



“Creative Newtech Limited
Q1 FY23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Creative Newtech Limited Q1 FY '23 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ketan Patel. Thank you, and over to you, sir.

Ketan Patel: Good morning, everyone. Welcome to Creative Newtech Limited Earning Conference Call for the first quarter ended June 30, 2022. Our company as you all would know was formerly known as Creative Peripherals and Distribution Limited. I would like to start by thanking all of you for taking the time to join.

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

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

On recent developments, although the pandemic is behind us, the consumer sentiments are dipping owing to the hazy views of the economy and with persistent inflation. While most of the world is gradually recovering from the pandemic, as recent as this week, we have seen that China has shut down a district of 1 million people over four asymptomatic COVID cases.

The chip shortage is easing now, but the logistics issue and container shortage yet have to see some improvements. The unprecedented demand combined with supply chain shocks and pandemic shutdown caused critical shortages of

chips forcing companies to redesign or re-engineer products and hoard components. And to add to this for the last few weeks, the Indian rupee has been on a downward spiral and continues to show weakness against the US dollar. Although the depreciation of the Indian currency impacts imports by making them costlier, but it also is likely to enhance export competitiveness, which would impact the economy positively.

Our business and our vision far exceed beyond just distribution. Today, we are well established as brand licensee, with a long-term agreement with Honeywell and now building further on this line of business. This is also garnering attention of other global brands which are looking at brand licensing as a beneficial approach.

On the distribution front, we recently rearranged our segmental structure to better align with our business, structure, and strategy. Our brands are now categorized into the following four segments:

Fast moving social media gadgets (FMSG) - These comprise new and niche products that appeal to the younger demographic and have a fast turnaround. The brands are driven by social media penetration and wide adoption. This is one of the fastest growing and higher margin segments.

Fast moving consumer technology (FMCT) - This segment includes established and fast-moving consumer products that cater to personal as well as organizational demand such as Samsung, iBall and ViewSonic.

Enterprise business (EB) - This comprises of products which are supplied to enterprise and are of high volume. Some brands in this category include MSi, Printronix and Phillips, AOC etc.

Fast moving electronics goods (FMEG) - This segment covers our alliance with Reliance through which we offer home appliances, bulbs, and lights from brands such as BPL.

These segments now better represent our brand portfolio and gives better clarity on high margin and high-volume products. We expand and refresh our portfolio periodically with new, niche products and brands which are relevant to our times. Some of our most recent brand addition including Insta360, Fujifilm Instax and Hyperice a US-based company specializing in technology-based muscle recovery and massage products well known in wellness and fitness category.

In Q1 FY23, we continue to work towards collaborating with well-established global brands to add to our portfolio. One such brand that we added for the quarter was Lexar. Lexar is a global brand providing memory solutions for last 25 years. This product offers including memory cards, USB, flash drive, readers, and SSD.

Now we have the distribution rights for Lexar product range of memory and storage solutions in India. We have also expanded the category in Samsung brand by adding their Samsung Flash Memory products into our existing arrangement with them. Our association with both of them will help us to cater to a younger demographic driven by social media, which on a broader prospect is a high growth market segment. We are in the process of evaluating more brands to add to our portfolio during the year which help us to achieve higher growth through higher margin products and quick working capital cycle.

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

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

I now hand it over to Mr. Abhijit Kanvinde who will take you through the financial highlights of Q1.

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

Our financials are reported as per Ind AS guidance. In the quarter ended 30th of June 2022, the company reported a total income of Rs. 244.03 crores growing 79.59% year-on-year. This was partly since the last year corresponding period was impacted by COVID induced slowdown. Growth was also supported by Enterprise business and Fast-Moving Consumer Technology segment and demand for the products like Samsung, Cooler Master, Honeywell, and PNY amongst others.

EBITDA stood at Rs. 7.66 crores as against Rs. 4.11 crores in the previous corresponding period, increasing 86.21% year-on-year. Benefits from changed product mix was offset by higher sales promotion expenses and freight and clearing charges leading to contraction in EBITDA margin. The net profit for this quarter is Rs. 4.03 crores as compared to Rs. 1.23 crores in the Q1 FY22, a year-on-year growth of 227.64%.

This is all from our side and now we open the floor for questions.

Moderator: Thank you, sir. We have the first question from the line of Suraj Nawadhar from Sampada Investments. Please go ahead.

Suraj Nawadhar: My first question was that this is now second or probably third quarter that we have been impacted by a higher sales and promotion. For which brand we are undertaking this activity? And how long this is expected to continue?

Abhijit Kanvinde: Actually, the sales promotion expenses are for various brands. And this time since the launch of Honeywell products, we had Sound which was launched in the last quarter of last financial year. The entire range of sound products whose sales promotion expenses have come in this quarter, in the sense, there was a continuous program of sales. So, it was a mostly about Honeywell products, the sales promotion expenses, and it will taper down because it is an initial phase. You have higher expenses after that, it tapers down.

Suraj Nawadhar: So, can you quantify the amount for the sales and promotion, how much we spent in the Q1?

Abhijit Kanvinde: Approximately Rs. 1.5 crores was additional to the run rate of around Rs. 50 lakhs.

Suraj Nawadhar: Sir, we have valued for around 200 crores of revenue from this quarter and we have done around 244 crores in this quarter. So, that means we have to do at least 320 crores for next three quarters. So, is it achievable then?

Ketan Patel: So, our business is kind of cyclic. The first quarter is a very subdued quarter. The quarter two and quarter three is where you really build up because all the festivals and everything starts coming- in the quarter three, and that's why in the quarter two month of September, the stocking level also from the retailers and the e-commerce goes up. So, this looks very much achievable looking at how it is going. It should be, there would not be a problem.

Suraj Nawadhar: And also on the margins and also on the profit side, we have shed some targets internally. So, we are on track to achieve that, right?

Ketan Patel: Yes. As of now we are quite on track that we will achieve that.

Suraj Nawadhar: What was the Honeywell business in this quarter?

Ketan Patel: So, the Honeywell business in this quarter was close to Rs. 15.5 crores.

Suraj Nawadhar: 15.5 crores. And sir what is the debt amount in balance sheet as of end of this quarter?

Abhijit Kanvinde: Approximately, the long-term debt is around Rs. 11 crores and the short-term debt is Rs. 58 crores. So, overall debt is Rs. 69 crores. So, the debt equity ratio is 0.88.

Suraj Nawadhar: And sir, can you give bifurcation of the Other Income?

Abhijit Kanvinde: In other income, the major income is the operational income, of the incentives of duty free MEIS. That is around Rs. 4.37 crores. Out of Rs. 5.72 crores for the quarter other income, Rs. 4.37 crores is the duty-free credit MEIS. That's an incentive you get from the government and actually it should have been treated as part of the Cost of goods sold and I should have credited COGS technically and gross margin should have been higher, but it's an incentive which comes from the government as per the the Indian Accounting Standard it is classified as other income. So, from coming quarter, it will be classified as Other Operational income so that there is more clarity on this point.

Suraj Nawadhar: And sir, my last question is what according to you would be one or two risks to our targets that we may not achieve it?

Ketan Patel: So, kind of a couple of risks are there. One was dollar, we are completely hedged against the dollar. So, we don't have that risk, but as the dollar pricing keeps going higher, the cost of material also keeps going higher not just in

India, but all the other countries also. So, then if affordability becomes a problem, and if we have constraints on the consumer mind, so that could be one of the risk. If the dollar hovers around 80, 82 also, we will not have a problem, because ours are mostly peripheral products. So, there would not be significant dip into that. That's the first part.

Second part is the continued China embargo, because most of our factories are in that region, which are audited by Honeywell. And we have not been able to visit any of these factories for the last almost 24 to 28 months, and so the product development cycle and to look at the newer products, and then because they are under the embargo, the supply chain takes place so, the quarter-on-quarter get hampered because sometimes you can't get the ships for 14 days, 15 days.

So, to summarize, the dollar impact is one risk. The supply chain constraint and the logistics is the second risk. These are all the external factors.

On the internal factors, we have gone to SEA now as we had planned and we told that we will go to Southeast Asia in September. So, internally, if we can't get the right skill sets to head SEA, if we can't get the right skill set to expand Middle East and as we know now we have Africa also, we added eight other countries of Africa. So, if we don't have the right skill set internally to head Africa, then it would slow down our sales.

Suraj Nawadhar:

So, are we planning to hire anyone just to look after, let's say, Honeywell business? Because it is spread across multiple geographies and there are multiple regulations relating to each geography. There are different business dynamics of each geography. So, are we planning to hire someone just to look after Honeywell business?

Ketan Patel:

So, when we took the Honeywell business, we understood very well that the skill set is very important. So, at that point of time, we hired a Co-Founder Mr. Mohit Anand who was Country Manager for Microsoft Hardware and Xbox in

India and then he also was the Asia Pacific Director for a brand called Belkin from US. So, with Mohit's addition on the product development, on the specification, on the marketing side, we have a good bench strength and we don't have a problem. Even on the certification side, we have a good team who can get various certification because now Honeywell is almost a four-year-old business, with us, and besides the Mohit, now as we go to other territories, we would require to hire even for Honeywell and even for Creative, say, for example, on the long term, we want to grow every year at this rate; after say 5,000 crores or say 3,000 crores, we would have to look at somebody who can then take it to the next level. So, we keep speaking to a lot of guys, but then the cultural fit also has to be important, and our mindset is also kind of quite frugal. So, we cannot take any business saying that it would be a loss on the balance sheet. So, if somebody is with our right mindset who can fit into the culture, and we are actively looking at it. I am very Honest that for SEA, we have been looking for the last three months. Actually, our internal plan was that the person should be on role by July, but we have not been able to do that.

Suraj Nawadhar: Are we not getting the right person or what is the hindrance behind not getting the right person?

Ketan Patel: Because we are looking at somebody who would head the region. So, you want somebody of Indian origin if you can get, who knows the Indian way of working business, but also should have relationship with the retailers. and across Asia, for example, when you go to Singapore, it is not about Amazon; Lazada and Shopee are the largest retailers there. So, then you would need somebody who knows Lazada and Shopee as Lazada and Shopee are not existent in India. So, from India you cannot find somebody. So, you need somebody who is residing in Singapore with Indian origin, with the connection for the business there. So, we are trying to find out actively. We have spoken

to headhunters. We have gone back to the peers. Mohit has gone back to his peers in Microsoft, in Belkin to find people, but this is still taking time.

Suraj Nawadhar: And then my last question is, is Honeywell business also cyclical because we have given target for around Rs. 150 to Rs. 200 crores for this year and we have done Rs. 15 crores in Q1.

Ketan Patel: Yes.

Suraj Nawadhar: Is that because of the cyclical or?

Ketan Patel: Honeywell business is a bit cyclical because the air purifier business which is there, that is completely cyclical. So, the business only starts end of September in northern part of India. Similarly in Indonesia the similar is the case, When they burn the rice ban, that's when in Singapore also, the air quality gets poorer and they take air purifiers. The speakers as a whole, is where we are just the new entrant. So, cyclical business will not affect and we will grow from there, and the accessory business also is not cyclical, but it depends upon the availability of the product. So, in the last quarter, especially when Apple, laptops and others faced shortages, so our business gets a bit affected. But besides that, the air purifier is not very cyclical.

Moderator: We have the next question from the line of Riya Kumar from SKS Capital.

Riya Kumar: I wanted to know what is the rupee depreciation impact on the business? How is it impacting our business?

Ketan Patel: So, a 2 to 3% slide overall transfer almost 12 to 15% in the rise in the end user pricing. So, that's one part. And second is, when there is a lot of confusion about the pricing, the consumer kind of abstains from buying because if he has no clarity whether the price will go back lower or not, that's the case. So, in our case, currently, around 10 to 12% is the cost increase in products.

Riya Kumar: And one more last question, we have seen that we have got a lot of products from China and there have been lot of shutdowns there. So, how is this impacting our business basically?

Ketan Patel: So, couple of things are there. For the copper cables and that we have factories in India which are certified by Honeywell. So, there we don't have a problem. In case of China, the factories really work there very well, but if supposing there are some cases in the container yard, that's when they kind of lock down the container yard and the chances of you missing the ships are there. But the overall impact is that because China has been into lockdown, instead of say 2 months' inventory, now we have to have at least 3, 3.5 months inventory because you don't know when the situation will get worse. And second is factories. Before we are taking 30 days to produce goods and now we are taking almost 48, 49 days to produce goods. So, overall, your working capital cycle has gone up five days

Abhijit Kanvinde: 1.5 months.

Abhijit Kanvinde: Earlier it was 45. Now it is 50.

Ketan Patel: Overall, it is five days, but for Honeywell business, it is almost 30 to 45 days.

Abhijit Kanvinde: 35 to 45.

Ketan Patel: So, your working capital goes up by a month or so.

Moderator: Thank you. We have the next question from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer: I just wanted to know what is the business from Cooler Master in Quarter 1 as compared to Quarter 4 of FY22, if you could give me some number?

Abhijit Kanvinde: So, this quarter Cooler Master was Rs. 11.03 crores. As compared to the last quarter, it was Rs. 10.5 crores. Some marginal improvement in Cooler Master

business. Year-on-year, yes, there has been a increase of Rs. 4.5 crores almost in the business.

Vignesh Iyer: If you could tell me as we had a talk last time about re-categorizing the other income as other operating income.

Abhijit Kanvinde: Yes. This I have spoken with the auditors. It will be done when we will submit our half yearly when the balance sheet is submitted. The next quarter it will be done. And they suggested that we should do when we submit the balance sheet, which is next quarter. And then it will be done.

Vignesh Iyer: FY22 balance sheet.

Abhijit Kanvinde: No, half yearly. September. They will be classifying this September and then this will be consistently reclassified.

Moderator: Thank you. We have the next question from the line of Pratik Kumar, an individual investor. Please go ahead.

Pratik Kumar: Sir, can you give me a breakup of your Rs. 15 crores of sale of Honeywell between various categories, this quarter?

Abhijit Kanvinde: Honeywell Active, that is the mobility product and it is approximately Rs. 6.5 crores. Honeywell Passive, that is networking cable is Rs. 5.64 crores. Honeywell Air Purifies, since the season has not started, it is hardly Rs. 50 lakhs, and around Rs. 2.5 crores of audio.

Pratik Kumar: And sir, last year, same time in the last quarter, what was your Honeywell sales?

Abhijit Kanvinde: It was Rs. 19.5 crores.

Pratik Kumar: So, why is there a decline, sir?

Abhijit Kanvinde: There is a seasonality. First quarter is also low for our Active business. Ours is a seasonal business. If you see the entire four years track, the first quarter has been always slow and Ketan will elaborate.

Vijay Advani: We also have multiple products. Probably, it will add to mobility sector and other active components which we sell to corporate. So, there was a shortage of even the laptops and other peripheral devices. So, due to that, that probably in this quarter, we will see a good momentum in those products also. **Ketan Patel:** So, Pratik, to give a razor-sharp answer to your question is that we expected this quarter to be Rs. 21 crores. Few stocks did not arrive on time, plus some laptops were not there and this is on the 30th July, some stock came in in the next week. So, this quarter should be well, but we probably fell short by say Rs. 4, 4.5 crores of our internal target on Honeywell.

Pratik Kumar: And your journey from like Rs. 50, 60 crores last year to 160 to 200, which category will drive it, sir?

Ketan Patel: So, our hope was that and because audio as an overall global is a \$25 billion market, so we think audio will definitely lead the sale and if audio we can really fire well, then we should sail through very easily. But we have built in a lot of contingencies on that and right now Active or the mobility products which surround the three screens-, your laptop screen, your mobile screen, and your TV screen, those products are doing very well and that would take us there.

Second is, as we open up territories, so, usually, now, when we open up a distributor, say we are in talks with a couple of distributors for Singapore, Malaysia, one for Bangladesh, their opening orders are only close to say half a million dollars between the three distributor. So there also, because you are going to work in a market where your products will be placed for the first time. So, you get that advantage where when the material moves on the retailer shelf, that's the captive inventory which we will always see. So, that's going to help

us there and I think it would be fair to say that we would reach the Rs. 155, 160 crore Honeywell target, which we have in mind.

Pratik Kumar: My understanding is limited. You have a 52% stake in the Honeywell business, right, eventually after the minority interest?

Ketan Patel: Yes.

Pratik Kumar: And just from a quality of sales perspective, I am sure you guys would be tracking it on the B2B channel, on the Amazon channel. How is your quality of sale? And within the category, what is your rank? Are you best sellers?

Ketan Patel: So, couple of things are there. Amazon, it is not just the quality of product.? You should have the right GVs that is Glance Views they call. Then you should have the right reviews. For every 100 products you sell, only 10 people write the reviews. And then, to come on a higher side, you require certain amount of reviews. You require a certain amount of glance views to do that. So, that art we have now enabled and lot of our products which are old, say like Surge suppressors, C Type docking station, they are all with now 2,500, 3,000 reviews and that reviews really help us that when we go to Middle East also, the same are seen get captured in Middle East. So, the same reviews are seen there. So, that's helping us on products which are almost in the system for two, three years old. For products like Audio, which we just launched, we have just 40, 50 reviews on that.

So, in India, the C Type docking station is the number one choice for Amazon today. Our Surge suppressor is also Amazon's choice today there.

In Middle East, three of our products, so the Air Purifier is number three in Honeywell's choice, number one in most recent launches and number one in most desired in its category of air purifiers.

And as we go to Southeast Asia, Amazon is not the dominant player. Lazada and Shopee are the dominant players and they have a different review mechanism. So, it is a horses for courses strategy, but in India and Middle East where Amazon is the dominant player, we have to still work a lot on getting the reviews done because on the reviews only, your sale can improve with that product.

Pratik Kumar: What is your best sellers rank for let's say your audio products? Are you in one area of the best sellers as of now?

Ketan Patel: So, no, in Audio, we are not on any of the best sellers. Only we corrected our price in last three days and we have seen a remarkable jump in that. Second was, Amazon itself also was aligning its alpha sellers, so Cloudbtail or Appario is their alpha seller and they disintegrated Cloudbtail last May. Now another 8 or 10 alpha sellers are there, which will align before the Independence Day sale in that. So, once our products, they start pitching in, that's when we will see some traction on our products.

Pratik Kumar: And sir, just quickly, if I were to remove because Honeywell is a very high margin business. If I were to remove that from the EBITDA and then see the other part of the business, the margins over there are slight immaterial. Is that understanding correct?

Ketan Patel: Yes, Pratik, in a way, that understanding is correct. So, what is our business if you want to see, How fast we can rotate our capital, And so if you want to rotate your capital fast then you require quick sell, right products and quick inventories on products. So, that is the whole business crux is that that how fast you can do your business.

Second is, because there is no capital expenditure, you are not running any factory or anything, so your cost of business is pegged at a certain number and post that everything what you do, comes to your bottom line. So, in our case, currently, the other businesses which are there, which help us to bring down

cost considerably for our Honeywell business, and as a company now every incremental resource and every incremental finance what we are getting, we are just putting it into the Honeywell business. So, over a period of time, you will see that Honeywell business will keep increasing while even in the FMSG, the Fast-Moving Social Goods category, there is a margin of 10 to 12%. So, all incremental resources are put into this newer kind of business. But the traditional business gets put in the door and that's why we can't drop that business. Yes, we have to be cautious that we don't increase the business a lot because it takes away lot of our management time, but that business needs to be there.

Pratik Kumar: And can you also help me with working capital as of June? Because as you said, your business is about inventory. In terms of managing working capital, may be that is something that would be very helpful?

Abhijit Kanvinde: So, ideally, we were last to last year, before COVID, we were at 45 days of working capital. Today, we were at around 50 days. And that's because we were are having supply chain issues in last financial year and this quarter also. But going forward, this yearend target, we want to bring down this date to at least in the range of 42 to 43 and then going forward below 40. That is going to be our overall target. This quarter is low so the ratios will not be very representative. Once you have good numbers, then the ratios would make sense. So, for 50 we wanted first stage is to go to 45 and then go down to 42, 43 and then go down below 40 over a period of 1, 1.5, 2 years' time.

Ketan Patel: Just to add to what Abhijit said, it's a conscious call currently. You have to decide whether you want to have higher inventory because the logistics is a issue currently or you want to have a better cash flow and currently we have taken a call that we will have a higher inventory because if the finance cost can hit by 1% point, but then we don't want to lose on say, on an average 10% margin product or in Honeywell, a 40% margin product. So, that's the call, but yes, last quarter we have not done a good job on working capital management.

Pratik Kumar: And sir, just, I am not sure, you had a guidance of Rs. 2,500 crores by FY25, right?

Ketan Patel: Yes, sir.

Pratik Kumar: And how much was Honeywell in it?

Ketan Patel: Sir, our endeavor is that it should be between 25 to 30%. So, our guidance is of Rs. 2,000 crores, sir. But if you say your figure also Rs. 2,500 crores, Honeywell should be around Rs. 600 to 625 crores and because we got category expansions. We had only first enhancement products and mobility products. Then last November 2021, we got all audio and air purifier also we got the complete new range. So, with the category expansion and the geography expansion, we will see an exponential rise in Honeywell business.

Pratik Kumar: And lastly, sir, just if you can help me understand your debtors and inventory cycle, in the sense, how much is your debtor days? Just a breakup of that working capital, that would be helpful.

Abhijit Kanvinde: So, if you see I said that overall working capital cycle of 50 days. So, debtor would be in the range of 31. Inventory is 43 and creditors would be 24.

Pratik Kumar: And when you bring this down to let's say, whatever, 40 days or below, it is the inventory which will come down. That is the driver.

Ketan Patel: And the creditors days' also.

Abhijit Kanvinde: Creditors will go up, sir.

Ketan Patel: So, creditor days usually were around 30 to 35 days. But because, first from the factory to the dockyards, it was 4 days and you could catch the ship in 4 days. Now minimum you have to plan between 18 and 21 days to catch the ship. That is taking a toll on the creditors' days. And inventory because you

don't want to lose out on that, that's why we are stocking at least for Honeywell and certain gaming products a month inventory more.

Pratik Kumar: And I heard your comment on China embargo and was just slightly curious. Is it that you are not allowed to visit over there?

Ketan Patel: Yes. So, China as a country we can't visit and if you want to call somebody from China to Hong Kong, then every time you go, it was a 14 days, now it's a 7 days quarantine. So, all of us have honed our skills to launch products. Honeywell audio, we launched more than 60 SKUs in the COVID period without visiting but when you go to a factory, you see their facility, you can talk on components, you can talk on other parts. So, that whole process gets delayed and then because it's not a face-to-face interaction, you can't search for newer factories, newer design houses, because you want to first visit their facility and be comfortable, look at the vibes they give you and then go ahead. So, that's the problem currently.

Pratik Kumar: Is this because of COVID that they are not allowing? Or is it something else? The external issues?

Ketan Patel: They have a zero COVID policy. So, if they get a cases of more than 4 or 5, then they will lockdown the whole district. That's the case.

Pratik Kumar: So, that is why they have stopped incoming tourists or businesspeople, is it?

Ketan Patel: No, from December '20, nobody has been able to go there. So, the people from China or Hong Kong are not coming to visit us. They can come. India is open, but when they go back, they have to have 7 days quarantine at least in Hong Kong for the Hong Kong citizen. So, that is why they are also not visiting.

Moderator: We have the next question from the line of Mihir Dhama from Lucky Securities. Please go ahead.

Mihir Dhami: How much sales impact would you have seen this quarter because of customers deferring the demand in hopes of price reducing in the next few quarters? Can you quantify that? And do you expect sales to improve in the next quarter?

Ketan Patel: So, one is the price gets increased and one is the fear that because of the price increase, the consumer will not buy. So, because we are a B2B company, our primary buyers are the likes of Croma, Reliance, Amazon, and Flipkart., The moment you talk about increasing the price, they reduce the inventory. So, usually a Flipkart or the Reliance would carry inventory between six to eight weeks. So, they reduce their inventory and they also do not buy a lot of inventory because they think if the price goes down, of course, they get compensated, but it takes a time. So, just to put an exact number would be very difficult, but the price rise and the sentiments, they hamper the consumer demand and in turn the buyers do not buy.

Mihir Dhami: You witnessed destocking in this quarter from the end of Reliance and Flipkart and in the next few quarters, it won't be there?

Ketan Patel: In the next two quarters, because the festivities are there. Now you will have the Independence Day sale. And then the Big Billion Days sale for Flipkart and Amazon and then Reliance will get into and the retail will get into the festive. In Middle East, from September, October the overall heat would start coming down. And that's why for us, our business is quite cyclic. So, how do we look at our business for you is the Quarter 1 is the lowest, Quarter 2 builds up, Quarter three is the highest, Quarter 4 then sets the stage for the next year, next first quarter and then you develop from there. That is how we kind of plan.

Moderator: We have the next question from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer: I just wanted to know, we are facing a scenario where our biggest buyers are not sure of how much to stock the inventory or goods, where the price could be a major play. Why are we front loading our inventory in our books and

hurting our working capital cycle? Or does management have a view in place where they foresee that the sales is going to be strong in coming quarters because there seems to be some gap between the understanding from the management's perspective as compared to the buyers like Reliance, Flipkart etc.

Ketan Patel: You are saying that if the market outlook is not so bright, why are you stocking up, right?

Vignesh Iyer: Right.

Ketan Patel: So, two things to that. Number one is that our inventory we stock only in a bonded warehouse in China. So, we have an advantage that if the sales happen better in say Middle East, because Middle East has been in advantage right from COVID times because they were always open and the war also got them a lot of people to migrate there. So, we have inventory which is international. So, which does not have plugs, we have the inventory in Hong Kong. So, if there's a chance to sell more, we are not stocked out. That's one of our view and second of our view is that when there is a price rise for a quarter or for 30, 60 days, then the effect dies down and then there is a new price which the normal. And the third most important part for us is because we have got extended geographies, so tomorrow, for example, when Southeast Asia opens up, we should have inventory to supply to them also and that's why looking at our internal projection and then building a bit of caution to it, we have taken this call.

Vignesh Iyer: But when on the contract side where we give it to our contract manufacturers, our price is more or less set when that contract manufacturer manufactures for us, right? So, how are we mitigating any drop in price as such? Even if the product is in the bonded warehouse in China, but our contract side of the cost is committed, right?

Ketan Patel:

Correct. So, when you look at our structured cabling business, so that's one where the copper dictates the price and in structure cabling, there is no technology other than the rolling of the cable. So, there the markup is not used and if the copper price goes down, obviously, your inventory, you will have to take up. But because you are a brand and you are selling at a certain price and overall the pricing goes down, but there is some benchmark price associated with the brand and then the consumer buys. Coming to all our other products, it's predominantly the chip and the circuitry and the board and the firmware and the app which goes with it. So, for a particular component to say that the price because of this component went up would be minimal overall, that's the case, and all these products, we forecast four months in advance and the inventories are bought. So, for example, today we are placing for the order for the month of October,. The factory starts procuring material and then the price is fixed on that. Only for our copper cables, we book at the spot rate and for that we only forecast the 60 days inventory and yes, in that 60 days, if the price goes down, we will have to take that loss on the balance sheet.

Vijay Advani: So, when you quote for any kind of a product, it is not standalone product. It goes along with some peripheral some device, some product, some machine. So, because of the supply side issue, if there are five components coming from three vendors, there is a possibility of one component getting delayed. So, because of that the sale is getting pushed. The purchase buying is getting pushed.

Now suppose if there is an LCL container where there is a component which is maybe, contributing only 25% of the machinery cost, but you are not getting the container for almost 20 days, 25 days to LCL container to ship from there to here. One consignment which comes by air, it has to be loaded in three aircraft instead of one aircraft. So, these are the reasons where there are some places, there are stocks, there are some things, there's no inventory which is mismatching the production of the inventory what is there.

Vignesh Iyer: I get that, the inventory part of it, I just wanted to understand that. Secondly, on Honeywell business, we have something in place where the licensing agreement is beyond India and how as of now are we leveraging that advantage or are we expanding to other boundaries?

Ketan Patel: So, currently we have our distribution presence in Italy.

Vignesh Iyer: Sir, as in the China issue, it's creating problems where we are not able to expand our product line.

Ketan Patel: So, the China issue kind of slows down your new product introduction. That's called NPI. So, the China issue from NPI and increases your working capital. That's the two effects it has. Coming to our geographical expansion, now because we have the whole enhancement and mobility range, we have the Air Purifier range and we have the Audio range as a category. We have taken all these categories and we have gone to Qatar. Dostana Distributors and Ali Bin Ali that's the two distributor companies are taking our products to Qatar. Jabal Lal Rayan is the company in Dubai who is our new distributor for the products there and now we will open Saudi. We are in talks with a few people there to open up in Saudi. Southeast Asia also because the certification and everything is in place, we are now in talks to open up Singapore, Malaysia, and Bangladesh. Sri Lanka and Nepal are very miniscule territories currently to look at, and both these territories would have a Director Sales, Middle East, and Director Sales SEA, that is Southeast Asia who would in turn come and report to Mohit or to me in India.

Vignesh Iyer: So, the idea of the company is to increase the Middle East footprint, right? And we can expect more business coming from Middle East in current fiscal, right?

Ketan Patel: Correct. So, Amazon, we are present on Amazon.ae and we are doing quite well on Amazon.ae. Now we are present on Noon. We are present in DG Sharaf Mall. So, all the hard work which we put in the last six months to get the product on the shelf, to get product listed, all that is done. So, now the sales

would start coming from this territory. And then that's our plan. You get a distributor. You work with them for four or five months. You stabilize them. He starts giving you forecasting and orders. Then you start opening another territory and then you get a distributor there.

Vignesh Iyer: And in this geography as well, there would be a similar level of margins as in India?

Ketan Patel: In the other regions, the margin is the 10% point higher because the GST is not there and places like Singapore, the affordability is very high. Today, in Singapore, a normal meal or a normal Uber ride will cost you between \$18 and \$20. And audio product, the average selling price would be \$10, \$12. So, for them the affordability is not much of an issue. If we are available at the right places, that happens. So, the cost margin outside of India is 10 percentage point higher.

Vignesh Iyer: And after our agreement for Fujifilm Instax, how is the product performing in Indian geography?

Ketan Patel: So, because India has millennial population, 35 years and less is more than 75%, they want something retro. They want something very nice and Fuji is emerging as a good gifting product. Our sales currently for the last quarter for Fuji were close to Rs. 2, 2.5 crores and we think it will do much better in the coming festive season.

Moderator: Thank you. We have the last question from the line of Suraj Nawadhar from Sampada Investments. Please go ahead.

Suraj Nawadhar: Sir, last time we met, you spoke about Honeywell bidding for some micro cabling. Is there any update on that? Honeywell bidding for cabling for the metro work that is going on in Mumbai currently.

Ketan Patel: So, that started picking up traction. Even BSNL has approved us now as their main product and when we go outside of India also, the Honeywell Passive cabling business attracts a lot of attention. So, it should start showing results. Last quarter also we did well, and I think this quarter also, it would start falling in place.

Suraj Nawadhar: And all the sourcing will be done from us, right?

Ketan Patel: Yes, 100%. Because we are the exclusive licensee and nobody other than us can manufacture that.

Moderator: Thank you. That was the last question. I now hand it over to the management for closing comments.

Ketan Patel: I thank the entire team of Creative for the hard work and dedication which pushes the company forward. Also, I appreciate all of you for participating in this conference call. Thank you so much and have a nice weekend.

Abhijit Kanvinde: Thank you very much.

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

(This document has been edited to improve readability)