"Creative Newtech Limited

Q2 FY '24 Post Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Creative Newtech Limited Q2 and H1 FY '25 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 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 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 touch-tone phone. Please note that this conference is being recorded.

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

Ketan Patel: Good afternoon, everyone. Welcome to Creative Newtech Limited Earnings Conference Call for Second Quarter and Half Year Ended September 30, 2024. I would like to start by thanking you all for taking time to join us today. On the call with me are Mr. Abhijit Kanvinde, our CFO; Mr. Vijay Advani, Whole-Time Director; and Adfactors, our Investor Relations team.

The company's performance during this quarter and 6 months period has been satisfactory. We have persevered through relatively muted market conditions while still maintaining upward margins. This period reflects the evolution of our strategic focus as our licensing business grows further. We have been increasing our focus on the licensing ventures while continuing to build the distribution business.

Our brand curation methodology is based on ensuring healthy margins while trying to improve cash flows and working capital. Some of the brands we onboarded during the first half of this financial year include Holoware and Dahua. We are continuously evaluating more brands to add to our portfolio, which gives us an optimistic outlook for the medium term.

As mentioned, the growth rate of our Honeywell business aligns with our strategic focus on increasing revenue from licensing agreements, which offers higher margin. Our air purifiers are gaining significant traction, especially in the Middle East, where Honeywell has become the top-selling air purifier brand. We are also seeing significant traction in Singapore and South Asia markets. The Home Audio segment, in particular, is promising. Given the rapid growth of India's audio market, we are optimistic about establishing a robust presence in this segment.

To further broaden our reach, we have recently partnered with quick commerce platforms like Zepto, Swiggy Instamart and Blinkit to enhance accessibility to our air purifiers, home audio products and connectivity cables. We also recently collaborated with TPV Technology to expand distribution of AOC monitors across key metros and Tier 1 and 2 cities in Maharashtra and Gujarat.

Our successful partnership with industry leaders like Cyberpower, Inc., and Palred Electronics reflects our ability to forge strategic alliances and capitalize on emerging market conditions. Looking ahead, our priority will be to secure more such agreements and expand our presence in key growth areas, ensuring we deliver sustained value to all stakeholders.

Now I would like to hand it over to Mr. Abhijit Kanvinde, who will take you through the financial highlights of the quarter and 6 months.

Abhijit Kanvinde: Thank you, and good afternoon to you all. I will share the highlights of our consolidated financial performance, after which we will open the floor for questions.

Our financials are reported as per Ind AS guidelines. Looking at consolidated Q2 FY '25 results. The company reported the total income of INR416.69 crores, a marginal decline from INR432.81 crores in quarter 2 FY '24. Relatively muted sales in Enterprise business and fast-moving computer technology segments offset the growth in FMSG. However, we are seeing healthy demand of several key brands like Samsung, Cooler Master, Honeywell, amongst others. In terms of segmental performance during this quarter, the FMSG segment accounted for 18% of the revenue; FMCT accounted for 12%; and EB comprised of 70% of the revenue.

The quarterly EBITDA stood at INR17.55 crores as against INR14.99 crores in the previous corresponding period, an increase of 17.11% year-on-year. EBITDA margins for the quarter stood at 4.21%, higher by 75 bps as compared to the corresponding quarter last year. Operational efficiencies and higher contribution of Honeywell helped us improve the margins. The PAT for the quarter is INR13.22 crores as compared to INR10.46 crores in Q2 FY '24, an year-on-year growth of 26.41%. EPS for the quarter is INR7.85.

Now coming to 6 months' numbers. In the first half of this financial year, we reported INR722.17 crores of total income, vis-à-vis INR904.15 crores in the previous corresponding period. While sales for Honeywell and FMSG segment continued to expand, muted performance in EB and FMCT segments impacted the overall revenue.

The FMSG segment accounted for 20% of the revenue, FMCT accounted for 15% and EB comprised of 65% of the total revenue. EBITDA for the year -- rather EBITDA for this half year stood at INR30.06 crores as against INR24.89 crores in the previous corresponding period, an increase of 20.76% year-on-year. EBITDA margin for this period stood at 4.16%, higher by -- and higher by 141 bps as compared to the corresponding 6 months of the last year.

A higher contribution from Honeywell coupled with continued operational efficiencies helped improve the overall margin. The PAT for the 6 months is at -- is INR22.31 crores as compared to INR16.34 crores in H1 FY '24, an year-on-year growth of 36.53%. EPS for the period is INR13.56.

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

Moderator: Thank you very much. The first question is from the line of Sudhir Bheda from Bheda Family Office. Please go ahead.

Sudhir Bheda: And sir, congratulations to entire Creative team for producing outstanding results in these conditions. So congrats.

Ketan Patel: Yes. Sudhir bhai, thank you so much for the Diwali greetings. Festive greetings to everybody present on the call.

Sudhir Bheda: Sir, my question is like your strategy of reducing the low-margin business and increasing high-margin business, like licensing brands and all, is paying off. I think the margin in the 6 months has gone up by 141 basis points. So going forward, how do we look at the margin? Is there any scope for further improvement in the margin as your licensing business -- licensing brand business is scaling up?

Ketan Patel: Sudhir bhai, 2 things. One is, as the Honeywell business grows more and more, we'll get operational efficiencies. And as is the high gross margin, say, 40% business, as we start getting operational efficiencies, that margin will definitely grow. We foresee that once we start crossing the INR280 crores, INR290 crores mark, then all the parameters for a brand, whatever the thumb rules are there, the cost of manpower should be around close to 5% to 6%, advertisement costs should be close to 7%, 8%, all we would start seeing falling in place, which is at a higher pace.

Having said that, we also see that if we get any opportunity and we have incremental cash flow to manage that, and if that business can give us margins between 20% to 22% ROI, then we will keep doing that business also. Over a period of time, since the licensing business would start contributing more and more towards the overall turnover, margins will start improving further. That's what you will see -- at least the percentage margin, you will see is improving further.

Sudhir Bheda: Great. Good. And I know it's difficult to judge, but what's your gut feeling of next year's Honeywell's business, what kind of numbers you can clock, just a rough estimate, if you can?

Ketan Patel: Okay. There are 2 things Sudhir bhai. First and foremost is we are also still learning the tricks of this business. And it's a very evolving kind of a business scenario. Honeywell has 4 listing categories; air purifier is one category, the passive networking is the second category. Third category is electronic essentials, so products which cover all your screens, the mobile screen, the laptop screen and the TV screen. And fourth category is audio.

All categories have immense potential, in which audio has the highest potential. And our endeavor is to crack that category very, very well. And if that category falls into place, because we have no doubt about the air purifier, the way this season is going, the way we have got the acceptance, and we have also put a lot of money on marketing, and we have released full pages ad, and that will keep coming because the season is here. And the resonance from consumer for the brand in the air purifier space is very rough. So that will grow.

If the audio category we crack very well, then what our endeavor is to grow the Honeywell business every year by 50% to 60%. That doesn't look like a problem, that will definitely happen.

Second, there is this emergence of quick commerce, right? So initially, there was a duopoly, so if you want to go to e-comm, then you had Amazon and then you had Flipkart, right? Between them, more or less, they used to control 60% or 50%, 50% of the online space. But now after Blinkit, after Swiggy Instamart and Zepto coming into picture, that scenario has changed. And we were trying to get ourselves onboarded on this platform for the last 5, 6 months. And we are seeing the fruits. Last quarter only, we could get onboarded on this platform. So these platforms also will drive the sales.

Looking at Honeywell's position of a brand being mid to premium and the type of audience or the target group, which comes on this platform, they value convenience more over price, and that's the kind of customers we are looking at.

Second, I'm also seeing the same trend in Middle East. So Middle East, this quarter, we launched 2 of our new models in air purifier. We launched the V1 and V5. And in less than 6 weeks, we were #1 on Amazon on Middle East. Middle East also has a quick commerce called Careem and Noon Minutes. On both of these places, we are seeing a very good response. So God willing and with your best wishes, Sudhir bhai, next year also, whatever we close this year, Honeywell, between 50%, 60% growth, we can expect without denting the margins.

We are spending a higher amount on advertising right now. And we actually had 2 full pages ad and 1 -- 3 full pages ad, one for the launch of Aviator, the speaker which we launched on the higher-end side. And one ad was for Honeywell completely. By spending higher amount on marketing also, we'll be able to manage the margin or make it better. That's what I feel.

Sudhir Bheda: Great. Great. And it's really glad to know that Honeywell -- you are aspiring to grow Honeywell brand at 50%.

Moderator: The next question is from the line of Sheersh Jain from Apex Capital. The next question is from the line of Madhur Rathi from Counter Cyclical Investments.

Madhur Rathi: Sir...

Moderator: Sorry to interrupt you, sir. I would request you to please use your handset.

Madhur Rathi: Yes, sir. Sir, what was the Honeywell revenue for this quarter as well as the H1?

Ketan Patel: Okay. So this quarter -- with end of quarter 2, we were around INR64.45 crores. So quarter 1, we were INR49.9 crores, that is, INR50 crores. This year, we were approx -- this quarter, we are at INR65 crores. Put together, we are at INR114 crores.

Madhur Rathi: Okay. So it's not very far from the INR280 crores, INR290 crores run rate. I think we can achieve it in the next year. Sir, so when we speak about 6% to 7% -- sorry, 5% to 6% manpower cost and 7% to 8% advertisement at that level, sir, can we expect a 20% kind of operating margin on this business?

Ketan Patel: Yes. So -- I got your name right, right? Madhur, it is, right? Madhur Rathi.

Madhur Rathi: Yes, yes.

Ketan Patel: Yes. So, Madhur, we are looking somewhere between INR230 crores to INR250 crores on Honeywell this year and then grow it further from there next year. Second is currently because we took a call that first who, then what. So each country where we are going, we are first taking the manpower, and then, we are trying to execute what we want to execute there. So currently, our manpower cost comes to around 12% in the Honeywell SBU, as you can call it.

Plus we are spending a lot of amount of money on marketing and more of that goes on Amazon marketing service and on digital marketing. A few people whom we met and who have done brands very well, they said the thumb rule is that between 6% to 8% should be the marketing cost for a matured brand and between 5% to 7% should be the cost for manpower. So we are thinking that once we start crossing the INR280 crores mark, then from the 12% odd EBITDA in the Honeywell business, we will start moving towards 16%, 17%. And when the business becomes INR500 crores, we will be at 20% or 22% EBIT in the Honeywell business, yes.

Madhur Rathi: Sir, that's very positive to hear. Sir, my next question was, sir, how the structured cabling business scaling up? And sir, what kind of margins can we expect in the same? And sir, I think I wanted to ask about, sir, is this business a pure-based supply business or we provide services like an EPC player to the offices and the data centers where we provide how the layout would be for these structured cables as well as some kind of Honeywell brand that is associated with this?

Ketan Patel: Okay. So if you tell me the closest business in Honeywell is the structured cabling business for me. And why I will say is because in that business, I don't have too many certifications to be done across the geographies where we are, right? We are in -- present in mostly -- more than 40 countries, we have the license. We are currently present in 10 to 12 countries. For example, if I had to launch a surge suppressor, that's an extension board with protection, that's called a surge suppressor, I will actually have to have 6 variants. India plug is different, U.K., -- European plug is different, Middle East plug is different. Then I have to have various kind of certification.

In Thailand, the plug type, they changed currently, and the certification also they changed. We had to spend close to $22,000 to just get the certification. We just launched our high surge protectors last week. But in the structured cabling business, when I come, there are only 2 certifications, one is UR and one is ETL. These are the 2 certifications.

Second, there is no mould and dye cost. So a cable when I get the technical certification, right, for another 10 years, I don't have to spend any like for a headphone or for an earphone or for an air purifier, every 2, 3 years I have to change the model, I have to get that. In the structured cabling business, that's not the case.

But again, it's a commodity business because 80%, 82% of the cost is copper in the structured cabling business. So if I'm not a premium brand in that space, then I will not get some margin. So currently, we are focusing ourselves on the top end of the pyramid where the CommScopes of the world are. And to do that, we'll have to really work very closely with consultants, very closely with architects, very closely with EPC installers on that.

And for that, my manpower or the team, which I require, should be also of that quality. So we've built up that team very well now, and we are finding good traction. This is a long gestation business because you have to get empaneled with various telcos, you have to get empaneled with various large infrastructure companies, and that we have started working there.

Last part is this is -- unlike the Honeywell business, it's not a 40% gross margin business. It is a 20% gross margin business. But the advantage to this business is in that business, your working capital cycle is between 90 to 120 days. In this business, the working capital cycle is almost half, it is 60 days. So the ROI for this business and the supply chain would be much better overall. So there is no obsolescence, right? A cable after 5 years if the copper price increases, it will go up only, it will not go down. So that's a business, we are trying to build slowly, steadily. And we are sure that in a couple of years, we would start doing a good amount of business.

Just to give you a ballpark, D-Link is a listed company. I think on the last year turnover, and I may be slightly -- my figures might not be correct, but they did close to INR1,150 crores to INR1,200 crores. And in that structured cabling business in India only, they did INR700 crores. So we are not even in 3 digits still now, we are much lower. So we have a lot of scope in that business. And we have built the right team to do that.

Madhur Rathi: Okay. Sir, currently, this is a part of the Honeywell to the INR230-odd crores...

Ketan Patel: Everything is part of that only. So in Honeywell, we have internally because mostly all are consumer products, right, consumer-facing products, only the structured cabling is kind of an enterprise grade, the corporates and that kind of product, that's the case. And to answer your last question is, we are not going to go and install, but we are going to certify and train at least 2,000 system integrators and installers in India, who then can recommend our product and install our products. So that's the endeavor on the structured cabling.

Madhur Rathi: So sir, are you going to provide design structures as well to -- with those...

Ketan Patel: So usually, when you quote for a tender or when you quote for a larger project, the system integrator expects you to give him the bill of material. And the BOM you can only get it by roughly designing how you want to do that. So we have a team inside who could kind of design the layout for you and also give you a rough estimate of what would be the bill of material.

Madhur Rathi: Okay. So currently, it's not where you said what would be -- it will be a purely supply or design as well, but going forward, we will understand as the business grows. Is that understanding correct?

Ketan Patel: First, designing is still there. Installation is not there. Supply is going through various stages. A lot of airports also have started buying now Honeywell.

Madhur Rathi: Okay. Got it. Sir, just a final question. Sir, can you expect the INR2,000 crores revenue on the 4%, 4.5% EBIT -- operating margin excluding the other income part for this year?

Ketan Patel: One second. I'll let Abhijit go for that.

Abhijit Kanvinde: So what you're saying is right now, INR2,000 crores guidance, I cannot give, okay, at this juncture because we have -- we are only 6 months, and consol basis, we are INR712 crores. It's a long way to go. It looks and appears to us that the third quarter top line as well as bottom line is going to be very good that -- because October numbers are -- have been good, and we have seen a traction, and you can say that the numbers will be in the range -- the top line numbers would be in the range of INR1,600 crores to INR1,800 crores or INR1,800 crores to INR1,900 crores, it appears to me, but I can give you a range.

And on PAT, margins on a consol basis, we are targeting a number of approximately INR2.5 crores, INR2.6 crores of PAT on consol basis PAT right now.

Madhur Rathi: Okay. INR2.6 crores -- 2.6% kind of -- 2.5% to 2.6% kind of...

Abhijit Kanvinde: Yes. Yes. It can go to -- being finance person, I'm conservative, but it might go to 2.7% or 2.8% also, but it looks -- appears to me that on consol basis, it will be -- so that is looking -- looks like because it's the second quarter which we have ended. So I will get a -- we will all get a reasonable idea when we complete the third quarter. Hope you understand.

Madhur Rathi: Yes, sir. I appreciate you've given us a broad idea where our business is going.

Moderator: The next question is from the line of Harshit Nagpal from YES Securities.

Harshit Nagpal: Sir, just wanted to ask that we added Cyberpower, and we start -- it was launched in May as one of our additional licensing business so any numbers on that on how is that business doing? And if you could just tell the -- like licensing for us? Any guidance on how much would that be from Honeywell and Cyberpower during this year?

Ketan Patel: Harshitji, there was a lot of background noise. But what I could hear is that you were looking at how is Cyberpower business doing, the JV, which we have with that U.S. Cyberpower, Inc., and you wanted to know how will that business grow in future. Is that correct?

Harshit Nagpal: Yes, sir. And if any guidance on how much percentage of topline licensing business did you do this year?

Ketan Patel: Okay. So Cyberpower, I'll just tell you, the gaming industry overall is growing at a CAGR of between 18% to 24%. And the esports gaming is now also being considered like a true sports, and they are including it in various like Asia's, Olympics, everywhere, they have started including that sports. It also has been introduced as a curriculum in a couple of universities also.

Having said that, the hardware or the components which go in making a good esports gaming PC is the same components, which may go into high-frequency trading or the same components may go if you want to mine Bitcoin or the same components can go if you want to do a 3D rendering or you want to do some design services or anything, the same components go.

Our partners from U.S., they do a business of close to $1 billion there. And they have been in this business for the last 25 years. And they have given the technology, they have given us all the relationships with Microsoft, with NVIDIA and other partners so that we could build the business here very well. Currently, the website is up, doing very well. Approximately, a month, we are getting close to 12,000 visitors and -- without spending any money on the digital marketing aspect of it.

Over a period of time, we also found that there is slight resistance for Indian parents to buy a gaming PC. And Indian parent is willing to buy a creator's PC. When I mean a creator's PC is a PC where the child can learn AI, where the child can actually design something if he wants to design something or he could do a financial modeling and that sort of structure.

And so then on the site also now we have a section for creator's PC, which come from the first space. We also built an easy PC building module because in India people like assisted e-commerce, where they wanted to be -- they would like to speak to somebody also while doing that, that's the space.

And now the second factor is to build the trust because if people have not seen the brand in the physical world, so we would have a couple of experience centers opened up to see that. So Cyberpower is still 6 months down the line where we will see some kind of revenues coming from that. Currently, they have got close to 3 to 4 orders. Their first breakthrough was yesterday, they got an order of INR160,000 for 1 PC. So that was their first order, which has come. Overall, we think that if we do our thing well, this business over a period of 4 to 5 years can become a $100 million business in that subsidiary. That's what we think.

Moderator: The next question is from the line of Rishikesh from RoboCapital.

Rishikesh: Sir, licensing versus distribution mix used to be around 10% to 90% -- 10% and 90%, could you share what is the mix for H1 currently?

Ketan Patel: One second, Abhijit will tell you this.

Abhijit Kanvinde: 16% almost in H1.

Ketan Patel: Licensing is 16%.

Rishikesh: Okay. And could you share margin split between licensing and distribution?

Ketan Patel: The third quarter is the festive season this year, right? So we will have a lot of business there also happening. Generally, I'm saying you that. This time Diwali is end of October, starting of November. So this quarter would be a larger quarter. Then the percentages if you -- on the next call if you see, then you would have a better idea. Right now it is 16% because if you see around INR200 crores turnover half yearly, then the last year it's lesser by INR200 crores.

Abhijit Kanvinde: Yes. Absolutely.

Rishikesh: Okay. And also, if you could please share the margin split between licensing and distribution?

Ketan Patel: Okay. Abhijit, you want to go?

Ketan Patel: Okay. So for licensing part, the blended margin comes to around 35% because the passive is close to 20%. India market is close to -- Honeywell, other products is 40%, and abroad, it is 45%. So the blended will come between 35% to 36%. That's the gross margin in Honeywell. And for distribution, again, various segments are there -- 3 segments are there. And in that, you have -- one is, your -- yes, so you have 8% to 10% of margin in the FMSG space and 1.5% to 2% margin in the EB space. And so that put together also will come between 5% to 6% EBIT margin.

Abhijit Kanvinde: Gross margin.

Ketan Patel: Gross margin, sorry.

Rishikesh: Okay. And what would be the EBITDA margins for both licensing as well as distribution?

Abhijit Kanvinde: So EBITDA margins right now for licensing business are in the range of, you can say, 16% to 17% right now. We are targeting the licensing business in next 3 years the EBITDA should go to 22% -- 21%, 22%. This is the reality. The EBITDA margins for your distribution would be in the range of -- give me a second, in the range of 2.5% right now in distribution, 2.5x.

Rishikesh: Okay. Okay. Got it. And what would be our targeted revenue growth for both the segments, licensing as well as distribution, going ahead, FY '25 and FY '26?

Abhijit Kanvinde: So we can give you a wish list, okay, or a very rough guidance. I think Ketan would be the right person to tell you about -- so basically, we are -- there are 2 segments in distribution and 1 brand in licensing, so our complete focus of the company is clearly to grow licensing business, okay? That's because it's -- we have taken it has a challenge, we have built -- we have come so far.

The second point is, in distribution, we want to grow in FMSG products and that are having higher margins. In enterprise business, though the gross margins are very moderate, the involvement of capital, the working capital is low. Therefore, the ROI is -- it works out our -- works out to be in the range of 22% to 23%. But Enterprise business is an opportunity business, okay? So we would try and grow in only other than Enterprise business in distribution, that is the FMSG, FMCT products, okay? This is an overall strategy, I said.

The numbers, I would like to hand over it to Ketan for the numbers, please.

Ketan Patel: Rishikesh, since I don't come from a very finance background, Abhijit usually gives me thumb rule for that, right? So our endeavor is very simple that any business which gives you an ROI of between 20% to 23% is a good business. Our endeavor is that for the next 3 to 4 years, if we can increase absolute margin by 30% to 40% every year, if we can -- the PAT by 30% to 40%, absolute PAT, if we can increase, that would be a good thing.

And if we can improve our working capital cycle by 15% every year, then it is done. But guardrails are that we should not have any debtor's risk and we should not have any obsolescence risk of inventory. That -- so these are the guiding principles on that what we are running the business.

Having said that, the long-term focus is to increase Honeywell, get a couple of other brands in licensing like Honeywell. And say, if you were going -- I must say -- you asked me about '25-'26, but I say if we meet in '28, '29, surely, you will have 3 to 4 licensing brands with us, so like Cyberpower would have grown, and it's grown very well, and it would keep us JV, where we hold also the brand in that company for India.

Honeywell would have done well, plus a couple of other brands, could be our own brand or could be a license brand. That would be one part of the business. Having said that, we also see the demographic is changing very fast. People's choices are changing very fast. People are choosing convenience over price, people are liking premiumization of the products. They are liking personalization of this premium product. And that consumer requires experiential brand, and that experiential brands fall under the FMSG category for us, fast-moving social media gadgets.

And we'll keep getting similar kinds of brands in Creative's portfolio. So we will never want to shy away from distributing this kind of brands and shy away from distribution because distribution gives us foot in the door. It gives us visibility, it gives us amortization of cost. So our long-term endeavor is that we become a 50%-50% company; 50% distribution, 50% coming from licensing. And our percentage margin, PAT, grows to between 4%, 4.5% of the overall top line. So that's the whole plan. And that's the route we want to take. It could be a couple of years earlier or a couple of years later, but that's where we want to go.

Rishikesh: No problem. Got it. I had one question on Cyberpower as well. So I think you said Cyberpower's revenue scale-up would be seen 6 months later, if I'm not wrong.

Ketan Patel: Correct.

Rishikesh: Okay. And could you share what sort of margins do we see in Cyberpower's business?

Ketan Patel: Okay. So first of all, Cyberpower business, we are currently running it like a start-up, right, though there's a $1 billion company from U.S. who has invested, and we are there here, but we are running in a startup, so very lean structure. Cyberpower business overall will not be more than a 20% gross margin business.

Abhijit Kanvinde: Right now, in the beginning.

Ketan Patel: In the beginning. And -- but the best part of Cyberpower is that it's a negative working capital business. We will not have to put money after a while because you are -- as you sell in cash, you first take the money and then you make the PC and send it to the consumer and you get everything in credit, that's the part.

Second, we also understand the nuances for Cyberpower in India would be much different from how Cyberpower sells in U.S. And the affinity of Indian parents, because they are the one who spends the money initially, for a gaming PC is also very different. They would want a knowledge PC rather than a gaming computer, and that's the part we are trying to build very well by our creator PC kind of a thing.

And we will also have to have not just a digital or physical model where you would have some physical retail stores, either it could be franchise or company-owned where a consumer can touch, feel and experience all the Cyberpower products and then take it. I think in this case, it is that once we figure out what's working really well, then we will pump the digital marketing dollars, and then, the sales would just pick up that.

We've got a good team in place currently. And we have Vishal Parekh, who is the CEO of that business. He added Kingston and HyperX. That's a gaming brand from Kingston. Kingston is a memory brand from U.S. And he was the Marketing Head for a larger period of time. And this business is more from the digital side, so he has joined us, and he is steering it well with support from our partners.

So Cyberpower for me is that -- I am very optimistic about it, but we'll have to wait a few quarters before we can really start seeing some numbers coming out of it, and I can really tell you what would be the trajectory for that business.

Abhijit Kanvinde: Yes. And on the gross margin front, I would like to add something, Rishikesh. Our partners have the relationship with all the major components and the brands, which are used to manufacture these products. Now once the business scales up and we get the size, we have the size of manufacture, then the synergies of the relationship of the brands will come into play and our gross margin will start going up like a manufacturing kind of a thing. Right now, originally, it will be 20%, but it will go much higher once we scale up our business.

Rishikesh: Okay. So once we achieve some scale, would it be fair to say the Cyberpower will be doing similar EBITDA margins to Honeywell, which you've targeted around 22% as well?

Abhijit Kanvinde: No, it's lesser than that because Honeywell has -- outside India has a gross margin of 45%, okay? And here, it is 40%, okay, active margins. And Cyberpower would be in the range of 28% to 30%, is what I assume.

Ketan Patel: But Cyberpower, Rishikesh, I may be wrong, again, not coming from a finance person, but it is that if you see the capital -- so ROI in Cyberpower will be really higher to Honeywell because your cash deployment will be much lower.

Rishikesh: Okay. Got it. Just one last question on tax rate. It looks to be very low in current quarter. What would be the sustainable tax rate going ahead?

Abhijit Kanvinde: You see, that's the beauty. When you consolidate your accounts, you have subsidiaries in Hong Kong, which you consolidate. And in Hong Kong, this tax rate is 0, okay, for export sales. So our subsidiary sells the material either to India or to all the countries and which is treated an export sale, so there is no corporate tax. So there is no interest because we have not -- we are using our own funds. So in Hong Kong accounts, the EBITDA and -- is equal to PAT, you can say. Are you with me on this?

Rishikesh: Yes. I am there.

Abhijit Kanvinde: Yes. So when you consolidate, you are consolidating 0 tax in Hong Kong with the Indian entity, so the tax rate -- effective tax rate, if you see, will be lower, and it will be the same forever.

Rishikesh: So the current tax structure, which I see around 12% effective taxes, that is sustainable?

Abhijit Kanvinde: That would be sustainable because technically, there's no tax rate in Hong Kong. And we have -- in corporate tax rate, it is around 25% plus in India.

Ketan Patel: So if the ratios remain similar, the tax rate will be similar.

Abhijit Kanvinde: Correct. Absolutely.

Moderator: The next question is from the line of Aditya Shah from Meteor Wealth Management.

Aditya Shah: Just a couple of questions. Sir, I just wanted to know, are you present in the semiconductor and graphic card space also?

Ketan Patel: So we are not present in the semi -- so as a company, we are not present, but we sell semiconductors, right? Our Intel CPU, AMD CPU will fall under the semiconductor space. And the creator's PC, what we want to do, are also using graphic cards, so that's in the Cyberpower business. Coming to Creative distribution space, we sell a lot of Lexar SSDs. We sell a lot of Transcend SSDs. These are all your memory semiconductors, which we are selling, but this is more from the distribution side, yes.

Aditya Shah: Sir, I'm asking from the distribution point of view only. How much does that contribute to your total portfolio?

Ketan Patel: No right now -- 1 second, so Lexar currently has gone to close to INR2 crores a month. All SSDs put together might be INR2 crores, INR2.5 crores a month currently. In the -- so for 6 months -- so INR15 crores in INR750 crores -- INR720 crores.

Aditya Shah: Okay, sir. And sir, one thing is that, how are you contributing to the data center industry? Because I think that is the next thing in the IT infrastructure space. So how -- what is the contribution towards that space?

Ketan Patel: Okay. For data center, basically one of the -- so data center requires a lot of stuff, but our products, which will go are Supermicro servers, and we also are distributors of Supermicro server, who is a big NVIDIA partner. And with overall Honeywell range of ELV product, that extra low-voltage products, will go into data centers.

But for getting into a data center, you require something called as your experience qualification, EQ. And we are building that up. So with small, small, small wins, we are building the client profile, and then, by going and showcasing our products to consultants, showcasing our products to large infrastructure companies, we are trying to build the cadence for the Honeywell structured cabling brand. We are seeing good traction. We are seeing good resonance for our brand in the infrastructure, oil and gas space.

And if we get a couple of 2 to 3 good wins in this financial year, then the next financial year for us would be a very good financial year. And if you see, all the tendering business, all the procurement, all that starts from September and October onwards till March. The government business is also there, wherever system integrators are present. So if that builds up well, then it's there. We have total...

Aditya Shah: That can be a good growth factor in the coming years.

Ketan Patel: Yes. If we have a...

Aditya Shah: Okay. Sir, I believe you may be having a warehouse to store all these products, right?

Ketan Patel: Yes, 14 warehouses across India.

Aditya Shah: Sorry, sir. My question is now on how do you manage the logistics. Do you outsource it? Do you do the direct logistical part? How is it done? How is the logistical cycle in process here?

Ketan Patel: So what we have done is wherever the major ports are there, right, we have our distribution warehouse. So Bhiwandi is one warehouse we have. Chennai is second warehouse we have. Kolkata, we have one warehouse there. And then obviously, Bangalore and Delhi and other places, we have warehouses there. And depending upon the product mix of how the region is selling, we get our all products there.

Then we have services from Blue Dart or -- and Delhivery and other couriers for road and air. And we also call as milk run, where the local deliveries. So Bangalore local to local, we will deliver in our own van. These are not our own vans. These are vans which we have taken on rent with a driver, and they will deal with that.

So in Bombay, such 4 vans would deliver products the same day to our retailers and distributors who will sell it further. So it's a mixed combo hub-and-spoke kind of a model. We have people across 28 locations. We have stocking across 14 locations. Blue Dart is our primary partner. With that, we have another partner like Delhivery, Gati and all.

And then we would have local vendors who would give us the milk run services where we deliver the product the same day. Nowadays, online is also a bigger thing. Online, you can't sell the material by Blue Dart because they have a time slot in which the material has to reach, and they have one dedicated vehicle. So we look -- use local transporters for that. So that's how it works.

Aditya Shah: Right, right. I get it, sir. So just to add on that, when you say you have Blue Dart and other for air services, does it take on much of expenses from you? Or is it manageable? How does it go?

Ketan Patel: Currently, our overall logistics cost is close to 1.1%. So it's a quite manageable cost. And when we import stuff by sea or by air, that cost goes into the cost of goods. That's the case. So currently, I think that we're doing very well on the logistics part.

Aditya Shah: Okay. Okay. And sir, I just was reading something. You have a tie-up with Samsung.

Ketan Patel: Yes.

Aditya Shah: Yes. What is exactly this tie-up? What do you distribute for Samsung exactly?

Ketan Patel: For Samsung, 22 inches and above monitors, which usually they are curved monitors, which financial institutions and other people take, that we distribute for Samsung to -- for close to now 17 or 16 states.

Aditya Shah: Okay. And one last question, sir. In your competition, I believe we have a competitor called Rashi Peripherals Limited. How different are you from them?

Ketan Patel: First of all, it is the story of giant and the Goliath. They are very large. I think they might be INR6,000, INR7,000 crores now or more, I really don't know. So Rashi -- we are in the same industry, but Rashi is a pure-play distribution company. They do a lot of value addition in their field, while ours is more on the consumer side of products. Ours is more experiential kind of product. So our distribution phase is a very small portion of what Rashi do in a large scale. And the Honeywell and the Cyberpower are our brands, right, licensing brands. I don't think Rashi is in that space. Our distribution business, you could compare to them.

Moderator: The next question is from the line of Radhika Shetty, who is an Individual Investor.

Radhika Shetty: Sir, my question was regarding the inventory and the receivable days. So if you see in this H1, we have increased. So may I know the reason?

Abhijit Kanvinde: Okay. So absolutely...

Ketan Patel: Radhika, this is Abhijit answering your question. Yes.

Abhijit Kanvinde: My name is Abhijit, I am the CFO. So I will just compare the inventory and...

Radhika Shetty: Receivables.

Abhijit Kanvinde: Okay. The inventory as on 31st of March was INR65.58 crores, which has gone up to INR88.63 crores, yes? Okay. There are 2 reasons. One is that we have had a lot of inventory built up for this festive season, which is in this quarter. So almost approximately INR15 crores of Honeywell inventory was built up, okay, mainly air purifiers for this quarter, which has been almost sold in October, and by 15th of November, all that inventory will be gone. So technically, if you compare this, the first reason is the inventory build-up for the festive season, which is the major quarter, October, November, December.

And the second question was receivable increase. You see last -- if I want to answer your question, the September numbers, the September top line, okay, was INR110 crores, okay, without taxes, okay? So out of that, our enterprise business was almost INR44 crores, and our channel business was INR66 crores. So if I apply -- convert INR66 crores and add 18%, okay, then you get INR77.8 crores -- INR77 crores. And if I -- so 40 days of debtors, if I consider, then you get around INR100 crores. So almost channel business debtors are INR100 crores. Okay. And enterprise business debtors, out of INR44 crores, were around INR30 crores that we are spending, okay?

Enterprise business in the last -- earlier years, we have been in this business for the last 4 years. Earlier years, we were not giving credit in Enterprise business, and we used to get money in advance and then used to supply. But in recent trends, we are -- in the interest of business from last financial year in last quarter, we've started giving them some credit. So if I do a business of, say, INR60 crores, INR70 crores of enterprise business, my INR30 crores almost is outstanding at the end of the month, okay? So that's the breakup.

It's perfectly normal for -- to have INR130 crores of debtors with the September turnover of net of tax of INR110 crores. That is what we see. Yes, it has increased from my March numbers. But I feel that, that effect of that will nullify in this quarter. So my -- our final numbers would be in the range what we are seeing as normal as of 31st March.

Moderator: As there are no further questions from the participants, I now hand the conference over to Mr. Ketan Patel for closing comments.

Ketan Patel: Thank you, everyone, once again for your participation in our quarter 2 and H1 FY '25 earnings call. We are continuously striving to remain a step ahead in the market and bring cutting-edge products to our markets while generating sustainable value for our stakeholders. In case of any further queries, you may get in touch with Adfactors and feel free to get in touch with us. Thank you.

Abhijit Kanvinde: Thank you.

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