



“Creative Newtech Limited's Q2 & H1 FY'22 Earnings  
Conference Call”

**November 12, 2021**



**MANAGEMENT: MR. KETAN PATEL – CHAIRMAN & MANAGING  
DIRECTOR, CREATIVE NEWTECH LIMITED  
MR. VIJAY ADVANI – WHOLETIME DIRECTOR,  
CREATIVE NEWTECH LIMITED  
MR. ABHIJIT KANVINDE – CHIEF FINANCIAL OFFICER,  
CREATIVE NEWTECH LIMITED**

**Moderator:**

Ladies and gentlemen, good day and welcome to the Q2 & H1 FY'22 Earnings Conference Call of Creative Newtech Limited. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participants lines will be in 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, please signal an operator by pressing star then zero on your touch tone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Ketan Patel -- Chairman and Managing Director, Creative Newtech Limited. Thank you and over to you, sir.

**Ketan Patel:**

Good morning, everyone. Welcome to Creative Newtech Limited Earning Conference Call for the Second Quarter and Half Year ended September 30, 2021. Your company as you all would know was formerly known as Creative Peripherals and Distribution Limited. I would like to begin by expressing my gratitude to all of you for taking the time to join us. On the call with me today is Mr. Abijit Kanvinde -- our CFO; Mr. Vijay Advani – Whole time Director of our company and Bridge IR, our Investor Relations Team.

Before we get into the business and financial performance of the last quarter, I would like to share some brief insights and recent developments regarding the company. Starting with some key recent developments, as we are all aware, the effect of COVID-19 pandemic continue to be felt through the initial months of this fiscal year as well. The second wave of the pandemic wreaked havoc and several states witnessed lockdown during a substantial part of the first quarter. Production and logistics across various industries including ours suffered during the period. In fact, our half yearly performance practically represents operations worth less than five months. However, with many markets reopening, the scenario is better and improving significantly. This half year has definitely been better than the corresponding period last year, which was more severely hampered by the lockdown in 2020. Thus year-on-year growth has come from a recovery in the overall market coupled with our company's resilience. The pandemic has bought in new lifestyle standards such as working from home and having educational classes online. This has also spurred demand for IT products and services.

On another note, I'm glad to share that we recently changed the name of the company to Creative Newtech Limited. Our business and vision far exceeds beyond just distribution. Today, we are well established as brand licensee with the long-term agreement with Honeywell and are building further on this line of business. With Ckart we have entered the online B2B marketplace vertical and see this as a key turning point for our business. These changes along with our vision to be a seamless platform for all partners, indeed created a need for this new name, which better represents our company and vision to be at the forefront of bringing new technologies to the masses.

We also arranged our segmental structure to better align with our business structure and strategy. Our brands are now categorized in following four segments: Fast Moving Social-media Goods (FMSG). This 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 segment.

Fast Moving Consumer Tech: This segment includes established and fast-moving consumer technology products that cater to personal as well as organizational demand such as Samsung, iBall and Viewsonic.

Enterprise Business: This comprise products which are supplied to enterprise and are high volumes. Some brands in this category include MSI, PRINTRONIX and Philips.

Fast Moving Electronic Goods: This segment covers our alliance with Reliance through which we offer home appliances, bulbs, and lights from brands such as BPL and Kelvinator. These segments better represents our brand portfolio and give better clarity on high margin and high value products. We expand and refresh our portfolio periodically with new niche brands and products which are relevant for our time.

One of our most recent brand addition is Hyperice. A US based company specializing in technology-based muscle recovery and massage products well known in the fitness and wellness category.

Our recent tie-up with Reliance Retail is to distribute a broad range of Disney & Marvel branded products, including audio products like earphone, headphone and speaker, personal grooming products such as hair curlers and straighteners as well as small home appliances like toaster and sandwich maker. The tie-up gives us access to a huge market across multiple product verticals, expand our geographical coverage, and would take our business to newer heights.

We recently strengthened the association by adding a range of light, bulb, fans and home appliances from BPL, Kelvinator, having such household name in our brand portfolio also broadens our market reach.

In terms of brand licensing, our strong association with a Fortune 100 companies like Honeywell would serve us as a guiding example for other brands wishing to leverage the licensed manufacturing model. We have launched a wide range of audio entertainment products and a few variants of air purifiers by Honeywell. We have also received appropriate approvals from various countries to distribute Honeywell products across APAC. Our long gestation period for this should now fructify as we will get access to 29 countries for this product.

To support the anticipated growth from various lines of business in July 2021, we raised Rs.11 crores of fund through a preferential allotment of equity shares and warrants. The proceeds from this will be used to support our growth in Honeywell and to scale up our overseas operations.

Creative Newtech is a dynamic company which has come a long way and crossed several milestones over the recent past. Today, we are not just market entry specialist for niche experiential brands across India and international markets, but also license contract manufacturer for a Fortune 100 global giant, Honeywell.

We specialize in market entry for global brands across diverse verticals and work closely with partners to achieve optimal market penetration and grow.

Our network into all three channels: Online, Retail and General Trade, thereby giving us a strong leverage to reach out to a wide market base. Furthermore, our portfolio covers a wide range of products from enterprise to fast moving consumer goods.

We have a three-pillar strategy to grow and expand our business substantially. The first key aspect of our business is brand licensing and contract manufacturing. With Honeywell, we have a long-standing agreement for contract manufacturing and distribution in 29 countries across APAC and the Middle East region. We have a broad and continually expanding product portfolio with Honeywell with Air Purifiers being the latest addition. Other products cover connectivity and audio entertainment solutions. We aim to expand this line of business by adding more international brands.

Contract manufacturing is an attractive model of business for various global brands wherein they can leverage local players' market reach to increase and grow their product market share. We plan to utilize our experience gained with Honeywell for other international brand wishing to follow similar model.

The Second Pillar is our expertise in market entry and penetration for niche brands. Currently, we have a long-term association for over 20 globally renowned brands which are leader in industry. As I mentioned earlier, they are categorized in four broad divisions: FMSG, FMCG, EB & FMEG and cover a diverse range of verticals. Today, Creative is a much sought-after name among OEMs as well as distributors and retailers are like, being a critical link in the supply chain. We continuously enhance the bouquet of brands with new and high margin products.

The third key aspect of our growth strategy is Ckart, our online digital B2B eCommerce platform. Ckart is a game changer in our industry and will play a crucial role in expanding our business with new and existing customers at minimal additional costs.

Overall, our focus is on these three main growth triggers offering exponential products and enabling niche global brands to enter and establish in new markets, expand our Honeywell business and become an online platform for all our customers through Ckart.

We continue to strive for higher operational efficiencies and adding high margin value-added products to our portfolio.

Associations with Honeywell, Hyperice, Cooler Master etc., are a steps in that direction.

Coming on Ckart our new business initiative, I'm glad to share that our platform has been making significant strides since launch. As I mentioned earlier, Ckart is our online digital eCommerce platform, built in out by a dedicated team. It hosts our customers and enable them to transact, discover and share products and brands to their buyers in their own companies name. Ckart also assists them to showcase their inventory and trade among each other, facilitating higher volumes and expanding the product portfolio, being offered through Creative. Many of our existing as well as new customers have joined the platform since launch making it a success.

The recently added seller module in the platform allows partners to sell their entire inventory of products to their customers through Ckart including products that are not directly under Creative portfolio. Additionally, we enable partners to have their own branded micro-site hosted on our platform. These features really benefit the partner and would garner further adoption among players. Ckart will fortify our presence as one-stop-shop for customers as well as improve our working capital cycle and profitability.

Our brand associations, diversify and expand our products and reflect the company's recognition among global brands. Even as speculation of the third wave of COVID looms improving consumer sentiment, shift to online operation would spur demand for such products in the India market, both online and offline. With approval in place, our Honeywell business should also pick up pace in APAC market. And as Ckart gains momentum, we foresee a strong growth in customer base without much additional cost, which should translate into higher top line and profitability.

So, from an overall business perspective, this is all from my side. I will now hand it over to Mr. Abhijit Kanvinde, our CFO, who will take you through the financial performance of the company. After Abhijit's presentation, I would like to take you all through our company's presentation which has been uploaded on the NSE website. So, you may kindly download it if you haven't.

Over to you, Abhijit. Thank you.

**Abhijit Kanvinde:**

Thank you sir and very, very good morning to you all. I will share the highlights of our consolidated financial performance, after which we will be glad to respond to the queries which will be after the presentation by Ketan and me.

Our financials are reported as IND AS Guidelines. Looking at the Q2 FY'22 Financial Results. In the quarter ended 30th September 2021, our company achieved a net revenue of Rs.241.21 crores, growing 110.76% year-on-year. This was mainly since last year's second quarter was severely impacted by the nationwide lockdown. Growth were also supported by demand for FMCG and FMCG products such as Samsung, Cooler Master and Honeywell. EBITDA stood at Rs.8.67 crores as against Rs.4.11 crores in the previous corresponding period, an increase of 111.16% year-on-year. Higher raw material cost due to changing product mix along with increase in employee expenses has offset the impact of higher sales leading to flat EBITDA margin as a percentage. The net profit for the quarter is at Rs.5.8 crores as compared to Rs.2.06 crores in Q2 FY'21, year-on-year growth of 181.46%. Our EPS for the quarter was Rs.4.24. Coming to H1 FY'22 Financial Results: For the half year ended 30th September 2021, our company achieved a net revenue of Rs.377.09 crores, growing 110.69% year-on-year. This was mainly since the last year corresponding period was severely impacted by the nationwide lockdown. Growth was also supported by demand for FMCG and FMCG products like Samsung, Cooler Master and Honeywell.

It is notable that this represents operations of less than five months due to the lockdown across several states in India during first quarter. However, June was one of the highest revenue months and similar trajectory was seen in July onwards.

EBITDA stood at Rs.12.78 crores as against Rs.6 crores in the previous corresponding period, increasing 112.98% year-on-year. EBITDA margin improved slightly despite the higher promotional and advertisement expenses and employee cost.

Net profit for the period is at Rs.7.03 crores as compared to Rs.2.64 crores in H1 FY'21 and year-on-year growth of 166.62%. Our EPS for the period was Rs.5.66.

This is all from my side. Over to you, Ketan sir, for the presentation.

**Ketan Patel:**

I hope everybody has a copy of the presentation or have downloaded. I'm not going to go through all the slides, I'm just going to talk about a few slides. So, if you can go to slide #8, here we are talking about our three pillars of business. The first is Brand Licensing business, where we have licensed contracts for Honeywell for various consumer and enterprise products. Our rights on this product are for design/manufacturing, and we can sell Honeywell branded products in many APAC countries as well as govern product pricing to a large extent. Expanding Honeywell business line and striving to get more international brand under the license model, that's our endeavor and we will be maintaining asset light model while expanding the license.

Our new four categories are FMSG, FMCT, FMEG and EB. So, we are a specialist end-to-end solution for FMSG for global brands who want to enter India. We have a portfolio of close to 20-plus brands and we are very well positioned for the fast-growing aspirational young population in India. In fact, the millennial population stands around 75% of our overall population which is less than 25-years. Most brands which we deal is in the FMSG categories are market leader in their categories and command niche value in the market. We will keep continuing and enhancing our portfolio with high margin and high growth potential products, and our multi-channel network of online retail, general trade will help us to do that.

Last is our Ckart customers platform. That's the online digital B2B eCommerce platform. This hosts all our customers and enables them to discover, share and transact with each others' products. It's a captive marketplace for subscribed business partners. We have value added features in that, which includes drop shipment, invoicing, smart prices, seller module, customized marketing collateral, and facilitates customers to have their own eCommerce site. This will also expand the company's product domain. And with growing digitalization in industries, Ckart would pave the way for future-ready business model.

Now we'll go to slide #11. So, according to the new categorization, we have FMSG, we have now Honeywell, Cooler Master, Colorful, Edelkrone, Insta360, Thermaltake, Hyperice, BabyLiss, PNY, Olympus, Zeiss, Disney & Marvel brand. In FMCT, we have now iBall, Samsung Viewsonic and Rapoo. In FMEG, we have BPL and Kelvinator there. In our Enterprise business, we have AOC Philips, PRINTRONIX Line Printer and Retail Solutions.

FMSG is very critical because the key drivers for the growth are that the young millennials as I said they want to capture every moment of their social life and post live events from social media along with live streaming. And this has given a multi-fold growth to personal use internet connected devices. Every millennial in his life follows at least three to four hobbies and practices, one or two hobbies regularly and this has led to a tremendous growth in activities like trekking, wildlife photography to sports, cooking, music, cycling and this has made this segment the fastest growing segment across the globe.

The consistent increase in sedentary work and increased health and beauty consciousness has led to an exponential growth in demand for home recovery equipment, like Hyperice and home grooming products like BabyLiss and gaming accessories like Cooler Master. The increased trend of gaming products has also given great increase in demand for cooling products and high-performance computer components and processing gadgets. Virtual reality just now even Facebook changed their company's name to Meta. This is all because people are no longer watching photos, they are looking at video, virtual reality is now a thing of the present and not of the future. And people will require high performance computer components to do that. Cooler Master, PNY and other products really help us to do that.

Slide #13, I will just take you to the figures for the global grooming industry is now 422 billion with a CAGR of 4.82% year-on-year. This industry is very under penetrated in India and in India the CAGR can be as high as 25% a year.

The global fitness industry is now 10.31 billion. Post-COVID, people are really taking good care of their health and very conscious about fitness. That industry is growing at 6.74% and it is in a very nascent stage in India and it will grow much higher than the international market.

Global Gaming industry is now close to 300 billion and Online Gaming is expected to grow close to 12% a year.

Slide #14 shows the various kinds of products what we have. So, for Hyperice, the brand ambassador is now, the company has recruited Virat Kohli, so you can see that photo in there. Insta360 that's the new camera we have. Insta also has a range of cameras to capture virtual reality and Insta pricing will go from Rs.30,000 to at least Rs.9 lakhs in terms of the camera. Then you can see the Cooler Master Cabinet, then the newly launched Honeywell Audio products. There's an Insta360 Virtual Reality Camera and the photo in the slide #15 Olympus Zeiss and Edelkrone are there.

Slide #16 is about FMSG products. So, they are great products for gaming from Samsung, personal grooming products from BabyLiss, SSDs and Graphic Card from PNY and Audio Products from Disney & Marvel.

I'd like to talk about the Honeywell. So, slide #18 & 19 there. Something about Honeywell; Honeywell is a Fortune 100 company and Honeywell has a very successful and robust trademark licensing business which is close to \$350 million a year. Our exclusive trademark license with Honeywell is in 29 countries spanning from Southeast Asia, South Asia, and Middle East. We currently offer a wide suite of products from spanning consumer to enterprise segment from enhancement products for laptops and smartphones and TVs to audio products to air purifier to enterprise cloud infrastructure through our structure cabling products. The entire product cycle from industrial design to specification and IP is owned by us and it is completely managed by us. We have adopted a fabulous manufacturing across 24 facilities pan Asia for Honeywell product line. All these factories are approved, audited through Honeywell with stringent audit and compliance places.

We'll go now to Slide #21. So, the biggest entry barrier for a brand currently is the amount of certifications you require. And we've spent a lot of time in the last four years to get all the certification right from SASO to ESMA to TRA to the ISI, Bureau of Indian Standards (BIS). So, that's what we have spent on.

Slide #22 shows you our new range of Honeywell Air Purifier. Slide #23 shows you the range of our Audio Products.

I will now take you to slide #34, that's where Abhijit would want to add.

**Abhijit Kanvinde:**

Thank you, Ketan. I would like to just talk about the half yearly financial consol performance though I have already talked about the percentage rise and increase in top line and bottom line; however I wanted to talk little detail. Clearly, in the first half of this financial year, we have grown by 110% in total income as compared to last financial year same time. What is important is, according to me is the EBITDA as the value, it is again doubled. So, the EBITDA for this half is 12.78 and as compared to last year that's doubled. The interest cost are in line with the increase in business and have marginally increased. So, that's how it is that the working capital has been properly utilized and also the profit after tax has increased to Rs.7.07 crores from 2.64 crores, so it's almost 168 percentage point jump. Net profit margins, we normally are able to hit approximately PAT level of 2%. For the first half, I feel that there is a product mix has changed, therefore, we have reached 1.86% as PAT margin, but in our industry normally the second half is always better than the first half. As far as the sales go, I'm very confident that our overhead will be quite, quite good. Synergy there will be rationalized and therefore we should be in a position to post the profit margin in the range of 2% to 2.25%. Okay, this was from the slide #34.

I would like now to go to slide #40 directly. This is a consolidated financial highlight for our performance for the past five years. First, let's talk about revenue from FY'17, revenue of Rs.212 crores, FY'21 was Rs.526 crores. EBITDA in FY'17 was Rs.5.17 crores and in FY'21 was Rs.18.73 crores, a good CAGR, that is the significant increase. In FY'17, PAT was Rs.1.34 crores, in FY'21 the PAT is Rs.9.38 crores.

Also, we've tried to find out the incremental PAT versus EBITDA and growth as a percentage. Numerator is incremental PAT between the two years and denominator is EBITDA. And we have seen that there is a growing trend and a trend of growth from FY'19 it is 50.95%. So, our conversion from EBITDA to PAT in FY'21 was 83.77%, that's a pretty good sign and I'm hoping that we will continue at this rate.

I think that's all from my side and we are we are open for the questions if there are any.

**Moderator:**

Ladies and gentlemen, we will now begin the question-and-answer session. We have a first question from the line of Suraj Nawandhar from Sampada Investments. Please go ahead.

**Suraj Nawandhar:**

First question, I have is on the business structure of Honeywell. If I understand correctly, we are going to do everything, all of our Honeywell business through our Hong Kong subsidiary, right, am I correct?

**Ketan Patel:**

Yes.

- Suraj Nawandhar:** I was going through your annual report and if I look at the shareholding of Creative in secure connection, in FY'20 annual report it was 70% and now it has come down to 52%. Why is it so?
- Ketan Patel:** Suraj, yes, so how we've structured our business is that because now we have 29 countries, so we have this subsidiary in Hong Kong, through which we will cater to Middle East and for India, the subsidiary will then visit to Creative and then Creative will further distribute and market products of Honeywell in India, right? The Honeywell business cycle initially when we started this business was close to 120-days and you cannot go to the market without the full stack of the products. So, currently, with the audio coming into picture, we have close to around 290 SKUs in Honeywell now. So, in order to fund that inventory and the whole process, we required some amount of equity there. And I think it's close to two years back we diluted 25% or Rs.10 crores at a valuation of Rs.45 crores there. And that has helped us to launch new products. And we have now no further intent of diluting any further. The only reason being is that now the Honeywell overall cycle has come down close to 62-days, that's what it is.
- Suraj Nawandhar:** Who has bought that additional 18%?
- Ketan Patel:** That's a HNI individual from UK, Shastri Trading, they have bought that. They are a family from UK.
- Suraj Nawandhar:** Was it reported to the exchanges?
- Ketan Patel:** Yes.
- Suraj Nawandhar:** Because after I went through your annual report, I couldn't find your exchange filing, so I spoke to the IR team, they said the dilution of additional 18% wasn't reported to the exchanges.
- Abhijit Kanvinde:** I will get back to you.
- Suraj Nawandhar:** Sir, in the last concall you said that Honeywell sales will start from mid-September. So, how is it going now -- has it started, are we on time or are we delayed because of second wave or what has happened?
- Ketan Patel:** Ideally, we would have wanted the audio also coming in the month of October, the diwali but we missed the audio launch by a month. We launched in November. But otherwise, the air purifiers and all other products are right on track and the air purifier season is from November to almost late February, mainly in the northern part of India and in the eastern part of India and we have all our products with us for India and for Middle East also, and we will be on track this year to do almost 80-odd crores of business in Honeywell.
- Suraj Nawandhar:** So, in second half margins should look much-much better?

**Abhijit Kanvinde:** Yes. Incidentally, we closed at Rs.19.7 crores in the first half in Honeywell. First two months were almost semi-lockdown conditions due to second wave of COVID; however, we're really confident that we will do well in the second half.

**Suraj Nawandhar:** Just one question on the previous point. You said that you have divested 10% for Rs.45 crores valuation in secure connect. So, at what valuation we have divested this 18%?

**Ketan Patel:** We divested 25% with a valuation of close to Rs.40, 42-odd crores.

**Suraj Nawandhar:** In the investor presentation, we are saying that in next 90-days, the new countries will come in. So, is it over and above 29 countries that you are...?

**Ketan Patel:** Suraj, this 29 countries license we have. Now we'll go step-by-step. So, initially, we have taken Middle East. So, Egypt, Bahrain, Oman, Qatar, UAE, these are the countries, we will go for. After we start doing well, we'll do Turkey and other parts of Middle East and then we will go to Singapore, Malaysia, Burma, these places. So, it's a gradual process. As we get our products ready, as we get our specification ready for this country, we get the desired skill set, right, because when you go to a different country, it is not just a product, you require the right team there and currently, we have a team in place for Middle East. And once we start doing better in Middle East, then we will go to the other countries. But the license is already for 29 countries. So, if we have the wherewithal and we have the skill sets and the products, then we can go to all 29 countries tomorrow also.

**Suraj Nawandhar:** Any outlook on the debt, where it will increase from here as our business grows?

**Abhijit Kanvinde:** It's a completely related question. Without prejudice, I'm not supposed to give guidance, but we are confident that our top line will be in the range of Rs.800 crores to Rs.825 crores in this financial year and the PAT would be in the range of maybe 2%. What is happening is that if you see our working capital cycle, number of days has come down in this half. We will have little higher working capital number of days. However, we feel that Rs.10 to 12 crores additional debt would suffice to handle this kind of growth in turnover. So, it will not be a major, major finance cost impact.

**Moderator:** We have next question from the line of Sunil who's an investor. Please go ahead.

**Sunil:** Ketan, I understand that we are in a retail business where profit is mainly driven by sales volume, it's not a high margin business. So, we have achieved around 240 million revenue in this quarter. And you guided in the past saying that high margin in Honeywell business should generate around Rs.100 crores revenue this year and around Rs.250 crores revenue next year and this comes with you mentioned that around 35% gross margin domestically and around 50% internationally and you mentioned that Rs.80 crores we can make in H2. So, if I extrapolate that our H2 should be somewhere maybe around Rs.500 crores. I am just trying to look at how FY'23

can look. So, if I look at that, incremental around Rs.150 crores revenue from Honeywell, so can we say that we can make around Rs.1,200 crores revenue in FY'23?

**Ketan Patel:** Yes, Sunil, I'll answer three parts. First, I'll answer your last one. Yes, we can look at the revenue of between 1,100-1,300 crores in FY'23...

**Abhijit Kanvinde:** But I want to just correct estimate of our turnover for this financial year. I think we should be able to do Rs.80 crores to Rs.100 crores for this financial year for Honeywell.

**Ketan Patel:** As a company, our whole endeavor is that business from license products and our own brand that should come to close to between 25%-30% of our overall turnover. So, it may not happen say in '23, but we have a fair confidence that whatever is our turnover by FY'25, we should be close to 25-30% of our business from licensing and business from own brand. Why this is very important is because Honeywell business and our own brand business would give us a margin of close to 30%, 35% domestically and close to 45%-50% internationally. Now, we have entered the category like audio. If you see the overall audio category market, the whole market is close to \$25 billion. Out of that \$25 billion, if we build the audio category very well, audio itself has a potential of becoming a Rs.1,000 crores category in say five, six years' time. So, we are well poised with Honeywell range of products and as we start getting the right partners and distribution for various countries, whatever we are thinking will start manifesting. And the last part is that as I explained in my slide that the certification for all products take a very long period of time, but currently, for all the air purifiers, for all the audios and the other products, for all these almost 20-plus countries, we have got all the necessary certifications there. So, it will really help us to build that.

**Abhijit Kanvinde:** So, just to add to Ketan, this month end, we are hoping to launch around 60 to 65 SKUs of Honeywell audio domestically and internationally. That's what is the good news. And also, your extrapolation of Rs.1,200 crores looks realistic. I'm sure we will do our best to try and exceed that number.

**Sunil:** My same question actually is related. Now I'm coming to just to something on EBITDA. I think it's very important that we just try to understand because this is going to be a new high margin business for us, right. So, Ketan, if I take Rs.250 crores of Honeywell revenue, we make around 30%, 35% margin there, and then remaining 1,000 crores, our business is there. So, I see that we can cross maybe Rs.100 crores of EBITDA next year. Can we say that our EBITDA margin is going to increase substantially for FY'23?

**Abhijit Kanvinde:** Not FY'23. As a percentage that we are expecting that EBITDA will be in the range of 4%, 4.5% to 5% in coming years. Margin will definitely increase substantially, no doubt about it, what you're saying is right. All depends on how we launch, how the other countries fortify and things like that.

- Sunil:** I know that. Abhijit, I wanted to get an idea because you've been guiding that margin, if I extrapolate...
- Abhijit Kanvinde:** The other businesses average margin is in the range of 8% to 12%. In Honeywell, of course, the margin is much higher from the gross margin perspective.
- Sunil:** I'm sure company will positively surprise on margin and that's good for us now. On the other businesses other than Honeywell, if you can give us some color commentary on any initiatives which we have to improve margin, you mentioned under seller module, that should also get an additional margin, so anything on cost optimization, or anything to improve the margins on the other businesses outside Honeywell?
- Ketan Patel:** So, we are also launching our brand Duster for Robotic Vacuum Cleaners, right. And similarly, Hyperice, for example, that category never existed in India. And this kind of niche products which the millennial and the social media generation, which really likes that. These all products comes with extremely high margin because these products are all experiential products. And the go-to-market strategy of this product is very different from box moving products. And since we have all the skill sets to take this experiential products to the market, brand really offer a high margin as well as exclusivity as well as they help us to get into newer channels with this product. So, our overall endeavor has always been on the bottom line and as we build economies of scale, so for example, there is a certain turnover, after you reach that turnover, whatever else you do, everything gets added to the bottom line. And that's what is our thought process that you start doing a certain amount of turnover and then everything else can just fall into the bottom line.
- Abhijit Kanvinde:** So, to give an example Hyperice and Insta have been the initiatives where the gross margin is much higher than the traditional products what we used to do. More than 15%. Also, we are doing Zeiss, Edelkrone, these are in the range of 25% margin products just to give you an example.
- Sunil:** On that when it will first get reflected -- Q3 or Q4 or in FY'23?
- Ketan Patel:** So, gradually you will see good improvement on the bottom line, I think from the fourth quarter, you can see.
- Abhijit Kanvinde:** Fourth quarter and then you get the traction because a product needs some time to settle it's a new product introduced in India. So, four to six months it takes.
- Moderator:** Thank you. We have next question from the line of Sandip Agarwal from Edelweiss. Please go ahead.
- Sandip Agarwal:** I have only one question regarding this slide which shows your classification of revenue into various buckets where we see the enterprise business and the FMSG and FMCT and FMEG

business. So, my question is, is it so that because of the supply chain issues, the FMSG numbers have obviously gone up quarter-on-quarter in absolute numbers, but the percentage jump doesn't look so strong. So, how much of that has got impacted because of the supply chain issue, that is number one? And number two, is that where do you see this thing reaching in FY'23 & FY'24? So, my idea is to understand that in FY'23 and FY'24, what will be the proportion of the fast-growing businesses like the FMSG, FMCT, FMEG or alternatively, what will be the proportion of the enterprise business which is a low margin business? What kind of replacement of enterprise business as a percentage? Can we see two other businesses?

**Ketan Patel:**

Number one, the supply chain issue has been there in a lot of fronts for at least IT. One is the chip shortage. So, it's a power chip, so it goes from as low product like Rs.500 product to as a high product like a Rs.10 lakh product also. So, the supply chain has been issue. Then second, after supply chain, the availability of containers and the freight for the flight has also been an issue because all flights are not still open and all countries are not operating at full potential. That is the first part, which this figures could have been much, much, much better if the supply chain would have not been issue. Second, there has been already a price increase of more than 30%, 40% on each product. So, we think that by February, March 2022, everything should start to fall in place in terms of supply chain, in terms of availability of products, and the prices will also get corrected. By that time hopefully and fingers crossed, unrestricted travel to foreign locations also would have begun and that would really... because when people go out, when people dine in restaurants, when people go on trek, when they go on cycling, when they go for paragliding, skiing, other stuff, they really want to share a lot of content. So, this should go up. That's the first part. Second, our endeavor is that over a period of time, FMSG should become close to 55%, 60% of our business and the Enterprise business will keep going down and down because it's a very low margin business. And it's kind of an opportunity business for us. So, whenever we have free cash and whenever it may not impact our cash flow cycle, then only we do that business, otherwise, the whole focus is on the FMSG business. Lot of our products fall into that, I think by year '24, '25, we should be at least 55%, 60% of our business would start coming from FMSG.

**Abhijit Kanvande:**

I think more than 60% for sure.

**Moderator:**

We have next question from the line of Ayush Agarwal from Mittal Analytics. Please go ahead

**Ayush Agarwal:**

A couple of questions. First is I would like to understand which brands are driving the growth in the enterprise business segment?

**Ketan Patel:**

So, there are a lot of products. We have Printronix. So, the car industry was kind of down. So, Printronix falls into that. So, that business has started happening. For example, there was a call center and three people used to use the same PC. Now, we require three PCs for the three different people. So, mainly IT, this line printer, storage and mobile phones and this is the main products which drive that business. Still in InVue not picked up very well because stores are not

opening. Once that also starts that will also start adding. So, we have now got a slide in the presentation where we have earmarked also which products falls into enterprise business.

**Ayush Agarwal:** So, that's what I'm asking like from AOC Printronix Philips InVue which brands were...

**Ketan Patel:** Monitor for example, Ayush, the price is almost triple, a monitor which was Rs.300 is approximately nothing less than Rs.8,000 because of the chip shortage. And if you have the availability you can just supply it to the consumers.

**Ayush Agarwal:** I may have missed this announcement or something, but I don't see GoPro on your presentation. So, has GoPro left and since you are doing Insta360 which looks like a direct competitor to GoPro, so, what is our approach towards this?

**Ketan Patel:** Yes, so two things, Ayush. Number one, GoPro overall for the last two years in terms of sales was also greatly affected, because it was a high value product and it was an outdoor product. And GoPro in order to protect their balance sheet at least asked more than 350 people to leave who live mainly from Asia after the lockdown and the new management at the helm wants to go direct to consumer and they want to offer products at \$100 cheaper ways to the consumer directly from the site. So, they dismantled almost the distribution structure here and the chip shortage was so huge that they could not provide products for the US consumer. So, we then started our initiation with Insta360. The advantage of Insta360 is that it has all the products right from for virtual reality to standard, your sports to outdoor and the pricing ranges from close to Rs.40,000 to Rs.8 lakhs. And they have two very good products which are great for virtual reality and there's a huge demand for that. And that's why we took up Insta and stopped GoPro.

**Ayush Agarwal:** Great news on Insta and congratulations on that but I personally feel and I think your IR can also advise you on this, GoPro was a major business and I think it's a material information that should have been declared to the exchange. So, that's one suggestion from my end that it should have been communicated to the exchange that you're not doing business with GoPro anymore.

**Ketan Patel:** We will surely do that.

**Ayush Agarwal:** Because I'm sure that this was a major chunk of our business in FY'19 and until last concall, we were aware that, as travel opens up, GoPro business would pick up again. So, I was really confused to not see GoPro on the slide and see Insta360, which is a direct competitor.

**Ketan Patel:** I don't know whether my answer may give you any respite, but usually...

**Ayush Agarwal:** No-no, I'm sure it did, but the only thing is that we expect this information to come real time since it is the material information.

**Ketan Patel:** Only thing is sometimes it is that when you are into a transition, you have certain stock which you want to liquidate. And while your agreements are not in place with Insta, so you just do not want to make that announcement, that's why we said let everything fall into place and then we will do that but point well taken and we will surely implement it in future.

**Ayush Agarwal:** Thank you for the consideration, sir. My next question is now, when I look at your FMSG portfolio, it is a huge portfolio with really good brands. And as you have mentioned that they should be 55%, 60% of our business going ahead. I would like to understand specially on products like Hyperice, MSI, which are very high value products and Edelkrone. So, what is the approach here and what is the marketing strategy like we are adopting or these companies are adopting in India, and what kind of traction are you seeing?

**Ketan Patel:** So, let's start with the new Baby Hyperice for example. So, Hyperice, again, I will tell you the whole journey you understand. Hyperice is more from the US perspective and they were as a sports recovery product. So, you run a marathon and say you recover in three days, with Hyperice, you will recover in say 24-hours or you will recover at half the time. And it's a Inc. 500 company in US and their approach is very simple; they get all athletes as investor, so LeBron James from the basketball team is athlete investor there, Virat Kohli is an athlete investor, Naomi Osaka is a tennis player and investor in that company. And when they wanted to come to India, we saw their product. And then we said that cricket does not feature on your app, kabadi does not feature on your app. For us. outdoor sports is more about walking, cycling, running marathons. That's what it is. And the company was very receptive and they told us that they would get that implemented here. Now Hyperice is more from experiential products. So, when you really use that product, that's when you really know how great that product is and then you want to share it. On that suggestion also, I'm not sure but Virat also they would have taken because he's a kind of iconic cricketer and they would have taken that. And then once that was built up, we got the product guy, he is a physiotherapist, interested in it. So, because he should know the body, he should know the muscles, he should be able to train the trainers at the gym, he should be able to train the people at the marathon. So, that's what we built up and now we have presented Chroma, we have got great point-of-sale, there we are present at Amazon, we are present at Reliance Digital. And slowly we will be present in all five-star stores and gym with recovery places for Hyperice. Similarly, for PNY, it's a brand which have SSDs and great graphic card. Here you don't have to do much because of the chip shortage, the graphic cards are also in huge demand, huge demand. So, here except the social and the training on which graphic cards to be used for which gaming machines, we are not doing along. Coming to Edelkrone is the product for the future because everything from a photo is turning into video. And Edelkrone helps you to capture flawless videos by a single person, managing the motion of your camera from your mobile app. And the go-to-market strategy about is this is to go to photography schools, go to specialty stores, go to production houses, and go to manufacturers, give them a demo of this product, and then they start buying. One surprising thing both for Hyperice and Edelkrone is that Hyperice had called something called Normatec which is kind of a Rs.2 lakh product. And we've just launched it on Amazon and people without even touch feel have bought

three pairs of Normatec from Amazon. And similarly for our Edelkrone, we have seen that equipment worth Rs.3 lakh people have gone and bought it, which suggests that this product has a huge demand, they were not available in India, people research these abroad, they thought they want to get this product. When they found that it is available through reputed partners there, they have gone and bought it. So, our whole thought process remains that when you get a product, speak to the company, get their India-specific marketing strategy, right, execute that marketing strategy, get people with the right skill set and take it forward. Hyperice was kind enough because they have aspirations to become a \$40 million in three years in India. So, they have signed up with us exclusively for three years. So, we can focus without any pressure on that.

**Moderator:**

Our next question from the line of Kalpesh from JSJ Advisors. Please go ahead.

**Kalpesh Parekh:**

I have a couple of questions. I was hearing you and Abhijit ji. But on the margin front, I have one question, particularly when you're hinting that EBITDA can improve from 3.59 to something like 4.5. But when we are hearing so many heavy margin products to be introduced and also Honeywell product stream, we will have a higher share and all that thing coming in, do you think this is a very understatement from our side to say, should we expect more on the EBITDA front?

**Abhijit Kanvinde:**

Honestly speaking, we want to be very conservative in giving any guidance. Honeywell is the game changer as Ketan rightly mentioned from the perspective of margins and therefore EBITDA. So, rolling off Honeywell project and to new countries, new territories would definitely involve some additional costs. So, we are definitely talking about gross margins. But beyond gross margin, there will be additional costs. I'm sure 4.6% or 5% would be a number which is reasonable, but we will try and grow beyond that. So, rolling in new countries will have additional expenses and therefore we are being conservative in talking about the EBITDA number.

**Ketan Patel:**

Kalpesh bhai, for any new products, new territory take eight, nine months to settle if you have the right manpower there. So, to start Middle East, we have been almost investing from last five, six months. And that's where our consol was always coming kind of ...

**Abhijit Kanvinde:**

I want to highlight this Kalpesh bhai, in the first quarter of this financial year, our standalone PAT was Rs.3.02 crores and our consol PAT was 1.2 crores So, they were consol expenses, which we're bringing our consol down. Now if you see, our consol PAT for the full half is higher than our standalone PAT, that means the synergies have started coming from the subsidiaries. In the first quarter, the same was not there. The international market was closed. So, similarly, just to add to Ketan, they will be more expensive.

**Vijay Advani:**

So, I would answer in this fashion. When we launched this Honeywell previously, we had SKUs which we wanted to take to the consumers, to the retail shops and those. Then the second set of products when we launched, we knew that now there is enough people who wants to buy this product, we launched products which are required for B2B for enterprises sections, like docking

stations, and 20 meters, 15 meters cables and other things. Then we got into some of the products like the passive components, which we know will go in huge volumes in few of the industries. Now, we are again going to launch the sound category products which will probably be more for the consumer segment. So, that will definitely involve more costs, but the spread will be good and visibility will be very better. So, that's the reason we are probably a little bit conservative in saying our EBITDA and profitability,

**Kalpesh Parekh:** Absolutely. It could be safe to presume that half year to half year basis, we should be seeing the consistent improvement coming in, not only in the gross margin but EBITDA also.

**Ketan Patel:** Every quarter-on-quarter consistent improvements coming in because the economies of scale are setting in, and it is also giving reward to our investments for the last four years in the Honeywell brand. So, today, each product if you have to invest in the dye, for air purifiers, a dye cost almost \$70,000. So, you invest it in front and then you amortize it on the product pricing over the years' time. So, I think in a couple of years, you'll see very good traction because then all our investments would kind of have been done.

**Kalpesh Parekh:** My second question is on the Ckart front. We had a good discussion on that. So, how has been the progress of late -- is it more now getting acceptability among your B2B guys, and this quarter you are seeing more traction because what we are hearing is that from all the consumer durable and other guys that there has been shortage on the material front and they are running short on various materials. Are you also sensing that type of demand from your B2B guys?

**Ketan Patel:** Shortage has kind of been a new normal for the last 14, 15 months now. After COVID set in, initially there was no demand and then there was acute shortage. So, that has been there. Coming to Ckart, we keep developing and making changes on the product front very well. It's a B2B platform, right. So, it will never have 5 million, 10 million customers on it. But if we have to just talk about numbers, we have done close to business now Rs.225 crores plus on Ckart and we have got close to now 1,200 new partners added on Ckart. And the synergy of Ckart is that eventually it will help us to make margins on other people inventory and as our base for B2B partner increases, our credit to them will decrease and it will then help us to have a great free cash flow from operations. Just one concept for you is that the success metrics of Ckart is much different from success metrics of Creative and we are cognizant of that fact and we will kind of have a different success metric for Ckart for us to really measure whether we are making great progress in that.

**Moderator:** We take the next question from the line of Sunil, an investor. Please go ahead.

**Sunil:** Hi, Ketan. I'm coming back to this Ckart. I know you were very passionate about this in a couple of calls and you mentioned during the last call that you have engaged a professor from IIM and you are looking at the possibility of spinning it off or giving some shape to this in future. So, any progress on that?

- Ketan Patel:** So, we are in discussion, we have spoken to the board we have spoken to a few consultants. I think it will take a couple of months to make a decision how we want to go about this. See, Sunil, it's a very different, right. This is a new age business, but nowadays new age business everybody wants to burn cash. And somehow Abhijit cannot make a balance sheet which will burn cash. So, that's where we are stuck on that.
- Moderator:** We have next question from the line of Sarang, an investor. Please go ahead.
- Sarang:** My question was around the Honeywell business. We said this year we would do somewhere around Rs.80-100 crores. So, I just wanted to understand how much we have done so far in this first half?
- Abhijit Kanvande:** As you are aware, internationally first two, three months was a washout. In this YTD Honeywell what we have done is Rs.19.8 crores in almost three months.
- Ketan Patel:** So, with the launch of air purifiers and with the launch of audio, we are quite sure that we will be close to the Rs.80-plus crores mark this year for sure, because we also have now started receiving orders. So, our distributor for Egypt is finalized, our distributor for Kuwait is finalized, our distributor for Bahrain is now finalized and they have all liked the product, they all check the product. So, we are quite confident that we will surely do this. So, this quarter also we think that we should be close to 20 crores plans in Honeywell business.
- Sarang:** One related question I had was that in general, is all our Honeywell business licensing or do we have kind of split of some products of Honeywell we take care in terms of distribution and then air purifier and audio products are the ones where we have licensing agreement, is that is that correct understanding?
- Ketan Patel:** No, all our products are licensed and all products we own the brand IP, we own the design and do it. Just as the reverse that some products, Honeywell buys and sells from us. So, for example, Marriott Hotels, Honeywell would buy air purifiers from us and sell it to Marriott. Our structure cabling, our fiber cable, Honeywell would buy from us and sell it to their enterprise customer. So, that's a bit of reverse in that.
- Abhijit Kanvande:** And also, Sarang, we have classified our business into major two parts; one is an active component business and one is a passive business. Now active business consists of purifier, sound, the other products that is driven by Mohit and the passive is driven by Mandar. There are two very senior people driving this business, but overall Honeywell business is a licensee business, same.
- Sarang:** In general, all the Honeywell international business is done through secure connections in Hong Kong?

**Ketan Patel:** Yes, except I think Nepal and Sri Lanka may happen and probably Bangladesh for passive. For active because we get it manufactured in Taiwan and China, everything thing would come from this.

**Moderator:** We have next question from the line of Ashok Kumar Agarwal, an investor. Please go ahead.

**Ashok K Agarwal:** My question is about the Ckart. Are we deriving some profit out of it or it has not started contributing to our businesses?

**Ketan Patel:** So, currently, Ckart and Creative are kinds of same side of the coin. So, a lot of customers may opt to use direct ordering system or may use Ckart to order a stuff and currently Ckart because it's part of Creative it's not charging anything.

**Abhijit Kanvinde:** Our business is that we sell to sub-distributors who sell to retailers, normally sell to consumers in case of normal IT channels. But what happens is sub-distributors are for particular products and for particular territories. Now, if the sub-distributor wants to buy Honeywell... though Honeywell is our brand, so, he can place an order through Ckart. So, from that angle, sir, there is always increase in our business. The entire range of products what is available on Ckart is available for the sub-distributors who are not dealing in that product. There are several orders which have been placed. I can give you examples of GoPro being sold. I can give you examples of Honeywell Purifier being sold and Honeywell other products being sold. So, there is a traction, which is happening through Ckart. We have not right now identified it and differentiated it between Ckart driven sell and Creative driven sell. It is all coming together.

**Ketan Patel:** So, we have identified the sale but we are not marking any.

**Abhijit Kanvinde:** Yes, we are not marking it as a separate thing.

**Ashok K Agarwal:** Interesting to know about Hyperice. So, it is also a high margin business and very recently we have the collaboration for that. So, what kind of sales contribution we can expect from Hyperice in next year, FY'23, out of it? Currently, maybe next five, six months, it won't contribute much.

**Ketan Patel:** A couple of things are there. Hyperice has an ambition to do at least \$35-40 million. And for this, you can consider a \$1 as Rs.100 because our margin, the GST and other stuff. So, that is the aspiration of the company of what they want to do in three to four years and that's how probably they would have got Virat and probably they may get other people also on this. While as a company, we don't take it that way. We first see the synergy how it's happening for the first three, four months and then we'll stick up for that. And then based on your performance and how the future looks like we do that. So, for Hyperice, it may be kind of \$30 million for us. We will part it that \$8 to \$10 million over the next couple of years, but we will have the necessary manpower and we will also have the necessary infrastructure that if it picks up very well and we have to grow it, then the resources and the means don't stop us. So, that's how we approach kind

of conservatively, but a lot of optimism as we discuss. So, that's what it is. And Hyperice overall, if you Google it worldwide, they are aiming to do I think at least quadruple their revenue in the next three years.

**Moderator:** Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Ketan Patel for closing comments. Over to you, sir.

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

**Abhijit Kanvande:** Thank you very much.

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