



“Kamdhenu Limited Q1 FY22 Earnings Conference Call”

August 11, 2021

KAMDHENU LIMITED, MANAGEMENT:

MR. SATISH AGARWAL - CHAIRMAN & MANAGING DIRECTOR

MR. HARISH AGARWAL- CHIEF FINANCIAL OFFICER



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*Kamdhenu Limited
August 11, 2021*

Moderator: Ladies and gentleman, good day and welcome to the Kamdhenu Limited Q1 FY 22 Earnings conference call. This conference call may contain forward looking statements about the Company, which are based on the beliefs, opinions and expectations of the Company as on the 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 telephone. I now handover the conference to Mr. Satish Agarwal, Chairman & Managing Director of Kamdhenu Limited. Thank you and over to you sir.

Satish Agarwal: Good afternoon and a very warm welcome to everyone present on the call. Along with me, I have Mr. Harish Agarwal- Chief Financial Officer of Kamdhenu Limited and SGA, our Investor Relations Advisors. Before we proceed ahead, I hope all of you and your loved ones are in the best of health. We have uploaded our results and investor presentation for the quarter on the stock exchanges and Company's website. Hope each one of you had a chance to go through the same.

The first quarter of FY22 begins with a lot of challenges marked by the second wave of COVID-19. The Company witnessed demand disruption due to lockdown like restrictions of varied degrees across different regions of the country. Unlike last year where we faced a complete lockdown, this time there was a localized and micro lockdown. Production was impacted on account of partial operations, however with the easing of restrictions, operations are slowly returning back to the normal level. With drop in COVID-19 cases and a faster large scale rollout of vaccination drives across the country, we have witnessed a gradual pickup in demand from early June 2021. Capacity utilization at both our plants have been increasing gradually on month-on-month basis, despite of these external factors we have reported revenue of Rs.145 crores for Q1 FY22. Our Company is always committed to stand with the employees during this tough time of COVID-19 pandemic. We at Kamdhenu believe safety and well-being of employees is of utmost importance. Taking that point into account, our Company created awareness about the importance of vaccination and motivated employees to take it. Our Company did a tie-up with hospitals for vaccination of 1000+ employees, including contractual employees. The Company is undertaking thermal screening of employees at our both plants, registered office and regional offices on daily basis to ensure safety of the employees, there is compulsory use of mask and regular sanitization is undertaken at workplaces, following all protocols and guidelines.

Now, firstly I would like to touch upon the business highlights and performance of the paint business. We have been in the decorative paint business segment for more than a decade and since then, have been touching new heights and setting up industry benchmark. Within short amount of time, we have established a well-known brand in decorative paint in the Indian market. We have a dealer network of 4000+ dealers throughout India catering to the needs of

millions of people. We have given utmost importance on R&D. We have a modern R&D laboratory equipped with world's most advanced and reliable weathering testing machines, QUV machine, which enables us to manufacture and offer a wide range of environmental-friendly products. Our Company is focused on increasing the share of water based paint products, launching new variants in the market. With our strong distribution network, 40+ SKUs across 10+1 products categories, 33 sales depots present in the tier 1, 2 and 3 cities. We are well placed to expand our market presence and increase market share. Our paint business was impacted during Q1 FY22 by second wave of COVID-19, however with the unlocking of the economic activities, we have started seeing some traction in demand from June' 21 onwards. Despite of these headwinds, we have reported a revenue of Rs.33.1 Crore for Q1 FY22.

Our endeavor is to consistently innovate and offer high quality products, we also give utmost importance on advertising and promotions. With that belief, we have signed Ms. Preity G Zinta as the brand ambassador for decorative paint business, under brand name Kamdhenu paints. With her wide appeal across the common masses, we expect larger consumption and demand for our products. We have witnessed certain delay in the restoration of the remaining building plant and machinery due to the second wave of COVID-19, it is almost nearing completion and expected to start soon. Paint companies have witnessed pressure due to input cost inflation, however, raw material prices are expected to soften in the coming quarters, though paint industry has faced challenges in short to medium term. We believe factors like reducing repainting cycle and lower per capita consumption will drive growth for the decorative paints going ahead.

Now, I would like to update on the scheme of arrangement, the draft scheme of arrangement including the demerger of paint business in a separate Company has been filed with the honorable National Company Law Tribunal, Chandigarh bench (NCLT) for its approval on 15th March, 2021, whereas NSE and BSE has already issued its observation letter on scheme of arrangement on 28th September 2020. NCLT has approved the first motion application of the scheme of arrangement, including the demerger of paint business of the Company into a separate listed entity, on 4th August, 2021. NCLT has also directed the Company for convening the meetings of equity shareholders, secured creditors and unsecured creditors on 25th September' 2021 of Kamdhenu Limited through video conferencing in accordance with applicable guidelines or circulars of Ministry of Corporate Affairs. The demerger of the paint business is expected to be completed by the end of FY22. It will impart better management focus, facilitate administrative convenience and ensure optimum utilization of various resources. The proposed demerger will provide for greater accountability and scope for independent expansion of both steel and paint businesses.

Now moving to the key updates on steel business. The operations at the franchise unit and own manufacturing plant were also interrupted by the resurgence of the second wave of COVID-19, induced lockdown like restrictions. However, with easing of restrictions we started seeing operations resuming back to the previous levels. We have realigned our manufacturing capacity of our steel plant from 1,56,000 to 1,20,000 metric ton. This move was taken in order to support

the future innovation, development of new product and for training of franchise staff. We are continuously focused on our own manufacturing and franchise business. On the back of our strong brand resilient business model and well entranced distribution network across the country. We have been able to clock franchise sales of 5.6 lakh metric ton, volume for Q1 FY22.

Steel demand in India is expected to pick up in coming few months as consumption remains strong, despite hit by the second wave of COVID-19. Starting June, 2021, with unlocking of activities, we have started seeing economic activities back to normal levels. With affording housing projects, government push towards infrastructure spends and speeding up of real estate projects, it shall drive the demand for steel products. The per capita consumption of steel is only 19 kg in rural parts against India average of 74 kg. Therefore, further scope of consumption of steel, which shall drive demand for our products. With our wide portfolio of products from TMT Bar, Structural steel, color coated profile sheets, we are well established to cater to any demand going ahead. With huge availability of vaccines and strong improvement in the pace of vaccination, we are witnessing the growth momentum returning back to the previous levels. Monsoon continues to remain favorable from agrarian economy perspective. Longer Diwali period should enable better sales in quarters ahead.

The business environment is still uncertain due to predicted third wave of pandemic. However, we are well equipped to overcome the near-term challenges. With our strong brand, marketing and distribution network and wide range of products in decorative paints, we are well placed to capture any opportunities in future. We are continuously looking to penetrate in markets where our presence is less and strengthen our foot prints in existing geographies. Going ahead, we expect on expanding our business with more franchise and dealers. Now, I would like to hand over the line to Mr. Harish Agarwal, CFO to update on the financial performance of the Company.

Harish Agarwal:

Thank you sir. I will take you all through the financials for Q1 FY22. First about the paint business, total sales from paint for Q1 FY22 stood at Rs.33.1 crore as compared to Rs.32.8 crore in Q1 FY21. We are expecting things to normalize with a pent up demand and festive season coming ahead. Paint segment contributed 23% of revenue in Q1 FY22. Total volume stood at 5,092 KL for Q1 FY22 as compared to 5,744 KL in Q1 FY21. This was on account of selling of higher value items. Our ASP per liter was Rs.64.2 for Q1 FY22 as compared to Rs.56.2 in Q1 FY21.

Coming to the steel business, our steel volume through franchise route stood at 5.6 lakh metric ton in Q1 FY22 as compared to 4.1 lakh metric ton in Q1 FY21. Total brand turnover for Q1 FY22 stood at Rs.3,485 crore as compared to Rs.1,973 crore in Q1 FY21. Royalty Income through franchise stood at Rs.21.5 crore for Q1 FY22 as compared to Rs.14.7 crore in Q1 FY21. Revenue from own manufacturing stood at Rs. 88 crore in Q1 FY22 as compared to Rs.35.8 crore in Q1 FY21. Profit before tax for the steel business stood at Rs. 13.3 crore for Q1 FY22 as

compared to Rs.7.8 crore in Q1 FY21. For the overall business, revenue for Q1 FY22 stood at Rs.145.9 crore in Q1 FY22 as compared to Rs. 83.3 crore in Q1 FY21.

Q1 FY21 performance was impacted by lockdown induced due to first wave of COVID-19 however, Q1 FY22 performance was also impacted on account of restrictions imposed and disruption in operations caused due to second wave. Our EBITDA stood at Rs. 11.6 crore in Q1 FY22 as compared to Rs. 6.9 crore in Q1 FY21. Profit after tax stood at Rs. 5.6 crore for Q1 FY22 as against Rs. 1.4 crore in Q1 FY21. With this, I would like to open the floor for question and answers.

Moderator: Thank you very much Sir, Ladies and gentleman, we will now begin the question-and-answer session. Anyone who wishes to ask a question, may press '*' and '1' on their touchtone phone. If you wish to remove yourself from the question queue, you may press '*' and '2'. Participants are requested to use handsets while asking a question. Ladies and gentleman, we will wait for a moment while the question queue assembles. Thank you. The first question is from the line of Hardik Jain from Whitestone Financial Advisors, please go ahead.

Hardik Jain: Good evening, thanks for the opportunity. Sir in the scheme of arrangement, so our Paint business will be demerged into Kamdhenu Color and Coatings Limited, which will be a subsidiary of Kamdhenu Ventures Limited and KVL will be listed. So, may I know the reason behind this structure, why did not we think of directly listing the Kamdhenu Color and Coatings Limited?

Harish Agarwal: Good evening, this is Harish Agarwal. In fact, we have made various permutation and combination for the demerger of paint business, but finally we have been advised by the EY that this route would be better to infuse the funds in the unlisted Company by the private equity or strategic investor. If any investor would like to come in the Company which is unlisted, so that's why we have chosen this route.

Harish Agarwal: Right. So basically, we are open to any strategic investor into the Company and may be to avoid the buyback open offer and all, we have chosen this structure, right.

Harish Agarwal: Yes.

Moderator: Thank you. The next question is from the line of Arjun Shah from ACE Advisors, please go ahead.

Arjun Shah: Hello, yes sir I have two, three questions. First is sir, in your paints business, what is the proportion of business from own manufacturing and from outsourcing?

- Harish Agarwal:** In fact, our most of the sales come from the outsourcing. But as our plant is going to be restored, so we are increasing our production. In the next month, we will be able to get our most of the products from our own plant.
- Arjun Shah:** And sir what is the margin differential between these two?
- Harish Agarwal:** In fact, margin depends on the product, not with the outsourcing or in the own manufacturing. But definitely in the outsourcing, margins are less.
- Arjun Shah:** And sir when we can expect our paints business to turn PAT positive, any idea on that?
- Harish Agarwal:** Within this financial year itself.
- Arjun Shah:** In FY22?
- Harish Agarwal:** Yes.
- Arjun Shah:** And sir are we looking at any further Capex in own manufacturing?
- Harish Agarwal:** In fact, we have recently restored the entire plant and machinery and building and from our own plant, we can achieve a sales target of around Rs. 450 lakh. After that, we will definitely have a plan for the second plant but after two years.
- Arjun Shah:** My other question is, any particular product segment where we have gained market share in the paints segment, specially?
- Harish Agarwal:** We are into the decorative segment, again in the decorative we are focusing on the high-value premium emulsions which are water-based products. In our own plant, most of the manufacturing will be done for the premium emulsions.
- Arjun Shah:** Okay, so in premium emulsions we have gained market share?
- Harish Agarwal:** Yes.
- Arjun Shah:** Okay, and sir I have the last question on the demand side, can you throw some light on, how has been the demand shaped up, post-opening of the markets in June 2021 and any guidance you can give for this year, FY22?
- Harish Agarwal:** In fact, on months to months, the sales are increasing, production levels are increasing, from June onwards our sales volume, our production volume has increased and it will continue to grow.
- Arjun Shah:** Any number you can give, on month-on-month basis, what has been the growth?

- Satish Agarwal:** With respect to guidance in paint business, at present we are going with our sales target of 50% growth of what it was for the last year. And our target for Q2 is ~Rs. 84 crore, for Q3 is Rs. 94 crore and for Q4 target is ~ Rs. 95 crore and hopefully we will succeed in achieving it easily. So that way, our target for this year is 50%+ as compared to that of last year. As Mr. Harish told you now, that full-fledged manufacturing has started in our own plant from the month of July. So as and when we start making the value-added products in our plant, then in outsourcing we will only make only low-priced items. And you had also asked one more question if we have any such product that is a trump card in the market? So, for the Stainers that are there; Stainers are made by Pidilite also, Asian and Kamdhenu also. So, you will see that 30% sales comprise of our Stainer, that gives a big boost to our sales. Apart from Stainer our colorants that are there, we are focusing more on these because these are value-added and high margin products and their demand is also increasing. So, we are working more on it, so hopefully we will be able to achieve this Rs. 300 crore target for this year.
- Arjun Shah:** Understood.
- Moderator:** Thank you. The next question is from the line of Piyush Chedda, an Individual Investor. Piyush Chedda you may go ahead with your question please.
- Piyush Chedda:** I wanted to understand, when you are working towards establishing your paints business, in this we already have these 4 mega players Asian Paints, Berger and the other two. What is our strategy to gain this kind of market share, today we are at ~ Rs. 200 crore turnover, but as we keep growing they will also focus on killing us, so what is it that we are planning to do, that will allow us to grow in this business?
- Satish Agarwal:** See Kamdhenu is a niche brand by itself and is a well known brand. And in retail with respect to steel we are the largest seller of TMT Bars and other products. As mentioned by Mr. Harish, approximately Rs. 12,000 crore has been our brand turnover over the last year and with the same intention we had started the paint business, that if any infrastructure product is there, it starts with steel and finishes at paints. So our own Kamdhenu brand has its own clientele and a trust level that has been built by us in the last 25 years. Paint market is witnessing almost an annual growth of 18% - 20%. So, there is Rs. 30,000 crore market that is there, and approximately Rs. 5,000-5,500 crore of new market gets added every year as repainting is also happening and new projects are also coming in. So, Kamdhenu has thought about this while starting, although we do not have competition with any of these big companies as such and we have our own brand perception and presence of our brand across the whole country. In paint also, at this point in time, we have 4000 dealers and since our plant is in North, we have not been able to penetrate deeply into South, because we will have to then face the disadvantage of freight. So, we are focusing more on North and Central India and in South also we have started marketing, so the requirement of Rs. 100-150 crore that we have for making growth every year, that is easily achievable and since the demand of Rs. 5,000-5,500 crore is there, which big companies are bagging every year. So, we do not see any issues in the near future that we would not be able to

achieve our sales. In the coming 4-5 years, we are planning that we bring this to Rs. 1,000 crore sales because this business is profitable and in the services are important, plus product range and quality is important and I feel the market has acceptance of Kamdhenu products and the paint demand is continually increasing, We are getting repeated demand, because we are not so tenured players in the industry, Other companies are as old as 80,90,100 years old. So, from that brand we do not have any such threat, they have their own market and we have our own market. Our brand perception is there and the goal can be achieved easily, there is no issue.

Piyush Chedda:

Do you give higher margins to your dealers or keep the price low, from the competition as we have seen that your Steel product is much higher priced than unorganized sector but at a slight discount to some of the bigger organized players. Are you following the same strategy in Paints also?

Satish Agarwal:

Yes, see in steel in retail we are brand leader, but over here in the paints segment, Asian is the brand leader. So, the realization that Asian Paint gets being the same quality standards, same price, same DPL and same MRP, the discount that Asian offers to its dealers, Berger, Nerolac and other companies offer additional 2% - 3% discounts and we offer around 5% - 6% more discount as compared to Asian. So that way, 3% discount extra is offered by Berger and Nerolac and additional 3% lower realization we make. But they give it in the shape of discount and we offer sales turnover discount or incentive and we have driven a lot of schemes for painters, due to which painters will develop interest in it. We have a lot of welfare schemes designed for painters and we run those welfare schemes for them and directly transfer the benefits through cash or card to them, we transfer to their bank. So, those things are picking up, Today we have approximately 25,000 painters enrolled with us and almost 10,000 – 15,000 painters are continuously procuring our sales material.

Piyush Chedda:

So you are doing from both, through the contractor side and painter side? Also, by giving better margins, you motivate dealers and painters.

Satish Agarwal:

Yes, and one more thing I would like to share in this. Since in the metros, the brand concept is more and retailer does not find time to make the customer understand, so our focus is in tier 1, tier 2 and tier 3 cities. Over there the dealer has time to persuade the customer and he gets higher incentive in our products and his say also there and is considered as well in his area. His confidence level is to that extent that he assures free repainting if Kamdhenu paint fails or convinces that paint does not have any issues for 4-5 years but the customer has his satisfaction on the dealer. If the dealer assures him, that I will take the responsibility of the guarantee of the paint and if you face any issue, I will get a free replacement done for you, so for the first-time customer satisfaction is there. But later on his near and dear ones, people living nearby to them like his neighbors start repainting their own houses after seeing his painting.

Moderator:

Thank you. The next question is from the line of Priyanka Singh from Atidan Securities. Please go ahead.

- Priyanka Singh:** I had a couple of questions. The first one is, what is your current capacity utilization at both your plants and what was the utilization in the quarter gone by?
- Harish Agarwal:** Are u talking about utilization levels from our own manufacturing for Paint and Steel business?
- Priyanka Singh:** Yes.
- Harish Agarwal:** In fact, due to COVID-19 disruption, capacity is increasing on month-to-month basis. In the steel business, we have capacity utilization of around 75%, from July onwards. And in the paint business, in fact our plant is going to be completed within this month and we will be able to calculate that capacity utilization from the next month onwards, in the true sense.
- Priyanka Singh:** Okay got it and what was this steel utilization in Q4 FY21?
- Harish Agarwal:** It was around 85% for the steel in Q4 FY21.
- Priyanka Singh:** Okay got it and can you throw some light on your CAPEX plans in both the businesses?
- Harish Agarwal:** In fact, we are increasing capacity of our steel through the franchise route and we do not have any plans for the CAPEX, for our own manufacturing in steel business.
- Priyanka Singh:** Okay and what is the tax rate of the Company? So, the tax amount has increased on a sequential basis and even on a year-on-year basis, so what is the reason for this increase?
- Harish Agarwal:** No, it is a fixed rate, effective rate is 25.17%. I think you are calculating directly PBT with the current tax but it is not the way of calculating the tax. There are certain adjustments which need to be made with the PBT, so thereafter tax has to be calculated on the taxable amount, the rate is 25.17%, it is fixed for last 2 years.
- Priyanka Singh:** can you highlight on the debt levels at the end of this quarter, in both your businesses?
- Harish Agarwal:** In fact, we have only working-capital loan, we do not have any term loan.
- Priyanka Singh:** Yes, working capital.
- Harish Agarwal:** Working Capital would be around Rs. 100 crore, at the end of this year.
- Priyanka Singh:** Including both the businesses; paint and steel?
- Harish Agarwal:** Yes.
- Moderator:** Thank you. The next question is from the line of Atul Kothari from Prog well Securities. Please go ahead.

Atul Kothari: Sir, I have some questions related to our steel business. Sir, if you can throw some light as to how was the demand scenario for TMT bars in Q1 FY22, especially considering the second wave of COVID-19?

Satish Agarwal: See, this time the second wave was very deep rooted and it was a little aggressive wave. At that time no doubt that the factories were operational, there was partial production ongoing in the factories this time, but the retail counters were almost all closed. There was work in progress on projects but still you understand this that in Q1 last year we had sold around 4 lakh tons of TMT bars and in this year, we have sold 5.63 lakh ton of TMT bar. So, only that product was sold directly from plants which was being used in projects. The shortfall that we see is because the dealer shops were all closed in the markets in some areas and a lot of shops were shut in many areas in India and that is the reason we saw this and continuously we have grown from thereon and we are almost at our normal level now in the month of August.

Atul Kothari: Yes sir, what has been the average TMT price for Q1 FY22, compared to Q1 of last year as well? What was the price in Q4 FY21 and in FY22 what has been the price?

Satish Agarwal: Let me tell you. See last year in Q1, our price was almost Rs. 40,000 a tonne and in this year Q1 the net realization price that we have got is Rs. 52,000 a tonne, almost a differential of Rs. 12,000 a ton on costing. In Q4 FY21 the price was around Rs. 46,000 per tonne,. The prices have dipped slightly by Rs. 2000- Rs.3000 a tonne.

Atul Kothari: So, sir going ahead what do you feel, will prices dip further or remain at a stable level?

Satish Agarwal: See in our Kamdhenu's model, mostly our manufacturers purchase semi-finished products like billet and then a conversion cost is applied on the billet. Then our premium franchises sell our products ahead. The major effect of this is on the primary producers who purchase iron-ore and coal and produce their own product, so for them the effect is higher of the prices, on plus side as well as on the negative side. But the secondary rolling mills that are there, who are associated with us, they are affected less by this impact. In this only one impact comes through, that if the stock is too much, then if the prices are high then they get extra margins and if the stock is too much and prices go down, then they suffer some minor losses in the stock. But in conversion there is not much of an effect for us because we have a set cost of production plus a margin. So in that, we or our franchise do not see much of a possibility of loss or profit, it is minimized for us.

Atul Kothari: Okay sir, so it does not make any difference to us because we get our margins?

Satish Agarwal: Prices fluctuate in stock, it may go up and down but our conversion cost is almost fixed and the margin is fixed. Plus Kamdhenu's premium is almost fixed, which varies from around Rs. 2,000-2,500 a tonne at different places. And Kamdhenu's royalty is also fixed, it is on per ton basis and not on the price.

- Atul Kothari:** Okay sir, a lot of companies like Tata Steel and JSW Steel, they have got eco-label certification for their TMT bar products, so sir are we also going to try to get that eco-label certification?
- Satish Agarwal:** See it is not applicable on us, this eco-level certification is on the manufacturing front. It is related to how is their manufacturing process and what amount of energy saving they are able to do in it. So we had worked out on this certification in detail but it is not applicable on us.
- Atul Kothari:** Okay sir. Sir a lot of new companies are also coming in the TMT Steel bar segment, like Shyam Steel is there, Jindal Steel, they are adding new capacity, so sir with the increase in competition in this space, do you feel we would see shortfall in demand at our end, do you see something like this?
- Satish Agarwal:** No, see firstly as Mr. Harish had spoken earlier that the capacity that is going on for 50 lakh tonnes to 42 lakh tonne we have already done. In the coming one year we will bring this to 50 lakh tonne and that will be through franchise route in which there is not any involvement of our Company's CAPEX. So, we will not have any interest cost burden for this. And secondly, as our demand is increasing continuously, a lot of steel projects, as government is expecting and is spending a lot on infra projects. So today we have a shortfall with us and the remaining existing franchise that are there, everyone is focusing on expansion programs and our preference is only to them who already have been associated with us, so if they expand their profitability will also improve a little bit and we do not see any effect of the demand on us. One more thing, for Kamdhenu in today's date it is a premium brand in retail segment and it is the largest selling brand and as you mentioned Shyam Steel and others have started off, so when we speak about other brand, every person wants to have number 1 brand, So I feel that Kamdhenu does not see any threat as such because in market there is continuous demand coming in, it is for sure that branded products will be sold and threat is for only those who are making unbranded products without any quality standards, they will suffer and their material will not be sold and in its place the branded products will take over these players.
- Harish Agarwal:** Overall Kamdhenu is a national brand.
- Satish Agarwal:** Kamdhenu is a national brand and we have presence all over India from Kashmir to Kanyakumari and from Kutch to Assam, everywhere. And Shyam Steel that you are referring to, is mainly available in East India only, some other brands are available in particular states only. So, since Kamdhenu is a national brand and we have more than 54 units operational in today's date for TMT. So we have a specialty and USP you might say that we can deliver steel in any part of the country within 24 hours. So, that is a USP, all our contractors or developers who are there, we have reduced their inventory a lot. Earlier they used to hold on the inventory for a month in advance, nowadays they do not even keep inventory for a week in advance. xx
- Moderator:** Thank you. The next question is from the line of Ashay Jain from Jain Capital. Please go ahead.

- Ashay Jain:** Good evening Sir. Sir I have few questions. Firstly, if you can provide a break-up of branding and promotion expenditure for both paint as well as steel business for Q1 FY22 and at an overall basis, do you have any target as a percentage of sale?
- Satish Agarwal:** Mr. Harish will tell you about this, sir.
- Harish Agarwal:** Branding expenses in Q1 FY22 is now Rs. 16 crore and it was Rs. 10 crore in Q1 FY21
- Ashay Jain:** Bifurcation for steel and paint business.
- Harish Agarwal:** It is very difficult to segregate the branding expenses for steel as well as paint business but after de-merger, we will definitely be able to make separate expenditure on the paint Company and the steel Company. Today it is very difficult to segregate it.
- Ashay Jain:** Okay and Sir, any overall target, as a percentage of sale, that we would spend only this much on promotion and branding?
- Harish Agarwal:** We have a target to spend Rs. 70 crore in FY22, partially by Kamdhenu and partially by the franchise units.
- Ashay Jain:** Sir, second question is, JSW paints has recently announced the new plant of decorative paints of 1 lakh kilo liter capacity. Sir what is your view on this increasing competition in the paint segment?
- Satish Agarwal:** See, there is a very big market in paints and we have our own scope and our own market. In retail, we have 25 years of experience of how to fulfill customer's requirement and if you go to see and analyze the paint business, then any retailer needs the complete product range in the paint from A to Z. In the beginning, he needs putty also, he needs Primer also, on top of it they want paint also. So suppose any Company makes only one product or four products, then that Company is not successful. You might have seen in India, that AKZO NOBEL, Sherwin William's Company from US had come in India and they were unsuccessful. There are many such plants which have come, which are making two or four or five products. There are many product ranges in this and there is A, B, C quality in it. One distemper has three qualities, one exterior emulsion is there, it has three qualities, one interior emulsion has three qualities. Every size is there, pack size is there, color is there, tinting machines are there. So, to give that service, one has to stock from the range of 200 ml to the 20 liter bucket, supply to the dealer is a little troublesome and tricky job. Sir, to keep every type of inventory in every depot, and if there are forty products in a plant, then forty products' production plan, plus its raw material arrangement, apart from that its packaging is needed. So that is a quite difficult work. One can make one or two products of very much above the mass level but the dealer does not get its acceptance in the market. And a dealer's biggest problem is that, if I have emulsions, paint and finished products are there, if he says in the beginning only that I do not have tis Primer, I do not have putty, so

the customer goes for the other brand, then he will not turn around and come back. So he needs all the product range from A to Z. We make wood coating also, we make construction chemical also, we make water proofing compound also, so that way if any customer works in a house, then our dealer needs to give him all the products from A to Z and the Company has to make all the products and supply. So to do that kind of a work, it is on a very big level, I think Asian and other older companies who have been doing from past 100 years, they have done outsourcing of lots of material and their whole set up is done, it is next to impossible to break it in today's date. Now this whole work, because we are smaller in size, we individually are in contacts with any dealer, my team is also in contact with them, marketing team is also in contact with them, even we are also able to give services. Now, if you want to increase the size, then to contact individually or set it up is a little bit difficult work.

Ashay Jain:

Okay Sir, got it. Lastly, raw material prices have increased in the last few quarters significantly, so Asian Paints has implemented an increase of 3% in Q1 FY22. So, what is the price increase which Kamdhenу has taken, if any so far?

Satish Agarwal:

See, I will tell you that all our paint companies have the same price list. The dealer price list and the MRP is the same of all the companies and now as the 3% price increase was averaged out on 1st May, 2021, so the first one to do will be Asian, then only any other Company is able to do. Now a second price revision of almost 2% has come, which is from 1.5% to 5% on different products, so that average of 2% to 2.5% was applicable with effect from 4th July, 2021. So that almost every Company has done. Kamdhenу has also done it. And one more price revision has been done in this month only, on 3rd August, 2021, under which the Primers were there because they are also enamel-based products which are solvent-based products of petroleum products. So in that 5.25% increase has taken place, all the companies have done this price increase. Kamdhenу has also done it and on enamel which are petrochemical-based products, all the companies have done 2.75% increase, even Kamdhenу has also done it. So if Asian does the price increase in the market, then all the remaining companies also do it immediately and it is done within a week or ten days' time. So we are not lagging behind in that.

Moderator:

Thank you. The next question is from the line of Akash Mehta from Capex Investments. Please go ahead.

Akash Mehta:

Hello sir, I had some questions on paint business. Firstly, what is the reason for lower volumes in the paint business in FY22 Q1 as compared to Q1 FY21?

Satish Agarwal:

I had replied this in a previous question also, that now as we have started operations in our plants, we are making high-value products in our plants, so in our Q1 sales, in this almost 30% contribution is from our Stainer. The Stainer that you might have seen in tubes that the painter carries around in his pocket and if you want any color, then he will mix one or two drop from his tube and mix the color, so those Stainer is mainly made by Asian, Pidilite and Nerolac. Kamdhenу has expertise in this and this product is very popular in the market. So its value is

more but the volume is less, our almost 30% share is of this only. And our remaining products that are there, you take it as low-price item which are outsourced. During this Pandemic, the low-price items were sold more, in which putty is there, distempers are there or low-price enamels are there. The premium emulsions that are there, that is used for the projects, which are going to start after this. Second thing is, we had also given a press release, if you see in that, our average price last year was Rs. 56.2 and this year it has come to Rs. 64.2. So that way, our average selling price that has increased by Rs. 8, that has increased because of my premium products' sales. In that, volume has decreased but sales have improved as compared to before. In the coming times also, we will focus more on value-added products and then only we will be able to do sales of Rs. 300 crore this time, we are going ahead with a target of 50% growth and hopefully we will do it.

Akash Mehta:

Okay sir, and currently your Company has about 1,600+ tinting machines installed at all the dealer outlets, just wanted to know your view on the increasing use of these machines and how is it helping in our business?

Satish Agarwal:

See, now you will see the shade card, then there are more than 2000 shades, so the customer can choose any one. So practically, it is not possible to make all those shades, so in this the tinting machine plays a very big role, it has been doing since past twenty years. So tinting machines are in continuous in demand. As and when the new dealers are getting added, we have to supply the tinting machine also to them because in the tinting machines there are sixteen colors of the colorants. It is a computerized machine, so whichever color you want you will get exactly the same color. How many times ever one makes the paint, you will get the same shade, so I think one way it is very important. So Asian paints have almost 60,000 machines installed in all over India, so we are also increasing it continuously and as and when the sales will increase and premium products are there, luxury emulsions increase, so for that tinting machine is mandatory for the dealer. So we feel in the plant, with great difficulty, we make only the fast running colors like black, brown, red, blue, yellow or green, the one which are fast moving colors, so they are only being made in the plant, the remaining shades, the pastel shades and all are made by the tinting machines. So we also have program in tinting machines, as the sales are increasing, we are opening new dealers, so we will install new tinting machines as well in the coming times.

Akash Mehta:

Okay sir, lastly if you could highlight any new products that were launched in the last six months?

Satish Agarwal:

See, in paints R&D happens on continuous basis and R&D means at a reasonable cost on how to make the best quality of the paint and the paint quality that is accepted in the market should be at par with the international level paint, otherwise it is not accepted and you will be out of it. So in this, last year we had developed a paint called '**Kamodual**', which is a common paint for interior and exterior, like every time what happens is, we get the painting done in interior and exterior as well, every time some or the other paint gets spoilt, some is left off. So we have developed a unique product this time that the same paint will work in the interior and exterior as

well and your wastage will be zero in it. Apart from this, we used to outsource the tinting machines colorants previously, we used to import it or used to buy some material from outside, those all also we have developed in-house and the Stainer that also we used to purchase from outside previously, now this all we have developed using the technology in-house. We reduced its cost and have done in-house production. Previously we used to make 10-12 kl Stainer per month, we are making 150 kl now, in the coming times we will almost double this to about 250kl, 300 kl. More machines are being installed, the existing machines are running on full load capacity and we have demand. So I think hopefully we will grow this very well.

Moderator: Thank you. The next question is from the line of Amit Shah from ACE Securities. Please go ahead.

Amit Shah: Hi Sir, I have couple of questions. We have achieved a royalty income of Rs. 22 crore in Q1 FY22, so what is the kind of growth that we are expecting in this royalty income, considering the current Pandemic situation going on?

Satish Agarwal: See, this year we have a target of Rs. 95 crore, in the current year. In spite of the Pandemic, we are planning for a target of Rs. 95 to Rs. 96 crore for this year and our sales will be 25 lakh ton this year. And we are planning very aggressively for the coming two to three years and for 2023-2024 we are targeting a royalty of about Rs. 150 crore. Going ahead, we are targeting a royalty of Rs. 200 crore + in 2025-2026. And at that time, our sales will be almost 30%+, 35%+.

Amit Shah: Okay, can you throw some light on any new product launches in steel segment in this quarter?

Satish Agarwal: See, in steel we had launched NxT three years back and after that we had launched an alloy steel product with the name of Power Alloy Steel 10000 which is specially for high rise buildings. We had first started NxT with C500 proof strength, now we are going with 550 strength, due to which there is saving in the construction and safety measures are better in it. So, we have upgraded that product and have done it for Kamdhenu NxT 550 grade level and made it available all over India. And remaining R&D work goes on continuously, now it is too early, unless any new product does not come in front, it is not possible to disclose anything about it at this point of time today.

Amit Shah: Okay and sir one last question. In our presentation, since the capacity for manufacturing has been re-aligned from 1,56,000 metric tonnes to 1,20,000 metric tonnes. So, sir any reason behind that?

Satish Agarwal: Sir this is a temporary phase, one of the impacts is due to COVID-19 effect as well. Mainly in this what we did is instead of focusing totally on production, we did a lot of R&D, and a lot of time is wasted on R&D daily. Whichever new product that we innovate, we do chemical testing for those products, so lot of time gets wasted in it. Secondly, in our franchise units, we allot time and program for training of our quality engineers at our plant. So, that whole team comes over

there, then they stay there for a week and the complete training session. It goes on, we have to show products to them, we have to show them costing, how to maintain quality standards, etc., so lot of time gets wasted in that because now by not focusing 100% on our production, because our franchise route is the most important focus area as a branding and marketing Company. So, our focus area is to make our plant as R&D center plus as a training institute for all the franchise because increasing franchises is very easy. As and when the brand leverage goes in increasing, the brand's quantity is also increasing, the brand's perception is increasing, so to earn from there it is easy provided. We involve our plant in the manufacturing a lot. So that way, our focus is to double, triple our capacity through our franchise route and from there as a royalty, we are more interested in generating income for us because we are getting more leverage from that. And rest let us assume that more improvement will come in the market and this period will be over, then the capacity is with us, it is only that we are not utilizing it as of now, we already have the capacity with us.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to handover the conference to the management for their closing comments. Over to you sir.

Harish Agarwal: I take this opportunity to thank you everyone for joining on the call. I hope we have been able to address your all queries. For any further information or clarification, kindly get in touch with me or SGA, our Investor Relations. Thank you once again.

Moderator: Thank you very much members of the management. Ladies and gentlemen, with this we conclude today's conference call. Thank you for joining us and you may now disconnect your lines.