



“Creative Newtech Limited
Q3 FY '23 Post Earnings Conference Call”
February 13, 2023

**MANAGEMENT: MR. KETAN PATEL – CHAIRMAN AND MANAGING
DIRECTOR – CREATIVE NEWTECH LIMITED
MR. ABHIJIT KANVINDE – CHIEF FINANCIAL OFFICER
– CREATIVE NEWTECH LIMITED
MR. VIJAY ADVANI – WHOLE-TIME DIRECTOR –
CREATIVE NEWTECH LIMITED**

Moderator:

Ladies and gentlemen, good day, and welcome to Creative Newtech Limited Q3 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Ketan Patel: Good afternoon, everyone. Welcome to Creative Newtech Limited Earnings Conference Call for the third quarter and nine months ended December 31, 2022. I want to start by thanking you all for taking the time to join. On the call with me today is Mr. Abhijit Kanvinde, CFO, and Mr. Vijay Advani, Whole Time Director of Creative Newtech Limited.

We will start with some key developments from the quarter. Before we get into the business and financial performance, I would like to share brief insights and recent developments regarding the company.

Speaking of the macroeconomic situation, it seems that Covid is behind us but the geopolitical tensions, inflationary pressures, supply chain issues still drive uncertainty in the macro environment. Covid has sped up digital transformation and technologies by several years and we will do whatever is needed to ensure that we are also growing with the market

The budget's proposals on digitization and technology revamp could possibly result in a multi-billion-dollar opportunity for India's IT sector. With the budget allocation of Rs. 4600 Cr in PLI scheme we expect in the coming years to get our goods manufactured in India which will help us reduce our inventory level and overall working capital due to reduction of number of days in logistics.

Consolidated performance highlights for the quarter ended December 31, 2022.

Total Income for the quarter was Rs. 428.97 crore in Q3 FY23, a YoY increase of 41.87%. Improvement in EB segment was supported by strong demand for brands such as Samsung, Cooler Master, Honeywell and VIEWSONIC supported growth.

EBITDA is at Rs. 12.69 crore in Q3 FY23, YoY increase of 20.16%. EBITDA Margin at 2.96% in Q3 FY23.

Net Profit is Rs. 7.69 crore in Q3 FY23 compared to Rs. 7.00 crore in Q3 FY22, while Net Profit Margin stood at 1.79%

Our business and vision far exceed only distribution. Today, we are well established as brand licensees, with a long-term agreement with Honeywell and are building further on the line of business. This also garners the attention of other global brands looking at brand licensing as a beneficial approach. We recently rearranged our segmental structure on the distribution front to

better align with our business, design, and strategy. Our brands are now categorized into the following four segments:

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

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

EB - Enterprise business, this comprises products supplied to enterprises and of high volume. Some brands in that category include MSi, Phillips, AOC etc.

FMEG - Fast-moving Electronic goods, this segment covers our alliance with Reliance, through which we offer home appliances, bulbs, lights from brands such as BPL and Kelvinator.

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

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

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

Now, I hand it over to Mr. Abhijit Kanvinde, who will take you through the financial highlights of Q3 and 9MFY23.

Abhijit Kanvinde:

Thank you, and good afternoon to you all. I will share the highlights of our consolidated financial performance, after which we would open the floor for questions. Our financials are reported as

per Ind AS guidelines. Looking at Consolidated Q3 Results, in the quarter ended on 31st December 2022,

The Company reported total income of Rs. 428.97 crores, growing 41.87% year-on-year. Improvement in EB segment was supported by strong demand for brands such as Samsung, Cooler Master, Honeywell and View sonic supported growth.

The EBITDA stood at Rs. 12.69 crores as against 10.56 crores in the previous corresponding period, an increase of 20.16% year-on-year.

The Net Profit for the quarter is Rs. 7.69 crores as compared to Rs. 7.0 crores in Q3 FY22, year-on-year growth of 9.85%.

Speaking of nine-month results –

For nine-month period ended 31st December 2022, we reported the Total supported by Enterprise Business segment and Growth in Brands like Samsung, Cooler Master, Honeywell and View sonic.

The EBITDA stood at Rs. 33.62 crores as against Rs. 23.34 crores in the previous corresponding period, an increase of 44.03% as compared to previous period. The EBITDA margins stood at 3.36% as compared to 3.44% in the previous corresponding period. The Net Profit for the nine-month period ended 31st December 2022 is Rs. 20.80 crores as compared to Rs. 14.07 crores in the corresponding previous period, a growth of 47.82%.

This is all from our side. We can now open the floor for questions.

- Moderator:** The first question is from the line of Suraj Nawandhar from Sampada Investments.
- Suraj Nawandhar:** So my first question is that we had guided for INR 200 crores of revenue this year. We have already earned INR 1,000 crores. So would you like to revise the guidance upwards?
- Ketan Patel:** So we had said INR 1,200 crores, annually. We should be between INR 1,200 crores to INR 1,300 crores.
- Suraj Nawandhar:** Only INR 300 crores of sales in Q4 then you are expecting?
- Ketan Patel:** Usually in the March quarter mainly corporates buy a lot and that's what we are thinking. March is usually around between INR 250 crores to INR 300 crores.
- Suraj Nawandhar:** And the margins have been weak this quarter, you are expecting to increase margins quarter-by-quarter. So when do we expect to reach our 4%, 4.5% of margins?
- Ketan Patel:** So a couple of things. One of the views for this whole year was that we would increase the absolute margins. So we reach to a certain threshold, whereby after that, we could concentrate on only high-margin product. I think next year, surely, by the second quarter, you should see margins between 2.5% to 2.75% PAT.

- Suraj Nawandhar:** And sir, Honeywell business for this quarter?
- Abhijit Kanvinde:** INR 36 crores.
- Moderator:** The next question is from the line of Harish Shah from HS Investments.
- Harish Shah:** I just need management comment on the debt. Are we planning to trim it down or would it be increasing as the business improves?
- Abhijit Kanvinde:** Honestly, if I compare last year's balance sheet, that is around 31st of March, we had a short-term debt of almost INR 53 crores, and which is gone up in this December us INR 63 crores. I do not think there will be a phenomenal change in the debt, because the working capital cycle per se, has increased from 46 days as on 31st of March 22, to around 34 days, 35 days. So, we are churning out better.
- Secondly, therefore, the rest of the things will be funded by our internal accrual. Last year, we did some equity infusion of around INR 11 crores with premium. So that would help to fuel the growth. I do not think the debt will go up by more than INR 7 crores to INR 10 crores in the next year. But that normal as compared to the growth in the business.
- Harish Shah:** So, going ahead from a couple of years down the line, do you plan to trim it down?
- Abhijit Kanvinde:** Yes. So the percentage of debt. Now, for example, on a standalone basis, last financial year, the debt-equity ratio of 0.85. Now it is 0.77. And I'm sure this ratio will be better every quarter. And that is the target internally Board has given us. You have to get better in two things. One is the working capital cycle turns, and the other is debt-to-equity ratio. So, the amount may increase by INR 5 crores to INR 10 crores, but the debt-equity ratio would improve.
- Harish Shah:** My second part is our geographic presence. So, I just need to check our tractions, we have, licensing for 35-plus countries. So how many countries that we have been able to tap it out?
- Ketan Patel:** Mr. Shah, I'll take this question. This is Ketan Patel. So currently, we have 36 countries with us in licenses. And our endeavour is that by 2025, we should reach close to between 18 to 20 countries. Coming to the near-term, currently, we are in India. We have a distributor in Singapore. We have a distributor in Dubai. We have just finalized a distributor for Saudi Arabia. We have a distributor in Bahrain and Jeddah. We are participating now in the Gitex Exhibition Morocco to cater to Africa, because the whole of East Africa comes there. And we are also participating in the Thailand exhibition, so that we could get our distributors for Thailand, Malaysia and smaller countries like Myanmar and Laos that is the case.
- We are approaching it from a per se, of what's the population of the country. And that's how we are picking up the countries. Obviously, in the Middle East, we should have gone to Egypt, and we should have gone to Turkey. But the foreign exchange fluctuation there is tremendous. So we have refrained from going there. And in Southeast Asia, Malaysia and Indonesia and Thailand. These are the three largest markets, which we think that will get distributors. So the exhibition at Thailand is on 15th, post that, in a couple of months, we'll be able to sign up. Currently, Honeywell products are available on Amazon India, Amazon, Singapore, Shopee

Singapore, Lazada Singapore, Amazon UAE and Noon UAE and the reviews are building pricing in another quarter's time or four months' time, we would see a good traction there.

Harish Shah: So incrementally, any ballpark number on that you are targeting from your all activities in the coming financial year?

Ketan Patel: Yes. So this year, we should close between INR 110 crores to INR 115 crores through Honeywell business. Next year, modestly, if you do things right, we should close around INR 170 crores to INR 180 crores, which can go upwards but that's the minimum we think INR 170 crores to INR 180 crores, it should close next year.

Moderator: The next question is from the line of Sarang Anajwala, an Investor.

Sarang Anajwala Ketan bhai, one question around the different business segments. So what I'm seeing is this quarter, specifically Enterprise business has gone up. And this enterprise business is relatively low margin. So do you see any demand challenges on the FMSG, FMCT part of business? Or can you talk a little bit about this?

Ketan Patel: Yes, Mr. Sarang. So you rightly pointed out the enterprise business is a lesser margin business. So usually, we do the enterprise business only when we have some available cash flows to do that business. This year, in the quarter, Fast-Moving Social Media Goods, FMSG business did not do so well, not because there was not a lot of demand, but there was still supply constrain, because we had peak COVID in China in the month of November and December. That's when a lot of material would move to India, but the supply chain was really erratic, and we couldn't get material here. That's the main reason that the profits were low. And since we had some capital left, we said that let's do the enterprise business.

Over a long term of period of time, internally in our mind, we are very sure that we want to use every incremental cash flow and every incremental effort only on high-margin business. And currently, we are at the threshold where if we do close to around INR 650 crores of the other businesses, then it will help us considerably reduce our cost of logistics and other stuff. And it also helps us to piggybank on that business and build this business. So we are there, so incrementally, all our efforts will be now on Honeywell, the Fast-Moving Social Media Goods Business.

Sarang Anajwala Another question I had was around Honeywell. I think you mentioned we have done about INR 37 crores this quarter. How much should we have done in nine months so far?

Abhijit Kanvinde: Approximately INR 76 crores. So, it looks like we will close between 110 crores to INR 115 crores for the year.

Sarang Anajwala I had one question just to understand the statements better. So one request, maybe if you can publish the annual numbers every quarter, I think that that would be really helpful. And another around on the same lines, the difference between standalone and consolidated, is it fair to assume that, that difference is the Honeywell business or just Honeywell India get...

- Abhijit Kanvinde:** Correct. So besides also the Honeywell abroad business, the foreign business was a little lower compared to last year. The reason behind the supply chain issues. And therefore, the profitability for the Honeywell business will get consolidated has been lower as compared to the last quarter. If you compare quarter-on-quarter, it will be lower. So I'm sure one quarter you always get setback, you can't grow every quarter. So this is a setback quarter for us. And we will buck up and we'll catch up in the next quarter and the quarters going forward.
- Ketan Patel:** Mr. Sarang, just to add to your query. This request has been there from a few other investors also, and we have spoken to our auditors. And from the next quarter that from the month of April, we are going to give Honeywell as a separate business in the balance sheet. So we'll show you the numbers separately from FY '23.
- Sarang Anajwala** Just one related point. Our Honeywell India business gets calculated inside standalone? Or that is also part of consolidated?
- Abhijit Kanvinde:** Standalone.
- Sarang Anajwala** So consolidated is primarily the secure connection business, which is...
- Abhijit Kanvinde:** Yes. Correct. Absolutely.
- Moderator:** The next question is from the line of Kalpesh Dave from Spark Capital.
- Kalpesh Dave:** I have two queries technically. Are we looking at getting into more dedicated team to grow Ckart? And second was, are we looking to expand in licensing in terms of adding more brands also to the business?
- Ketan Patel:** Kalpesh bhai, I'll answer this question. This is Ketan Patel. Ckart is a very different business. Platform business matrices for success are very different from a product business. So in a product business, usually the investor looks at the PAT and how is the PAT going, how the business is going. In the platform business, usually it is cost of acquisition of the customer, lifetime value of the customer and it's kind of a cash-burn business.
- And two things were there. Number one, most of our investment communities invested in Creative because of our Honeywell business. And we did not want to get into a cash burn, where the balance sheet can support that cash burn. So for Ckart it's that we want to grow it linearly. And in the next year, when the balance sheet can support a big stock outflow in terms of investment not loss-making business but where we could spend some money on marketing and other stuff that we would do on the Ckart front. Mr. Kalpesh what was your other question? One was Ckart, what was the second question?
- Kalpesh Dave:** Are you getting to any more licencing and adding more brands
- Ketan Patel:** Licensing should happen in the second quarter next year, because the Board first wants us to do at least INR 180 crores to INR 200 crores of Honeywell business. They say that once you do that, then that business will become sustainable, and then you can put your energies on one more either private label brand or take up a license. So we have spoken to a couple of licensees and

the licensing to get into a contract also takes almost nine months to a year because they want to do a lot of background checks and other stuff. So, I think nothing for the next two quarters for sure, '23-'24 probably, in the July, August, September quarter, we may have one business.

- Moderator:** The next question is from the line of Satish, an Individual Investor.
- Satish:** Actually, if you see, we have recently launched some very innovative products. One such product is our Dustor vacuum cleaner, but what is the status of this product, sir, are we doing any business?
- Ketan Patel:** Sir, candidly, Dustor, the product got good resurgence during the COVID time, post that there were a lot of changes in the e-commerce space in terms of the alpha sellers who used to buy that, they were disintegrated and put into lower category. So for duster, we would require a better team to do that business. So our goal is that from April, we will look at duster in a more focused manner. Currently, it's on whatever the sale can happen happens. That is the case.
- Satish:** Sir. And my next question is, during the last con call, you mentioned that you are in discussion with some gaming company. So any update on any developments on that part, sir?
- Ketan Patel:** Yes. So, there is a gaming company called Razor, which is the Apple of gaming. We actually just signed up the agreement with them a couple of days back, and we should get a signed copy from them today.
- Abhijit Kanvinde:** Then we'll notify the exchange.
- Ketan Patel:** Then we'll notify the exchange in this quarter, the business for Razor should start.
- Satish:** So, about margins side, sir, -- is it high margin business
- Ketan Patel:** Gross 12% to 14% margin business.
- Satish:** Sir, my final question, so if you see the segmental results, our fast-moving electronics goods, we did around INR 1.3 crores. But if you see our profits on that it's around INR 30, INR 40 crores, yearly. So we see very good profits. So what is the difference? Because during the last quarter, we did around INR 4 crores, and our profits were still less. But this time, we did a very less in terms of revenue, but our profits are very high. So are we doing any high margin kind of product there
- Ketan Patel:** One second, I'll ask Abhijeet to answer that.
- Abhijit Kanvinde:** So from the perspective of volume, it is very less. What you're saying is as a percentage, the Fast-Moving Electric Goods that is what we are referring to. Which segment are you referring to, sir?
- Ketan Patel:** Enterprise...
- Satish:** Fast Moving Electronic Goods? So, we did INR 1.3 crores, but our profits are around 40 lakhs?

Abhijit Kanvinde:

Yes.

Ketan Patel:

That's the BPL business. So, there were some credit notes, which were due to us and that came in the last quarter. But actually, its profit of the last three quarters, but there were some credit notes which have not come. And since they are not confirmed it, we could not take it into the balance sheet. They confirmed it with this quarter, so we have taken it.

Moderator:

The next question is from the line of Harish Shah from HS Investments.

Harish Shah:

I just have one follow-up question. This is pertaining to the business environment in China. So, we understand the first nine months was impacted. But how are you seeing the situation now? Like is there now any further disruption that you see in the business due to China impact?

Ketan Patel:

Mr. Shah, I will take this question. Initially, China has done no-COVID policy, right? For the two years, they followed that policy. And when they removed the no-COVID policy, there was huge surge in COVID in the month of December, right? Now China is open for travel without any restrictions. And Hong Kong is going to have almost 10 to 12 fairs in the month of April.

And this is our chance also to go to China after almost break of three years, and we are traveling to China in the month of April, first in Hong Kong to attend two global fairs there and then to visit all our factories, which manufacture goods for us in China. So it's a 12, 14 days period. - Plus they also have the Chinese New Year, which started around 10th of January, and they resumed work by end of January. So Chinese New Year is also behind us. So now I don't foresee that there should be any disruption in a quarter's time by March, both with new business development as well as logistics should improve very well. That's what I think.

Moderator:

The next question is from the line of Suraj Nawandhar from Sampada Investments.

Suraj Nawandhar:

I just had one follow-up. Is there any progress on getting a business head for our licensing business as you're looking to add one more client formally next year. So is there any update on having a separate business head for that licensing business?

Ketan Patel:

Correct. Suraj, so currently, what we have done is for the licensing business, Mohit Anand, who is also co-founder in Secure Connection, he looks after that business. And since we are adding more countries and we also want to be e-com-first in the countries where we enter. We said that under Mohit we will have, India Country Manager, who comes from a background of e-commerce and audio sales, because audio is where we require a bit more expertise to crack online.

So we have already given an offer letter in the person is joining in the first week of March. So he will lead the India thing. Plus, we also have Habbilash Hamza as our Country Director for Middle East. He will lead the Middle East, also because we want to own the channels everywhere for Saudi Arabia, and we will be opening Saudi Arabia now. We also got a senior person from Saudi Arabia for this. And we have also appointed Mr. Alwin, as a Sales Director for Singapore, Malaysia and other places. So all the manpower acquired is in place. They will build the regions and with report into Mohit, so that is the structure currently we have decided. If we go into any other licensing agreement, we think that besides resources, the right skill set for that product is

necessary and we'll follow a similar structure in that case. Only thing is we will have something called shared services, where the whole of logistics, finance, HR, all that can fall into the shared services. The go-to-market strategy can be different. That's what we have currently kind of resolved.

Suraj Nawandhar: I think, a new person who is joining, he is joining from which company?

Ketan Patel: So Habhilash is already joined. The Saudi Arabia person is joining from the 1st of March, the training has happened. And Singapore person is joining us in the exhibition. That would be the right time when he joins us in the exhibition. The Indian person will join on the 1st of March, who is going to Head India.

Suraj Nawandhar: He's joining, currently he is working in which company?

Ketan Patel: So Karan is an ex JBL Harman guy, and then he worked with Flipkart for their international business. So it and launching products everywhere. So, he has a fair experience of launching products in the e-commerce space in Singapore, in UAE and India. Currently, works for a German company, which is AI-based company for plants. So, any plants on the app, if you upload the photograph through AI, they will be able to tell what disease the plant has or what is the kind of manure you should put in that soil.

Moderator: Thank you. As there are no further questions. I would now like to hand the conference over to Mr. Ketan Patel for closing comments.

Ketan Patel: I thank the entire team of Creative for their hard work and dedication, which pushes the company forward. Also, I appreciate all of you for participating in our conference call. Thank you.

Abhijit Kanvinde: Thank you very much.

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

(This document has been edited to improve readability)