"Creative Peripherals and Distribution Limited Q1 FY-20 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Creative Peripherals and Distribution Limited Q1 FY20 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ketan Patel – Managing Director, Creative Peripherals and Distribution Limited. Thank you and over to you Sir.

Ketan Patel: Good morning everyone. Welcome to Creative Peripherals and Distribution Limited's ~~yearly~~ earnings conference call for the first quarter of the financial year 2019-20. I would like to begin by expressing my gratitude to you all for taking the time to join us. On the call with me today is Mr. Abhijit Kanvinde – 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 last quarter I would like to share a brief insight of our company. We are market entry specialists for experiential brands across India, the Middle East and the South Asian markets. Our company specializes in market entry for global brands and works closely with its clients to achieve optimum market penetration and growth. Our network encompasses of all the three channels, online, retail and general trade whereby giving us a strong leverage to reach out to a wider marketplace.

Furthermore, our value-added business model covers~~ed~~ end-to-end solutions for market research and competition analysis to formulating and executing region specific marketing and pre-sales strategy for brands. Currently we have a strong long-term association with over 20 globally renowned brands which we categorize~~d~~ into four divisions; IT, Lifestyle, Imaging and Security products. In IT we offer a range of computer peripherals, printers, supplies, cartridges, PC components, storage and similar IT products. This wide spectrum of products from multiple vendors has helped our company to achieve economies of sales and a single sourcing point to our customer.

One of the key brands under this category is Honeywell; it's a Fortune 50 company with whom we have deep integration in terms of contract manufacturing and distribution across India and abroad. The Lifestyle segment has been changing rapidly. Consumer trends are now moving from utility oriented to experience oriented products. Our wide product range encompasses TVs, headphones, projectors etc. In imaging we offer a range of cameras, lenses, backpack and imaging accessories such as tripod etc. This category is going aggressively as trends in photography change~~d~~ rapidly.

Apart from setting up innovative distributor channel we train employees and help clients to develop content to give a whole package of experience to the end consumer. One of the key drivers in this segment is GoPro which has seen insignificant growth in user adoption across the urban markets in India. In digital security we strive to cater to the growing needs and demand for security products and are expanding in this ~~that action~~direction rapidly. We are evolving into a major player in this segment with exclusive agreement with global giants in this segment such as InVue. Our focus is on offering experiential products and enabling such brands to enter and establish~~ed~~ in new markets. We continue to aim for higher operational efficiencies and adding high-margin value added products to our portfolio. Associations with Honeywell and GoPro are steps together in that direction.

I would now like to take you through some key recent developments. I'm happy to share that we won the Distributor of the year Award from Printronix, a global specialist in printing solutions. We have an exclusive agreement with the company to distribute their products across India. During this quarter we also entered into an exclusive agreement with iBall to distribute their whole portfolio of products across Madhya Pradesh and Vidarbha.

I am also very happy to share that we have successfully migrated from NSE, SME exchange to the NSE Main Board after completing all the required formalities. We expect this move to provide the company a larger platform and visibility in the market and spread foundation for future growth. 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 in Quarter 1 FY20. Thank you.

Abhijit Kanvinde: Thank you Sir and a very good morning to ~~e~~all. I will share the highlights of our financial performance after which we would be glad to respond to your queries. In the quarter ended June 2019 our company achieved net revenue of Rs. 104.8 crores which is a year-on-year growth of 35.3% from Rs. 77.5 crores in the same quarter last year. This is mainly on account of continued growth in our key business divisions of Imaging and IT driven by ~~a~~ niche brands like GoPro, ViewSonic and Printronix. Our EBITDA stood at Rs. 4.3 crores in Q1 FY20, an increase of 59.3% as compared to Rs. 2.7 crores in Quarter 1 FY19 on the back of higher revenues and increased contribution from high-margin value-added products ~~like~~ in imaging like GoPro. The profit after tax for the quarter is at Rs. 1.98 crores as compared to Rs. 0.96 crores in Q1 FY19. This represents a growth of 107% year-on-year. Our EPS in first quarter FY20 stood at 1.71 registering the year-on-year growth of 3.64% as compared to Rs. 1.65 in Q1 FY19. This is all from our side. Now we can open the floor for questions.

Moderator: Thank you very much. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Rahul Jain, as an Individual Investor.

Rahul Jain: Just one small clarification before I could go further in the questions; the first quarter results you have said that are basically on the back of good performance of GoPro, is that right?

Abhijit Kanvinde: Yes, one of the reasons is there are three products which have performed well; GoPro ViewSonic and Printonix. But GoPro is the main reason yes.

Rahul Jain: How long has it been about the existence of GoPro in the Indian market if you can throw some light on this so that we can understand the entire journey ~~revolution~~ of GoPro and what would be the future of this one important product for you?

Ketan Patel: Rahul I will answer your question in two parts; I will first tell you something about GoPro and then I will also tell you how much has been our association with GoPro in India. So GoPro is the action camera trend based out of US. It has worldwide 85% market share in the $200 plus category worldwide and GoPro’s association with us started a couple of years back. GoPro has been present in India for the last 5 years but when they started the Association with us their total sale in the year was US$~~400 to~~ 500 K and after ~~we~~ they started the business with us in the first year we did US$8 million and then the last financial year we did close to 100 crores of business for GoPro. Now GoPro if you ~~have~~ see~~n~~ in the market and that’s how we always whenever we take a new product also we never just compare what its share in US and Europe, we also see how the product is faring in the Asian markets which are familiar to us. So for example if we term same terms of dollar last year we did GoPro close to $14 million and at the same time Japan did GoPro close to $62 million and this year Japan will do close to $84 million in GoPro, Korea did $40 million and our counterpart~~s~~ Thailand did $24 million. So GoPro overall in the Asian subcontinent is a very upcoming brand. As a brand it is 15 years old based out of US but because the millenial generation is just now started spending a lot of money on hobbies and other stuff GoPro will surely do very well in Asia.

Rahul Jain: I’m pretty much aware because a lot of YouTube videos of tourists and those individuals who go to places are actually shot on GoPro which they themselves have actually certified.

Ketan Patel: Yes, so GoPro has a program~~mer~~ and GoPro believes that it’s a YouTube and Instagram brand. So in India also we work closely with 40 influencers and they keep creating videos for GoPro. It’s a partnership which we nurture~~d~~ along with GoPro and then GoPro also runs program as video of the day, photo of the day, video of the month, product of the month. The last time when we launched the new models of GoPro in India we had the $1 million challenge where users could themselves shoot the videos on GoPro if the video was selected by GoPro then the users could get close to $1 million for that video and that’s how GoPro has over the years built~~d~~ their brand by building this community which is ~~from~~ more from the travel prospective in Asia and more from adventure sports prospective in Europe and in US.

Rahul Jain: Just a little more clarification because I move over to the other segments. Creative has an exclusive kind of a tie up for the Indian market if I’m not mistaken.

Ketan Patel: Yes, you are correct.

Rahul Jain: So today's sales in the total of market size as on date of GoPro or how do you see this market size evolving over a period of time? That can give us somewhat of imagination about the numbers going forward.

Ketan Patel: Two things, very few companies are lucky to get a product which is high volume high margin and we have been one of the lucky ones in that case in terms of GoPro and GoPro is a very receptive company. When it came to India it understood very well that India there is nothing like adventure sports for the skiing, surfing all this is not there. For us adventure is a daily commute which we do from our office to our houses or adventure for us is travel, emotional family moments by capturing festivals that's the thing~~it~~. GoPro ran a great campaign on that and then they built~~d~~ up India specific content so that people can get associated with GoPro. If our execution goes well I think India has the potential of at least going to $100 million in the next 3 to 4 years in terms of GoPro business.

Rahul Jain: That's great. What is the margin differential between our average margin and GoPro margins?

Ketan Patel: So for the benefit of all I will say that as a company we have four categories in which we have divided our products, one is IT, one is Lifestyle, one is Imaging where the GoPro range falls on and last is Retail security. So IT is margin between 4% to 5%, Retail security and lifestyle is the margin between 8% to 10% and Imaging where GoPro falls the margin is between 12% to 14%.

Rahul Jain: What other products are there in imaging segment?

Ketan Patel: We deal with one of the best brands in imaging. So we deal with a Manfrotto, Manfrotto is like the Mercedes of tripods and we deal with another brand called Gitzo; Gitzo is like the Lamborghini of tripod. It's 100-year-old brand even when Discovery went into space, they took a Gitzo to shoot photographs of Earth, they used their tripod. It was the first company which made carbon fiber tripods in the world. Then we have National Geographic with us, then we have a few of other brands. We also have Olympus with us, ~~we have JOBY with us~~ and one of the key things is that photography from consumer has moved to Prosumer. Prosumer is like the professional consumer and the evolved consumer and then there are professionals. India's population less than 35 years is more than 70%-75% and each millennial follow a couple of hobbies and photography and cycling are top two hobbies which people follow in India.

Rahul Jain: The segments that we are in right now are probably in their less than maturity stage, are they still in the stage of evolution if I have understood it correctly through your presentation?

Ketan Patel: Two things are there because margins are tight in the ~~CDIT~~ IT distribution space and a lot of distribution houses, lot of we call independent retailers have not evolved according to the market needs. Now if you know product and price has completely lost its relevance and any product which has a community, which has content sharing capabilities and which gives great customer experience can only find some place in the consumer's mind and we as a company are really concentrating on the consumer experience bit. So for us products which or companies ~~if~~ who want~~s~~ to deliver great consumer experience will come to us and we would then ~~they~~ take ~~this~~ these type of products to the market. One is the niche segment and one where the consolidation is happening. So for example if you look at the personal grooming phase or if you look at the small appliances phase; initially there was nothing about man grooming or there was there was nothing about a male entering the kitchen. But over the last 5 years if you consider the perfect man is the one who is well-groomed, who enters the kitchen, cooks for his wife, cooks for his family. Now this industry has been there for ~~a~~ long; ~~that's~~ but the approach to this industry is changing and if somebody can really identify that and then do the market positioning that way then the traditional products also can do well. For us we see our ~~skills there~~skills there -and we see whether we can do justice to the brand strategy and if we can do that and if the brand is serious about the India business then we would get associated with similar kinds of brands. So we look at the new age products as well as we look at traditional products which are doing well in the West but India is just on the cusp of growth in that region.

Moderator: The next question is from the line of Pankaj Mehta as an Individual Investor.

Pankaj Mehta: My first question is; can you give me the product wise revenue breakup?

Ketan Patel: Pankaj I will give you the breakup but I will just first give you as I told in my previous thing that we have divided our business into four categories; one is IT where we need 4% to 5% margin, second is Imaging where we make 12% to 4% margin, third is Lifestyle and Retail Security where we make 8% to 10% margin. So that's how we do. Between the right now business Imaging business is close to 48% in the first quarter and IT business, Lifestyle and Retail business is close to 52% in the first quarter. So the blended margin of both this would come close to 9.8% so that's how, that's the blended margin.

Pankaj Mehta: Currently which segment you are focusing more, right now as per the market basically?

Ketan Patel: It's a mix of both because we are focusing on Imaging ~~in~~ and Retail Security very much right now but for an Imaging product or a Retail Security product we have to build first internal skillsets ~~at~~ we have to have product training, then we have to have training at our distributors, our retailers there and it's like a process. We will take 6 to 7 months to establish a brand then you have to have relevant content for that brand then you have to have the relevant point of sales for that brand. So usually we do a mix; we take up fast moving products in the IT and Lifestyle space and meanwhile we work on couple of brands to develop into the Imaging and the Retail security space. In the Retail Security space also we have tied up with the American brand called InVue. Again with InVue it has got 80% worldwide market share, ~~is~~it's the OEM for Apple, Google, Mi~~I~~ worldwide any store which you see a Google, Microsoft, Apple store will ~~you~~ use InVue for its Retail Security products.

Pankaj Mehta: My second question is why interest cost is increased, is there any specific reason?

Abhijit Kanvinde: As compared to last year in view of the growth our bankers have assigned us more specifically to the tune of around 6 to 7 crores additional that's the reason we have used those working capital facility funds for the business and the interest cost is higher.

Moderator: The next question is from the line of Priyanka Jain from Equity Wealth.

Priyanka Jain: I have been seeing the working capital, so being in the distribution market how do we plan to work on our working capital and are we planning to reduce the number of days?

Ketan Patel: Currently our working capital cycle is close to 52 days and yes, we are trying to get it ~~reviewed~~ reduced to close to between 38 to 40 days. As we build~~t~~ up scale in the existing infrastructure; by the third quarter you would start seeing the difference in that.

Priyanka Jain: Also we are increasing the number of partners, so once we get more brands into our product portfolio how does that impact our working capital?

Ketan Patel: Two things are there Priyanka, first we believe that we want to go vertically deep, so instead of heading more and more partners we want to grow the existing partners to sell and market more of our products. So our endeavor usually is to grow the same partner base in the sale by 10% to 12% every quarter. That's the first part of it and second part of it is that every quarter we would try to acquire close to 7% to 8% as a strategic customer for this business. But working capital cycle is more from the stocking and the import point of view, the cycle and increasing the partner ~~days~~base may help in reducing it by a couple of days. But the main thing would be if we work closely on a just-in-time inventory that would help us to grow. Right now because we are into contract manufacturing of Honeywell, so rest of the products our cycle is close to 47-48 days of stocking. But in Honeywell the stocking cycle is close to 90 days and that is what is pulling our inventory but now with the opening of Middle-east territory for us we think that we will be able to reduce the stocking cycle for Honeywell to close to 60 days. So that will really help us in reducing the working capital cycle.

Priyanka Jain: What is the reason; when I see the Q1 result I see there is a change in auditor?

Abhijit Kanvinde: Actually the existing auditors were there since inception with us. The senior partner's age is 72 now so he has decided to reduce the business and therefore he had expressed his inability to continue as the auditor since in view of his age and health and that's the reason we are changing the auditor.

Moderator: We have the follow up question from the line of Rahul Jain as an Individual Investor.

Rahul Jain: Just taking over from where I left in my previous questions. What is the kind of scale that we want to achieve in the next 3 to 4 years as you have rightly pointed out for one of your product?

Ketan Patel: The industry is growing Rahul right now at the growth of 8% to 10% and as a company we are targeting a growth of between 20% to 25% year-on-year.

Rahul Jain: Where is this growth incrementally going to come from; Imaging sector or like you said one of the brand associated with?

Ketan Patel: The growth primarily will come from Imaging and also will start coming from Lifestyle and Retail Security. As a company our endeavor is that 30% of our business should come from new products. So now GoPro will become 2 years, so after 3 years we will classify internally GoPro as an old product. So we will require a couple of products which will take place of GoPro in the terms of the new product category and we have already identified and are working closely with a few companies on tie-ups and that will help us to grow. One of our key advantage also Rahul is that we are a very asset light company and we have no capital intensive work so we have not set up any factories for any products and other things. So whenever we see an opportunity; now like everybody is moving to IoT and Artificial Intelligence, so if we see an opportunity and we can develop the skill set to that we will move into that category. For us when we add a category or we add a sub-category of an existing brand then also the growth is there. So I think our target of 20% to 25% year-on-year growth is a quite achievable growth.

~~**Rahul Jain:** One last question, a clarification about your standalone and consolidated numbers. Can you throw some more light as to what is debt into consolidated?~~

~~**Abhijit Kanvinde:** Rahul in the first quarter this year we have commenced to a subsidiary in Hong Kong. One is Creative Hong Kong Limited that's 100% subsidiary and Secure Connection Limited, Hong Kong Limited that's 70% subsidiary. We have just commenced so there is some business in those subsidiary and that's the reason these were consolidated in this quarter. Last year these subsidiaries were not there that's why there was no consolidation necessary and the numbers were the same as last year standalone.~~

Moderator: Thank you. Ladies and gentlemen that would be the last question for today. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Ketan Patel: I thank the entire team of Creative for their untiring efforts, hard work, sincerity and dedication. Also I appreciate all of you for participating in our conference call. Please do get in touch with our IR team for any further questions. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Creative Peripherals and Distribution Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.