it?
- Mihir Dhami:** No, no, it was answered by Ketan bhai. And after that, how much growth are you looking at year after year?
- Ketan Patel:** So, next year should be close to Rs. 1,600 crores. That's what we are projecting if we hit Rs. 1,150 to 1,200 crores. But from the next year the whole focus is not to increase the other businesses, but just to concentrate on the Honeywell business, because the economies of scale required to sustain the Honeywell business, at Rs. 1,200 crores, we will start having that. So, then all incremental efforts we want to just put on the Honeywell business.
- Abhijit Kanvinde:** As you know, if you are not top line driven, and if you are focused on Honeywell, then possibly we will end up with higher EBITDA margins and higher PAT margins. So, that's going to be the strategy, but there is going to be organic growth from other brands also, which are more than 20, 25 brands.
- Mihir Dhami:** So, that is that. Other than that in the Honeywell business, are you all facing any challenges to scale up because of the macro situation?
- Moderator:** Sir, please go ahead.
- Mihir Dhami:** My question was are you all facing any challenges in the Honeywell business because of the global macro situation?

- Ketan Patel:** Currently, this is the season for the Honeywell air purifier and other stuff. So, I don't think this quarter should be a challenge, but looking at overall international market and the inflation figures, January, February, March quarter abroad could be a problem. India still the consumerism story about mid to high-end consumer products is still there. So, we don't see a challenge this quarter. Next quarter also in India we don't see a challenge, but we will have to see how abroad pans up.
- Moderator:** Thank you. The next question is from the line of Satish, an individual investor. Please go ahead.
- Satish:** Sir, regarding the brand licensing model, so currently we have Honeywell in brand licensing. Are we in early state of talks with any other international brand in this model of business, sir?
- Ketan Patel:** Yes. So, actually, we were approached, Satish, by a couple of brands for the brand licensing space. But the guidance from the Board is until you don't hit Rs. 250 crores of Honeywell business don't take any other licensing because they don't want us to defocus on that. And we have two obvious routes in the future, either to take a licensee of another brand or if there is an opportunity to buy a brand and own the brand completely. So, probably in another next three to six months, we would decide upon that.
- Satish:** And also recently we launched home audio for Honeywell. So, how are these products being received, sir?
- Ketan Patel:** I have to be very frank with you. Their response has been lukewarm because there were certain changes on the Amazon buying site. So, Amazon had these alpha sellers which it is slowly disintegrating, and our strategy was to go online first and then offline. So, Honeywell, while the response has been lukewarm here. In Dubai, because Amazon there has a very different model, it is doing very well. In the all the SKUs that we have launched, the Bluetooth speaker and the sound bars are getting very good feedback from the market. We will have to work out on our quality of the TWS or the air pods. There we had some challenges that we have worked out, and we are launching new airpods in that category. Hopefully, we will start getting good traction in that also by the start of the next quarter.
- Satish:** And regarding Hyperice, what is the business in Q2, sir? What is the number?
- Ketan Patel:** So, Hyperice currently we have reached around Rs. 75 lakh of sale per month, and it's a 12 to 15% gross margin business. This business we think

once the seeding happens very well, then this business has a chance to at least double every year. So, that's what we are projecting on the Hyperice, and they launched a couple of new products, which will be now available from the first quarter in India, and these products have been really received well in US and the Southeast Asian markets. So Hyperice business, we are quite bullish about that from the next fiscal year because it's more of an experiential product people have to use the product and feel the product and then they buy. So, that's where we are.

Moderator: Thank you. The next question is from the line of Mitul Mehta from Lucky Investment Managers. Please go ahead.

Mitul Mehta: I am sorry, I have actually logged in a little late. So, forgive me if I repeat a question. Sir, I just wanted to get some sense on how our brand licensing business is shaping up? Because we have done several alterations in terms of product portfolio. We initially launched airpods, didn't do very well. Now we are for the remodeling it and relaunching it. Similarly for other products also, we are doing the same. Now, we have several licensees in terms of Honeywell products. Some are doing well. Some are not doing well. So, in the hierarchy, if you just help us to understand which are the products which are doing well, and which are the products which are not doing well? And what is the roadmap towards improving the product quality and scaling up the business? So, if you can on the domestic side as well as on the international side?

Ketan Patel: A very good question, Mitul bhai. So, there are three categories in the Honeywell product portfolio. First category is the Honeywell Electronic Essential series where we develop products around the three screens which we use every day, and that's your mobile phone screen, your laptop screen and the TV screen.

So, we build products that your experience around these three screens becomes better. And that business was the first licensee which we got, and we started with that business. That product business is doing extremely well. We are almost number two, number three in every category of these products what we have launched. The build quality of this product and the acceptability of this product have been very good, and we have not faced any problems in that. Both in India and abroad. In abroad, we have found that once we started going abroad, our structured cabling products are very well received there, because the market is very less cluttered there plus only in the structured cabling space, there are premium brands only available there. So, that is the first category. So, to summarize for the first category, in India and abroad, we don't see any challenges into that.

The second category what we launched was air purifier category. The quality of the air purifier is really, really good, and well received. This is the first year where in the air purifier category space, we have actually released media ads in The Times of India Gurgaon and Delhi Times. And these ads have been well received. The benchmark to see whether the ads have been well received the day when the ad is released, what are the glance views, GVs on Amazon, and every day the ad was released, the glance views were almost double. So, 2 lakh people were viewing our products on Amazon. That day, the views went from 2 lakhs to 4 lakhs. The season for air purifier starts from 14th of November, and it lasts till February. And currently, we are seeing a lot of traction on that space.

The air purifier space, again, in the Middle East has a very good response because Middle East also has a lot of internal air pollution problem because of sand being there. And as we go to Southeast Asia, we will have to have air purifier with humidifiers built in inside. So, that product has also been developed. In that also the build quality and the product, both the places have been very good.

Coming to audio, that's where we faced certain challenges. One of the key factor was that we launched the whole of audio products during the COVID time, and the whole development of the product was done out of India without visiting the factories in China. In that we launched distinctly four categories. One was airpods. Second was headphones. Third was Bluetooth speakers. And fourth was connected sound bars.

In the category of sound bars and Bluetooth speaker, the quality is well received, and the product is finding good traction abroad. In India, this category has primarily moved online, and the competition is fierce online. So, here it's taking a little time to get popular, but abroad that has kind of done well.

On the airpod quality side, people found the sound a bit low here, while all the testing and everything for the product was done beforehand, but sound is a perception from how a user feels that. So, that inputs have been taken and the new range of airpods will have a larger base sound, and also it would have a larger output sound. So, on the airpod side, we didn't launch airpod abroad, because we had launched it in India and we wanted to go with a perfect product abroad. So, the new range of airpods we will start hitting from this January. We are launching a connected sound bar in January, which is the physical wire sound bar for the market. So, audio would take a little bit of time, but audio is the category which will get us maximum growth. And I hope I have answered your question well.

Mitul Mehta:

Ketan bhai, this space is a pretty much crowded space where the competitive landscape is far more aggressive. We have seen companies like Boat and all who have been able to master the art of building up cult in the audio related category. We seem to be sort of struggling for almost a year and a half and we are not able to get the product right. So, is there some sort of a technical difficulty or a know-how that we are facing, we are not able to get the formula right for the product? Are there some opportunities where we could tie up with some other companies and fix this whole problem?

Ketan Patel:

So, Mitul bhai, couple of things are there. Yes. All credit to Boat for building a great brand and setting the benchmark everywhere and which is a very higher benchmark. Just the difference between us and Boat strategy is that we have to be bottom line oriented and we cannot spend a lot of money on marketing because that expense goes and hits the bottom line. So, our only constraint is that we are taking a cautious approach in terms of marketing. When the balance sheet will be able to afford that expense, we would go slightly aggressive. And as Honeywell business crosses the Rs. 120, 130 crore mark, we will have enough cash flow to put in marketing.

Having said that, abroad, so, for example, Rs. 1,200 product here is a kind of a premium product for the customer, for the middle-income level customer. But the same product when it is close to \$15 abroad, it is a cheaper product for them. So, we would get a better advantage from abroad in terms of effort to yield ratio in the audio category. That's one.

Second, we have not thought about partnering with any other company on that. Good suggestion from you. We will have to think over it whether we could take somebody's expertise or help or partner with somebody on that.

Mitul Mehta:

What is the current revenue size for our licensee business?

Ketan Patel:

So, the half yearly we are at Rs. 51 crores currently on the licensee side. Last quarter we started with the UAE's orders coming in. This quarter, UAE and Singapore, both would start coming in. So, this quarter we think between Rs. 39, 40 crores should be over this quarter for Honeywell business.

Mitul Mehta:

So, we are running at a run rate of about Rs. 35 crores per quarter.

Ketan Patel:

Yes, coming forward. Currently, it is Rs. 25, 26 crores a quarter.

Mitul Mehta:

And how much we ended

Ketan Patel:

Last year we had done Rs. 60 crores in Honeywell.

- Mitul Mehta:** So, we have already crossed Rs. 60 crores in first half.
- Ketan Patel:** No, we have crossed Rs. 51 crores in the first half.
- Mitul Mehta:** Yes. So, last yes, full year turnover we have already crossed in first half.
- Ketan Patel:** Yes. We are short of Rs. 9 crores in that, but this quarter we will cross that.
- Mitul Mehta:** By now we would have crossed.
- Ketan Patel:** Yes. By now we would have crossed including all that....
- Mitul Mehta:** Sir, in your overall pie of Honeywell business, would it be possible for you to give us some gross margin picture across products? let's say your air purifier. So, I'm saying in terms of the packing order, structured cables and air purifier would be the maximum growth driver for our business.
- Ketan Patel:** In terms of the packing order, structured cabling would be the maximum growth driver. We have to remember that air purifier is more of a seasonal business. The season starts in November and sets in February. And still Indians only believe in pollution which is outdoor and not indoors, right? So, today, the paint, cleaning agents what you use is the pet dandruff everything adds, your dried skin, everything adds to the pollution. But people are more tuned when the air outside is polluted, that's when people buy the air purifier. So, air purifier has a 40- 45% margin, but it's a seasonal business. So, if you get washed off that season, then you have to wait till the next season which comes in June.
- The only saving grace for air purifier, second, is that in Dubai all year round, the air quality is bad. So, people would buy it. The air quality is equally bad in Bombay, but people don't think that they require a purifier. People who are asthmatic and all, they usually take an air purifier. So, air purifier though in margin percentage it is higher, in absolute terms, currently, the structured cabling, then the Electronic Essentials, then the air purifier, and then the audio, that's to be precise, because the sale of audio is less. I am talking about the absolute margin, whereas the percentage in India is growing, with gross margin now between 35 to 40%, and abroad it is between 45 to 50%.
- Moderator:** We will take the next question from the line of Satish, an individual investor.
- Satish:** Sir, actually for Honeywell business, we had to undergo a lot of certification, right, sir?

- Ketan Patel:** Yes.
- Satish:** So, tomorrow if we are adding new company or new brand to this business, so do we need to undergo the certification again? Because what I came to know is the process of getting certificates is a very long process, right? It takes at least a couple of years to get this certification. So, obviously, sir, is the certification valid across in case we are adding new business?
- Ketan Patel:** So, Satish bhai, two things are there. If we add products in the Honeywell category in the countries where we are, then certification will not require. But consider, for example, the same product, because we own the design IDs, and we own the IP for that product, if you were to have another brand, then we will have to recertify because that's how every country looks at a different product. Also, we found that CE certification, UL certification is a standard certification which almost all factory has, and that's the certification you require to go to Southeast Asia, but BIS, ESMA, SASO are very regional country-based certification where you have to spend a lot of money. So, for Honeywell, the certification for all the countries where we want to be is done for all the products. But yes, if we get a new brand, then we will have to get the certification done.
- Abhijit Kanvinde:** And this homework was done, Satish, for 1-1.5 year before the schedule, „ We knew that we want to launch. So, today, when we want to launch, everything is in place for Honeywell brands and products.
- Moderator:** Thank you. The next question is from the line of Gopal Agarwal from Aagman Advisory. Please go ahead.
- Gopal Agarwal:** Thank you for giving me the opportunity. Sir, I would just like to know whether this festive season, does it affect our business and to what extent? And how is this festive season been for us? And to add to it, how is this independence sale, the Big Billion Sale for Flipkart and Amazon for us? How do these pan out?
- Ketan Patel:** So, you rightly said, so, if you have to consider the quarter, half year, and the second half year, the second half year is always bigger than first part of the half year. That's one. Second, in the festive season, people tend to buy a lot of products, and since our products are peripheral to it, once the sale of that product happens, our product really sells.
- Coming to Amazon and Flipkart, besides Honeywell, we do six to seven other brands which are bought both by Amazon and Flipkart. As a company, we have a standard practice that we will do an outright sale, and we will not

have a sale or return of any products. Because when you go into a marketplace, one of the conditions from Amazon and Flipkart both is you will take the product back, which we don't accept. So, we have to go through Alpha sellers for this product.

Amazon because of CCI and other stuff, they dismantled one of their largest Alpha sellers Clouddtail from last year. And their second Alpha seller is Appario, which also they will start dismantling this year. This I only came to know from the papers this time. So, Amazon business is in that place there is Retailwiz there is Cocoblu, which has come up, but still they have not learned the trade of this. So, for us, overall sales was good for the last quarter. Overall sale in October also was very good. Between Amazon and Flipkart, Amazon was a largest contributor, but during the Big Billion Sale and the Great Indian Festival time, mobile phones and TVs is the largest selling category for the brands. And since ours are peripherals, the Big Billion Sale does not really drive our sales a lot.

Gopal Agarwal:

Thanks a lot for that, sir. Also, given the curbs etc., in China, so what is the status in over there as you believe that we import a lot of products and parts from there?

Ketan Patel:

So, Gopalji, one of the biggest constraints has been that, we have not been able to travel to China and Hong Kong because of the quarantine factor. And that's why the product development has been a bit less. Second, the supply chain constraint is still there because China keeps going into lockdown. So, the predictability of the containers have not been there.

Having said that, this situation is not new, and it is now almost say 18 months, 19 months, this situation has been there. So, all companies and our companies also have got our guardrails. So, currently, we are ordering inventory for at least two to three months and keeping them. And that's what is affecting the cash flow cycle. Once China opens up a bit and the supply constraints starts getting eased, it will really start affecting the cash flow in a better way.

Second, the product launch where we have to do a lot of to and fro, currently, could slightly hasten up if we get to travel back into China. Hopefully, that after the Chinese New Year, they should start opening that up.

Gopal Agarwal:

Thank you for explaining that, sir. And just a last question from my side. Did we rope in any brand this quarter to our portfolio?

Ketan Patel: We are talking with a couple of gaming brands, because gaming is the fastest growing category. We are in a very advanced stage, but we have not finalized that. Only one brand was there Lexar, which we launched last quarter, and the response to Lexar memory cards and stuff is a good response we have. We have started hitting a Rs. 1 crore of sales per month.

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

Sarang Anajwala: I wanted to check; I am not sure if this has been discussed. I joined a bit late. But how much is the run rate from Honeywell business this quarter from revenue point of view and from the margins and net profit point of view?

Ketan Patel: So, Honeywell, for the first quarter, we did 21 crores. The next quarter will be 30 crores. The coming quarter looks like we will do more because that is the biggest quarter for Honeywell, because the air purifier season sets in from November. So, we will do between Rs. 39 to 40 crores. Plus Southeast Asia is also happening so that this number looks quite doable. So, Honeywell, for the whole year, we should close between Rs. 120 to 130 crores. Honeywell business typical margin is 40 to 45% between India and abroad. And if the investment in the manpower once get stabilized, then Honeywell business will start giving a PAT of between 17 to 18%.

Abhijit Kanvinde: In Hong Kong, there is no taxation,. So, we will get the PAT margins in the range of 15 to 16%. EBITDA margins would be in the range of 18 to 20%.

Sarang Anajwala: One related question. we have started Honeywell business in Middle East and Southeast Asia. In all the countries you mentioned earlier we were still working on some paperwork and setting up team and all those things in other geographies, especially Middle East. So, just wanted to understand from that point of view.

Ketan Patel: So, yes, currently, in Middle East, we have distributor in Dubai. We have a distributor in Qatar, and we have a distributor in Bahrain. We are now signing up the distributor for Saudi Arabia which we feel that we will ship the first consignment to them this quarter. In Southeast Asia, initially, we have gone only to Singapore and Malaysia, and we have signed up distributor for Singapore and Malaysia, and we will also be shipping their first order this quarter.

Now in Middle East, we want to go to Egypt because that also has a larger population, and in southeast Asia, we want to go to Thailand and Indonesia. For Thailand and Indonesia, because the language is very different, and

Thailand and Indonesia, you require people with language skills and local expertise, so we are trying to find a leader for that market first, and then go there.

In the SAARC countries, we will start Bangladesh also from this month. So, out of the 38 countries, sir, we have still not gone more Six countries to be precise. We have not gone more than that.

Moderator: Thank you. The next question is from the line of Mitul Mehta from Lucky Investment Managers. Please go ahead.

Mitul Mehta: Sir, what is the current mix between India and the rest of the region?

Ketan Patel: So, the current mix might be still 90/10 between India and the rest of the regions.

Mitul Mehta: India is how much?

Abhijit Kanvinde: 80/20.

Ketan Patel: 80/20. I'm sorry. It is 80/20. So, Mitul bhai, what happens is the moment when you go abroad, at least you require three to four months to set up the business because unlike India, the business abroad 90% is power retail or modern retail or organized retail as we call it. And they take at least three to four months to list their products there. So, currently, we are listed on Amazon.ae. We are listed on Sharaf DG. We became most wished for air purifier on Amazon in Middle East. So, that mix would start changing from the next quarter, but currently, it is at 80/20.

Mitul Mehta: And at the current revenue scale, are we able to absorb the cost below EBITDA? I mean, sorry, above EBITDA?

Abhijit Kanvinde: Yes, sir. Of course, we are profitable in our subsidiary.

Mitul Mehta: At the EBITDA level, are we making money on the 60 crore sales that we reported in first half?

Abhijit Kanvinde: Yes. At console level,.

Mitul Mehta: Sir, not at the console level. I am saying for the brand licensee business.

Abhijit Kanvinde: Sir, the Hong Kong subsidiary sells entire Honeywell, correct?

- Mitul Mehta:** Right.
- Abhijit Kanvinde:** So, when you console, and if you are profitable, then Hong Kong subsidiary and the Honeywell business is making profit. That's what I mean.
- Mitul Mehta:** So, how much would be the profit? Would you have any sense? I mean, would you help us to understand or?
- Abhijit Kanvinde:** Yes, yes, of course. In Hong Kong, last financial year we had a PAT of Rs. 6.86 crores. In the first half, there has been an additional PAT of Rs. 4.26 crores. So, that means Honeywell business has contributed Rs. 4.26 crores of PAT to my consolidation. It is higher by Rs. 4.26 crores compared to Stand Alone PAT.
- Mitul Mehta:** Yes. So, last year at the EBITDA level, we did Rs. 6 crores, and this year first half at the EBITDA level, we have clocked 4.6 crores.
- Abhijit Kanvinde:** No, no, no. Last year at PAT level we did Rs. 6.86 crores.
- Mitul Mehta:** Oh, okay. So, Rs. 6.86 crores, and for the first half we have done Rs. 4.2 crores.
- Abhijit Kanvinde:** Yes, at PAT level.
- Mitul Mehta:** Are you currently getting 45 to 50% gross margin on your existing SKUs?
- Abhijit Kanvinde:** Yes, yes.
- Ketan Patel:** But lot of money has gone into the certification and also into developing new design IDs. That is also almost done now except for the airpods whatever certification we will require. So, now we will see the gross margin really converting into PAT.
- Mitul Mehta:** And in terms of the sales and marketing expenses, do we need to invest further on to scale the licensee business?
- Ketan Patel:** In terms of marketing, if you want to take leadership positions, say, in audio or air purifiers, we would have to do that. This year we had our first time doing that. So, we bought 12 whole pages in Gurgaon Times and the Delhi Times during this season, and we also depend a lot on social to do that. So, this year besides social we have started having print ads to get the mind sharing people in the Honeywell air purifier space. So, yes, we need to spend

some money on marketing, but that will not exceed 3% to 4% of the overall sales.

Mitul Mehta: 3 to 4% of the overall sales.

Ketan Patel: Yes.

Mitul Mehta: And we have onboarded Kareena Kapoor for our air purifier business. So, what has been the response?

Ketan Patel: No, sir, actually, we did not onboard Kareena Kapoor for that thing. Erstwhile when Honeywell used to do the air purifier business, they had Kareena Kapoor as their brand ambassador, but the ad you see on YouTube and others are what Honeywell had done before. This is, sir, 2016-2017 maybe

Moderator: Thank you. Ladies and gentlemen, that 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 the 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. Ladies and gentlemen, on behalf of Creative Newtech Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

(This document has been edited to improve readability)