"Creative Peripherals and Distribution Limited Q4 FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Creative Peripherals and Distribution Limited Q4 and FY21 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 guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ketan Patel – Chairman and Managing Director of Creative Peripherals and Distribution Limited. Thank you and over to you, sir.

Ketan Patel: Good afternoon everyone. Welcome to Creative Peripherals and Distribution Limited earning conference call for audited 4th Quarter and full year ended March 31, 2021. I would like to begin by expressing my gratitude to all of you for taking the time to join us. On the call with me today is Mr. Abhijit Kanvinde – CFO, Mr. Vjay Advani – Wholetime Director of our company and BridgeIR, our investor relations team.

Before we get into the business and financial performance of last quarter, I would like to share some brief insights and recent developments regarding the company.

Starting with some key recent developments:

As you are all aware, most of the last year faced headwinds from the COVID-19 virus outbreak. The pandemic brought the whole supply chain and entire economics to a staggering halt. It impacted every aspect of our lives from personal life to business and industries across the world. Like every other business, we also faced the impact of the lockdown. Even as industries reopened gradually, we took this opportunity to further refine our internal practices and improve our operational efficiencies and skill sets. Thus, our annual performance practically represents business for only 9 months as there were nearly no business operations during the initial months due to the COVID related lockdowns. However, the second wave of this pandemic has again hampered not only logistics and business, but also consumer sentiment. With partial lockdowns in places across several regions in India, we have been working with lower employee capacity encouraging our employees to work-from-home and stay safe. As the impact of the second wave wanes, we hope for a faster upswing in activity going forward. Also once traveling and tourism resumes demand for photography, videography and related products is expected to recover.

On a more upbeat note, we are going to change the name of our company to Creative Newtech Limited. As I mentioned earlier, our business and vision far exceed just distribution. Today we are well-established as Brand Licensees with a long-term agreement with Honeywell and are building further on this line of business. With Ckart we have entered the online B2B marketplace vertical, and we see this as a key turning point for our business. These changes along with our vision to be one-stop-shop for all partners, call for this new name, which better represents our company's vision to be at the forefront of new technologies. Also, we recently tied up with Reliance Retail to distribute a broad range of Marvel and Disney branded products. This includes audio products, such as wired and wireless earphones, headphones, and speakers, Personal grooming products such as hair curlers and straighteners as well as small home appliances like toasters and sandwich makers. This tie-up gives us access to huge market across multiple products verticals, expands our geographical coverage and would translate to higher revenues taking our business to new heights. We are now extending this tie-up by adding a range of lights, bulbs, fans, and home appliances from BPL. Having such a household name in our brand portfolio also broadens our market reach.

In June 2021 we suffered an unfortunate fire incident at our Bangalore warehouse. While some of the inventory was damaged, all of it is insured. It is heartening that there was no human injury or loss of life in the incident. We have followed all the necessary procedures to be undertaken and a surveyor has been appointed who is investigating the incident. We shall share more information on this once we get this full comprehensive report of the same.

Coming to a brief introduction to our company:

Creative Peripherals is a dynamic company which has come a long way and crossed several milestones over the recent past. Today we are not just market specialists for the niche experiential brands across India and international markets, but also licensee and contract manufacturers for a Fortune 100 global giant Honeywell. We specialize in market entry for global brands and work closely with partners to achieve optimal market penetration and growth. Our network includes all three channels, online, retail, and general trade, thereby giving us a strong leverage to reach out to a wide market base. Furthermore, our value-added business model covers end-to-end solutions from market research and competition analysis to formulating and executing regional specific marketing and pre-sales strategies for brands.

We have a three-pillar strategy to grow and expand our business sustainably. The first key aspect of our business is brand licensing and contract manufacturing. With Honeywell we have a long-standing agreement for contract manufacturing and distribution in 30 countries across APAC and Middle East region. We have a broad and continually expanding product portfolio with Honeywell with air purifiers being the latest addition. Our products cover connectivity as well as audio entertainment solutions. We aim to expand this licensing line of business by adding more international brands. Contract manufacturing is attractive model for business for various global brands wherein they can leverage local players market reach to increase and grow their product market share. We plan to utilize our experience gained with Honeywell for other international brands wishing to follow similar model.

The second pillar is our expertise and strong holds in market entry and penetration for niche brands. Currently we have a long-term association with 20 global renowned brands which are leaders in their field. These are categorized in three broad divisions, IT, Imaging and Lifestyle and Security products. Our value-added services like executing, brand marketing strategy and post-sale service along with this wide spectrum of products, helps our company achieve economies of scale and become a single sourcing point to our customers.

Today Creative Peripherals is such a sought-after name among OEM as well as sub distributors and retailers alike. We have critical link in the supply chain.

We continuously enhance this bouquet of brands with new and high margin products. Some recent brand additions to our portfolios include Edelkrone and ZEISS.

The third key aspect of our growth strategy is Ckart, our own online digital B2B e-commerce platform. Ckart is a game changer in our industry and will play a crucial role in expanding our business with new and existing customers at minimum additional cost. Overall, our focus is on three main growth triggers, offering experiential products, then enabling niche global brands to enter and establish in new markets, expand our licensing business, and become an online platform for all customers through Ckart. We continue to strive for higher operational efficiencies and adding high margin value added products to our portfolio. Associations with Honeywell, ZEISS, Edelkrone, etc., are step in that direction.

Coming to Ckart, our new business initiative I am glad to share that our platform has been making significant strides since last August. As I briefly mentioned earlier, Ckart is our online digital B2B e-commerce platform built in-house by dedicated team. It hosts all our customers in the supply chain and enable them to transact, discover and share the products and brands to their buyers in their own company's name. This platform also assists them to showcase their inventory and trade among each other facilitating higher volumes and expanding the product portfolio being offered through Creative Peripherals. We even showcased the speed and ease of use of Ckart when we demonstrated the first order online during the launch event. Within the six months of launch many of our existing as well as new customers have joined the platform making it a huge success. We have launched the seller module of the platform, which will allow our partners to sell their entire inventory of products to their customers through Ckart, including products that are not directly under Creative’s portfolio. Additionally we will also enable partners to have their own e-commerce site hosted on our platform. These features really benefit the partners and would garner further adoption among players. Ckart will fortify our presence as one-stop-shop for customer as well as improve our working capital cycle and profitability.

On the other aspect we recently renewed our contract manufacturing agreement with Honeywell for another 5 years as well as expanded our distribution scope with them to 29 countries outside India. This gives us access to Middle East and APAC regions. Our deep association with the Fortune 100 company like Honeywell would serve us as guiding example for other brands wishing to leverage the licensed manufacturing model. We will soon be launching a wide range of audio entertainment product and a new variant of air purifiers by Honeywell.

On the distribution front, we constantly update and expand our product brand portfolio to keep it upright. Some of the recent brand agreements include those with Colorful Technology, MSI, Edelkrone and ZEISS. Such associations diversify and expand our portfolio and reflect the company's recognition among the global brands. As the consumer sentiments improves, we are expecting strong demand for such products in the Indian market both online and offline and as Ckart gains momentum we foresee a strong growth in customer base without much additional costs which should translate this higher topline and profitability.

So, from an overall business perspective this is all from my side. I will now hand it over to Mr. Abhijit Kanvinde, our CFO who will take you through the financial performance of the company in Quarter 4 and FY21. Thank you.

Abhijit Kanvinde: Thank you sir and a very good afternoon to you all. I will share the highlights of our standalone financial performance after which we would be glad to respond to your queries. Our financials reported are as per Ind-AS guidelines.

Looking at the Quarter 4 FY21 financial results:

In the quarter ended 31st of March 2021, the company achieved net revenue of Rs. 177.15 crores growing 38.02% year-on-year. This was mainly driven by robust demand for IT brand such as Samsung, Cooler Master, and expansion of Honeywell product portfolio. EBITDA stood at Rs. 7.24 crores as against Rs. 3.13 crores in the previous corresponding period, increasing 130.98% year-on-year, while our raw material cost increased due to change in the product-mix EBITDA margin improved due to higher sales and lower marketing advertising and other expenses. The net profit for the quarter is at Rs. 4.09 crores as compared to Rs. 0.94 crores in Quarter 4 FY21, a YoY growth of 337.68%. Our EPS for the quarter was Rs. 3.42.

Now turning to the full year FY21 financial results:

In the year ended 31 March 2021, our company achieved net revenue of Rs. 15.47 crores representing an increase of 13.92% year-on-year. This is mainly driven by strong recovery in demand for existing and new products led by Samsung, Cooler Master and which offset the impact of nationwide lockdowns during the initial months. After reopening at a lower capacity after the lockdown business has been gradually gaining momentum. EBITDA stood at Rs. 20.06 crores as against Rs. 18.06 crores in the previous corresponding period having grown by 11.08%. Higher sales and lower other expenses such as marketing and advertisement cost lead to growth in EBITDA. However, raw material expenses and changing product-mix led to contraction in EBITDA margin. The net profit for the year is at Rs. 10.78 crores as compared to Rs. 9.03 crores in FY20, a year-on-year growth of 19.41%. Our EPS for the year is Rs. 9.18. This is all from our side. We can now open the floor for questions.

Moderator: Thank you very much. The first question is from the line of Ayush Agarwal from Mittal Analytics.

Ayush Agarwal: My first question is in your press release you have mentioned that growth was driven by GoPro through, yet we see a huge decline in the imaging segments year-on-year. So, could you help us with the GoPro numbers in FY21 and what it was in FY20?

Abhijit Kanvinde: For FY21 the GoPro we did of around Rs.74.5 crores and FY20 it was higher, it was approximately Rs. 120 crores to Rs. 123 crores. You would appreciate that, first 4 to 5 months of last financial year we had lockdown and sale was not there almost. So that is the reason GoPro has not done so well in this financial year.

Ayush Agarwal: I also have a suggestion since you have entire page on GoPro in our presentation, it would be really helpful for the investors, if you could show these numbers because otherwise, we keep asking these questions and it takes a lot of time.

Abhijit Kanvinde: I appreciate it.

Ayush Agarwal: My second question is, again we see a lot of growth in our other segments, which is lifestyle and security. In the last quarter you had mentioned that we made some business with some corporates on the security side, and it was a low margin business and again this quarter we see a huge rise in the revenues and the margins are lower. So, first question is, is there another one-off business to those corporate and if you could quantify the numbers for FY21?

Abhijit Kanvinde: The numbers for FY21 for this other revenues is in the range of Rs. 120 crores. This is an opportunity business for the corporates which we have done. Since this is the opportunity business, we may feel that we will get some part of it in this quarter, but it is not very stable. Why we did this is because the regular product like ViewSonic, Printronix were not selling due to lockdown. We had to do something, similar to business we did in the first quarter of last year which was medical devices, to be on the track and survive, that was the intention.

Ketan Patel: Ayush further to add what Abhijit said, in the COVID the product-mix definitely changed because our lifestyle changed, the way we work actually changed a lot. And the second was, how do you give credit to somebody because if it is individual, if it is a smaller organization, then there is always a risk for that. So internally we said that we want to keep the momentum going on and corporates because work-from-home was picking up very well, a lot of people's balance sheet did not allow larger vendors to give them credit and this opportunity was for us and we said that let us build up on this opportunity and if there is some merit in it, then we will also encash it along with vendor or the product start selling in. So, as a result of that, for this year we set up our own corporate division. We promoted at least three of our branch managers from Nagpur, Bangalore and Pune and they are reporting to directly Mr. Vijay Advani. We are also looking at somebody on the Corporate Head of Sales side, because we think that this business also will be a huge business. And the unpredictability of COVID is so much that we want to deal with fairly larger organizations. Coming to products like GoPro which are typically very outdoor product, until the travel resumes and there is no embargo from various countries for people to travel outside of India, that business will be a little low. But to offset that, because video is becoming the preferred medium of communication, we are in talks with companies who are into videography, companies who give bloggers equipment to create their video logs to stream directly from their home. So, we are in talks with them and probably, this quarter and the coming quarters you will find a lot of brands from this. This will not only offset the business which we are losing because of travel when travel comes back this will again be a booster to that. I hope we have answered your questions satisfactorily.

Ayush Agarwal: These are good insights, and it is heartening to see that our company is able to maintain sales even during these times and take up these initiatives which are even though low in margin are quite remunerative I am guessing. So, it is safe to assume that we did around Rs. 120 odd crores from the corporate business and you mentioned that it is going to continue in the years ahead as we have set up complete separate division for this.

Abhijit Kanvinde: Yes,

Ayush Agarwal: And the kind of margins we do is around 3%-4%.

Ketan Patel: Yeah, on a gross basis. We are building on it. So, for example, I will give you a case of a MNC brand. Now they had newcomers joining them and they were not going to the headquarters, and they were directly joining from home and their welcome kits were supposed to be delivered to their home. It consists of a computer, it consists of a Honeywell Spike Arrester, it consists of a bag, some stationery and all that. So on the Ckart's platform for this corporate we built up a welcome page where the new joinees could join in, they could claim their welcome kit, the billing was done to the corporate directly, the drop shipment happened to the new joining employee, he could track his shipment, the company did not have to track whether the invoice GST has been claimed or not and that was kind of slightly in terms of not just delivering it was also a value adding that the company gets all the information and other stuff. So, in this kind of business the company is willing to give us a slightly higher margin.

So, I think corporate business over a period of time will start falling into our regular business of 8% to 10%.

Ayush Agarwal: My next question is on the IT business that has also done well this year and you had mentioned last quarter that work-from-home culture is picking up and school-from-home culture is also picking up and that is why we had made a lot of sales in monitors under Samsung and other brands. So, if you could quantify Samsung numbers in FY21 and what according to the management they feel that this was due to COVID. So, if some quantum could be provided, then it would be easy for us to segregate the kind of numbers that we did last year and this year.

Abhijit Kanvinde: So, this year Samsung we did approximately Rs. 95 crores on a year basis. Besides Samsung also fired was Cooler Master and PNY. These are also IT brands for graphic cards. Samsung, this year we see a clear vision or a guidance of Rs. 12 crores to Rs. 15 crores per month. Right now, that is a guidance which we have from Samsung, so it will be in the range of Rs. 144 crores to Rs. 180 crores. And Cooler Master we clearly see a vision or guidance of Rs. 5 crore on average per month. So, these two are the major IT brands. Besides that, of course Honeywell, last year we did Honeywell Rs. 26.65 crores, however this year we think that Ketan you want to talk about Honeywell?

Ketan Patel: Ayush, Honeywell because we got the licensee for 30 countries, and we also got the licensee for air purifier and air purifier is now coming to like basic. So, every household wants to have an air purifier because of COVID the quality of air has become very-very important. So, we have refreshed the complete range and the new range of Honeywell air purifiers we will be launching from July not only in India but in India, Middle East and Egypt and Saudi Arabia. Honeywell Inc, that Honeywell Inc USA and Honeywell India both have also signed up a contract with us to buy Honeywell air purifiers and hotel chains are now deploying air purifiers in every lobbies and every room and I am glad to share that Marriott Hotels worldwide has chosen our product of Honeywell air purifiers to be kept in their lobbies and rooms. So, we are very gung-ho about the whole Honeywell business. And the most pessimistic of the view also, we think that in this current financial year, Honeywell we should close between Rs. 80 crores to Rs. 100 crores plus and minus and Honeywell business is very important because it is a 40% gross margin business. It is our endeavor that over the next couple of years with Honeywell and one more licensing brand, we want to have 30% to 35% of our business from licensing because it is a higher gross margin business, plus it also gives us the control of the product development cycle manufacturing cycle and also the control over our partners as what products they would buy. So, we are quite optimistic about the Honeywell air purifier business. And last thing, in Honeywell we are also launching the audio range completely right from Bluetooth wireless headsets to speakers to other stuff. The worldwide audio market is currently of $25 billion, and I think with the Honeywell brand and the kind of products we will introduce, will get surely get good traction into that.

Ayush Agarwal: Is it safe to assume that 40% gross margin and 15%-17% EBITDA as you had guided earlier for Honeywell would be doable?

Ketan Patel: Because what has happened Ayush is, all our tooling costs, all our people cost is now starting to pay dividends because one product manager, so currently for example, Honeywell air purifiers we ordered 22,000 units for the June, July, August quarter and this year we think we will sell almost between 35,000 to 40,000 units just in India for Honeywell. So, the same product manager who used to look at an overall business of say Rs. 26 crores will look at a business of Rs. 80-90 crores. So, we will get the economies of scale in that. So, I think we will easily be at EBITDA at 15% to 17% plus our margin in Middle East is 50%, not 40% because the Honeywell brand name carries lot of weight there.

Ayush Agarwal: My last question is on Ckart. What would be the number of partners that we have currently and how many were onboarded in Q4? And I think we mentioned that around Rs. 65 crores of sales was done until Q3. So, what is that number today?

Ketan Patel: A couple of things on Ckart, the first and the foremost thing is Ckart is a digital platform which helps our current partner and also help us in onboarding new partners who can transact, share new products, and also do drop shipments and other stuff. So, my figures are from say 1st August to 30th of April, on Ckart we did almost a business of Rs. 180 crores and now we have almost all Creative partners that is almost 6500 partners on Ckart and there are almost 484 partners who are completely new, and they were onboarded because of Ckart, and they transact only on Ckart without speaking to anybody in the organization. So, Ckart seller module also we launched just last month. So, our pitch has changed. Before we used to go and say go and purchase the product from Ckart and now our pitch has changed that you come on to Ckart and sell the product. So, a person is very much interested instead of buying to sell his product so that gets a lot of traction. Plus, Ckart finally will be our blue ocean, because if you see in the distribution business your money is invested in two factors only, one is inventory and one is trade receivable. With Ckart we will be able to go through thousands of partners, so we will sell them only in cash so we will not have trade receivables and with the seller module launching and with that also the private label website for the seller launching in their name, sellers' inventory we will be able to offer to our customers so we will not have to invest in inventory. So, the key to this is execution part and if we execute it well Ckart will definitely bring our cost of overall operations down and also the reach to various partners Ckart will help us.

Moderator: The next question is from the line of Harsh Shah from Dimensional Securities.

Harsh Shah: This is Harsh Shah from Dimensional Securities. My question is on the Ckart side. So, when you say that you are impending new vendors and new products, so we are talking about products which are outside of the business which we do, right?

Ketan Patel: Yes. Both the products, the products which we do and also the products which our sellers would want to sell.

Harsh Shah: Isn't that a conflict of interest? I mean those products which would compete with the product which we do under brand licensing and contract manufacturing?

Ketan Patel: No, it would not conflict because as it is there is a market share for each product. You are just enabling the customers to transact on that. So, for example, we do Samsung, so we don't do LG, right? But our customers, according to the product specification and according to needs of their customer will also want a Samsung and also want an LG and without holding the inventory, without credit risk if we can offer them LG from the sellers and we can make some percentage of margin on that, it really helps. And none of the brands have say a 100% market share, usually every brand has, a good brand will be a 20%-25% market share. So, there is always scope for other brands. This gives us lot of insight also of what kind of product sells, what kind of customers are buying products, who are the customers who actually we can convert it, or we can offer them our products which are not competing with them. So that really helps. For example, tomorrow all to a new sector, so say CCTV, we don't do only, tomorrow people start selling CCTV products on Ckart, obviously Honeywell passive components of CCTV cables, HDMI cables, Samsung TVs, all can be offered to the same set of customers. Actually, it's complimenting thing rather than a complicated thing.

Harsh Shah: Understood. When you say that you did a business of around Rs. 180 crores on the Ckart platform, so how much would be of our product? And secondly how much revenue did flow to Creative Peripherals?

Ketan Patel: So currently Ckart and Creative are kind of the same side of the coin. So, what Ckart logs in currently the revenue is of Creative only, so there is no new revenue which is other than that of Creative on Ckart. Only thing it helps is, it automates the complete process. So instead of us having a backend for sales order and then our sales guy going and punching the orders and all that, all that happens on Ckart. It will in the long term help us let's say for example we are a 220 people currently managing a business of say Rs. 530 crores with 250 people we will be able to manage a business Rs. 2000 crores. That is what will be the value addition of Ckart. And plus, as soon as we start monetizing in future, in terms of getting ad revenue from vendors and other stuff, selling extended warranty on that part, selling digital products like software all that that would be solely revenues of Ckart.

Management: Immediate advantage was probably you can think of is that 400 new customers have probably come on Ckart, and this is the additional revenue which we have generated which the credit has gone to the Creative.

Harsh Shah: When I look at the revenue of around Rs. 520 crores for FY21 so you mean to say that Rs. 180 crores has come from your Ckart out of that?

Ketan Patel: Yes, but not necessarily from new customers. It is our old customers also who have adopted on Ckart, that's also there.

Harsh Shah: If I remove that Rs. 180 crores from this business, then YoY basis we have actually de-grown from Rs. 450 crores to somewhere around Rs. 320 crores.

Ketan Patel: That business irrespective Ckart would have been there or not it would have happened, but with Ckart being there our people instead of employing new people, instead of having new resources, the business is happening, that is the first part. Second is the same customers we are being able to offer them a larger portfolio. It is a very short period because we started this in October and then again, we moved into a lockdown in the March month, till December also we were in a partial lockdown. So, once we get the full set of numbers for the coming year then it would be a wiser thing. And plus, there are few brands who are direct to retail customer, not the end customer direct to retail stores. And they have approached us to use Ckart as a platform to reach to their customers. Second is everything is becoming a platform, so imagine tomorrow Ckart connecting with Flipkart for their B2B sales or connecting with bajaao.com or connecting with Lifafa or connecting with JioMart, so that that will all be additional revenues which will start coming.

Harsh Shah: Just the last question, our sales-mix for FY21 has changed drastically compared to FY20 with revenue from imaging going from 43% to 15%. So, if we talk about FY22 or maybe FY23, which will be more of a normalized year, how do you see the sales mix coming in?

Ketan Patel: I think, still the sales mix would be a little different because our overall the way we work, the way we live has changed completely, so as time comes, we will have a look. So, for example from each household having one computer and one tablet we moved to four computers, four tablets. Then the TV also from one or two TV's everybody has their own personal device for entertainment. Larger enterprises for example, if you were a call center and you had 3000 employees in three shifts, then you required only 1000 desktops. Today, if you have 1000 people working from home and 2000 people coming to office, you will require 2000 desktops and the way people now use digital medium to do that that has changed. Our marriages have changed, yesterday I myself attended two weddings on YouTube. One was in Delhi, and one was from Chicago, my friend's daughter was getting married. And as our life keeps changing, I think better devices for streaming weddings, better devices for streaming games, the cryptocurrency today has almost it is not a legal tender but it is still now an official thing in India. So, your sales for PNY, your sales for Cooler Master, your sales for ThermalTake which are all high-performance computer components will go higher and higher. So, the product mix may change a bit but will come back to original margins and as a company we endeavor that we have a gross margin of between 8% to 10% overall for all the products.

Abhijit Kanvinde: Absolutely. And just to add as a percentage in coming years I think that it is again my understanding, we will be around 50%-55% in IT, around 30% in media, and in other lifestyle products we will be approximately 15%-20%. That will be the mix.

Moderator: The next question is from the line of Digant Bamb from SVIP Capital.

Digant Bamb: You were mentioning that the revenues of the last year should be considered as the nine months revenue. So, should we consider that as the average going ahead as quarterly revenue for the next year?

Abhijit Kanvinde: Actually, to be honest with you, first quarter we did a turnover of around 66 crores and the full year if you say, we did 520. If you actually calculate it by arithmetic terms, it is just 10 months run rate. So, it is a 10 months run rate then we can safely assume that on a normal basis we should be at 50 crores to 55 crores of run rate per month. This is an assumption, and I am sure this is a minimum what we will do. My point here is that but first two months of this current year has been partial lockdown, not partial actually a complete lockdown in major cities. Not that we have not sold, we have done well in spite of this situation but unfortunately, we are hoping that from June onwards this situation will come to normal and under that circumstances, I think personally that if we do well, we should be in the range of 750-800 crores on the topline basis. This is again my estimate.

Digant Bamb: That is for next year you are saying that?

Abhijit Kanvinde: Yeah, next year.

Digant Bamb: That is great. All the best for that. The other question was that the new tie-up that we are having, that is great to know about that, about the company. So, the current inventories and our working capital would that increase, and would we get our capital locked because of that, a little more than that?

Abhijit Kanvinde: I will elaborately answer this question. If you see our working capital and compare it with last year, the working capital as what it stands today is 56 days as compared to 59 days in the last year. This is the first point. Since there has been a lockdown and you will appreciate that we purchase in advance. So, there has been an increase in working capital in absolute terms and the working capital figure has gone up from 75 crores of last year, it is almost 85 crores to 90 crores of net working capital we have. But then I feel this is a temporary phenomenon because of the lockdown off and on, the management of working capital has not been so judicious because most of the things were not in our hands. So, the working capital turn has come down from 6.16 to 5.47. What we estimate to do is between 7% to 7.5%. If we do this 7% to 7.5% or 8% of working capital turn, then whatever funds are there in the business they are enough to generate this kind of turnover, the 750 crores what we are talking. I will not be able to borrow more. I will not need to borrow more. Have I answered your question then?

Digant Bamb: So, the borrowings would remain around the same limit.

Abhijit Kanvinde: Absolutely.

Digant Bamb: That's great. And one last question was on Ckart. So, we are looking at growing it substantially. So, what kind of capital are we looking to infuse in that business in marketing, upgrading, whatever.

Ketan Patel: I will be very candid with you on this. Ckart, the business model is very different from the brick-and-mortar business. And there are only two expanses to that business. One is having the technology team, and second is having that marketing to get more number of users on the site and to increase the gross merchandising value on the Ckart platform. Currently because Ckart is part of creative and the PAT and the profitability matters a lot we are not going aggressive in terms of going after newer and newer customers for Ckart. As our balance sheet will be able to support, we will slowly ramp up the marketing campaign for Ckart to get more and more customers on it. The platform is very robust, and I think, and please consider this not a very boastful statement, our technology of giving our users their own private labels at site. So, for example, if you are my customer and you want to have your own website with your own domain name, we can just have that website ready in a matter of hours with almost 4,500 to 5,000 of our SKUs and also if the partner has 300-400 of his own SKUs, we can have that. And then the partner feels elated because number one now he is an omni channel partner, plus he is slightly better than his peers because their peers do not have an e-commerce website. So, the Ckart platform is really good and if we will be able to give the proper resources to that in coming 2-3 years, I think we can have more than 100,000 partners on Ckart and almost 20,000 to 22,000 sellers on Ckart.

Digant Bamb: That's amazing to know, sir. The growth that we are targeting and with the same kind of debt and the expansion at Ckart, we could be in another league altogether. That is amazing to know, sir. Thank you and all the best.

Moderator: The next question is from the line of Krisha Shah, Individual Investor.

Krisha Shah: I have a couple of questions. Who do we consider like our top two competitors domestically?

Ketan Patel: Nice question. We are kind of a very hybrid model and that is why we are kind of trying to change the name of the company also from Creative Peripherals and Distribution to Creative Newtech Limited. And in the distribution space because we try and deal with products which provide great customer experience, we would have kind of smaller niche companies and not, but the people then and…if in the distribution space you have to compete, if you have to compare there is Redington, there is Ingram, but they are all (+) 20,000 crores and we are not even 1000 crores. And in what we are trying to create with Ckart, it is like a JdMart or it is like a Udaan or it is like an IndiaMART, but of all the three they don't have a financial model where the customers after coming to that site can transact and mainly Udaan is now more of a NBFC model where they make their money by giving credit and IndiaMART and JD, Just Dial are a subscription model. While building a subscription model is very difficult, again once you build that model then to go for hyper growth becomes very difficult in a subscription model. But in Ckart's space because we own the products and else, we keep adding brands growing exponentially faster becomes easy, plus you also have the financial models so people can transact. So, you can make a cut out of that financial model and as you start getting intelligent data probably if you want to add an NBFC or you want to on-board an NBFC and make a commission out of it or you yourself want to do that, there are numerous possibilities on that. So, to answer your question we are a bit of everything, and the business world is also that the lines are blurring between say a retailer and a distributor and a brand so that is the thing.

Krisha Shah: The second question is how do you plan to improve the cashflow position of the company? Like, are there any measures taken for the same?

Abhijit Kanvinde: Let me answer this question. The current financial year in consideration for which we are having a call, there has been a stress on working capital. The quantum of working capital has increased and the basic reason our inventory turns have been not up to the mark, that could be one of the reasons of your working capital being high. One cannot be blamed because our planning in terms of inventory has gone for a toss in view of the lockdown. So, if you have off and on lockdown and however, we need to plan our inventories in advance, this is bound to happen. So, how are we planning to improve on this? We want to have better inventory turns, that is one. We want to have improvement in net working capital, what I mean is lower number of days in inventory and debtors and higher credits. And also, we are looking at improvement in gross margins. If Honeywell for example, fires to what Ketan has said, then technically we will have absolutely good free cashflow and which we feel we will have in the coming financial year.

Krisha Shah: My last question is how much progress do you see Honeywell do the next two years and are there any other brands lined up for licensing?

Ketan Patel: Honeywell, our endeavor is that through licensing business, Honeywell and one more, in the next couple of years we want to have 30% of our business coming from Honeywell. Next year at least you can expect between 80 crores to 100 crores of the projected (+) 750 crores business of Honeywell. And the year next to it at least around 250 crores should come from Honeywell. The statement is a bit ambitious, but we were doing Honeywell only in India. Now we have license for 29 more countries, including India it would become 30 countries. And we have just started our operations for Middle East. We have now a Sales Director for GCC Egypt and Saudi Arabia so as we start recruiting distributors there. Second is, in Honeywell in our current SKUs we have at least 14 to 15 SKUs which have become hero product and there is a strong demand from corporates and online channels to all the same, so that also will add to it. And we are in talks with a couple of brands for licensing in the space of medical devices and also in the space of appliances. But with our Honeywell experience we know that we should not rush into anything and initially it is kind of very capital consuming thing and it also has a higher say 120 days working capital cycle. So, we are thinking that first we stabilize Honeywell completely and as we cross the 100-crore mark then probably take up the other brands.

Abhijit Kanvinde: Just to add in Honeywell, we are adding couple of categories and therefore the products. So, one is a category we call it 'Sound' which includes sound cards, speakers, party speakers, earphones, ear pods and so on and so forth. So, we will be launching these by July end or August early and that itself is a huge-huge category. And you know about it, you know the success story of boat in India. So, that is what we will be launching so numbers will come from there. Purifier is looking to be a very-very star product and there is demand and traction which is coming, so we will do approximately 20 crores of purifier in the next year. And then of course because of the breadth we will do more revenue.

Moderator: The next question is from the line of Ruchi Mehta, Individual Investor.

Ruchi Mehta: I have couple of questions. Keeping in mind the recent fire incident, what are the precautionary measures put in place and how much damages was caused in monetary terms?

Ketan Patel: Ruchi, thank you for asking this question. It is a difficult one. First of all, there was no loss of life in that case. And the damages are less than 20-25 lakhs maximum. That is what if the insurance does allow. Our overall insurance, our branch offices and warehouse is close to 16 crores and the inventory there was less than 2 crores and our overall insurance for distribution centers is 60 crores, that is one. Second, once this incident happened, I personally went there at the site, saw everything and now we have started to do a comprehensive fire audit for both the warehouses of both the distribution centers, one at Chennai and one at Bangalore. And post that finishes we will also have a comprehensive fire audit done for all the branches also.

Abhijit Kanvinde: Also, in Bhiwandi, that is a major stock which we have in Bhiwandi.

Ketan Patel: So, we will take all the precautions which are necessary. So, we had the fire extinguisher in that place and because Karnataka was working between morning 7 and 10, our office was also operating from 6 am in the morning till 10 o'clock, so when the fire broke out actually our staff was there. They tried to use fire extinguishers but could not stop that. But we are taking almost all precautions to see that such kind of incidents does not happen in future.

Ruchi Mehta: My next question is regarding the recent tie-up with Reliance Retail. What is the duration of the agreement? And how have we decided the products that we are keeping?

Ketan Patel: With Reliance Retail they have a duration of one year renewable and besides what Reliance sells in their stores across India we will be able to offer these products to everybody. And the categories which we are getting into this market for this category is more than (+) 50,000 crores. And to get into a newer channel either you have to have a product to offer them, or you should have the channel where a company comes and gives you the product to offer them. In this case with the help of Reliance we will build up the whole electronics and domestic appliance category and Reliance plans are huge on this, but we are expecting that between 70 crores to 100 crores we will be able to do in this coming financial year on this product. It will also help us to increase our width of distribution for Honeywell passive products because Honeywell sub-suppressors, Honeywell networking cables, Honeywell HDMI cables they all sell through electrical channels, and this will also help us to leverage the Honeywell channel for the same.

Moderator: The next question is from the line of Aniket Radekar, Individual Investor.

Aniket Radekar: My first question, based on the recent agreement with MSI and Colorful Tech we have done so we approach to such brands or get the brand approach to us?

Ketan Patel: In some cases, we approach the brand but in both these cases the brand approached us. I think Colorful is a big player is SSDs and they are number one in graphic cards, so seeing our performance in PNY through export data they may have come to know, and they approached us. And MSI is more into all-in-one desktops and gaming PCs and other stuff and when they approached us, we saw this is a good opportunity because work from home is happening and everybody requires them. So, in both these cases MSI and Colorful approached us. But sometimes if we see a good product, we may also approach a brand.

Aniket Radekar: How do we select the brand to tie-up with? Based on what parameters like margin expectation before we select any brand?

Ketan Patel: There are 4-5 things on that. Number one is whether the brand fits into the channel what we are doing. Second is does the brand have an India strategy. Third is whether the brand is number one in the regions what we do. So, for the case of Colorful it is the number one brand in China for SSD for the last four years even for graphic cards for the last 7 years and for gaming laptop also they are number one. So, that gives us immense confidence that this brand can do very well in India. Third is whether the brand is ready to give us exclusivity. Fourth is whether the brand is ready to invest in this office in marketing in India. And the last part comes whether the brand is offering a reasonable margin to us. So, these are the factors we consider. Same is the case in MSI. We did not have a desktop and a small PC product, so we took that. Our existing channel was ready to do that. MSI wants to promote their product exclusively on Ckart and MSI will also promote Ckart on its social media, so that was again an added advantage. And they were offering us the right margins for the product, so we took that.

Aniket Radekar: On an average, how many brands company has to bring on the board in a year? Is there any target specific?

Ketan Patel: No, we do not have that but that comes into my goal sheet actually. So, my goal sheet says that in an average year I have to get 3-4 brands in the company. But now with Ckart coming into picture a lot of brands which would want to go direct to retail are approaching us. So, I think now we will have at least 8 to 10 brands which we would be onboarding every year, that is what it seems like.

Aniket Radekar: Can you throw some light on Hong Kong subsidiary and its role in our business?

Abhijit Kanvinde: See, the Hong Kong subsidiary was formed in order to take care of Honeywell business which we can directly supply to Middle East and other countries basically. For example, when we have 29 more countries and one of them is India, so logically some portion of it we will bring it to India but most portion of it we will not bring it to India, from Hong Kong we will directly supply to the distributors there. In the last year, if you see the consolidation and compare the topline with the standalone and we will have got the synergy. We have added 10.8 crores of sales because of these two subsidiaries. And we have added 3.3 crores of gross margin because of these two subsidiaries. Then going forward the expenses have been more than the gross margin and therefore we have lost some money, 1.37 crores. These expenses have been on audit, the professional fees, the freight, and other things, they had hired because if they are overheads, and this turnover was low in the last when I checked. However, I personally feel, and we are all having all the focus on increase the business of those subsidiaries. Logically when Honeywell business increases the subsidiary business would also increase and we are very confident that in this financial year there will be a positive synergy on profit after tax after consolidation. There has been a negative synergy but this year it will be a positive synergy.

Moderator: The next question is from the line of Ayush Mittal from Mittal Analytics.

Ayush Mittal: We see that we have been getting more and more of association with Honeywell and they have been giving us access to more products and we have lots of expectation from this relationship going forward. The latest addition of the purifier is something very significant when I look at it. I am trying to understand as to why Honeywell is like till it was IT cables and other IT related products it did make sense. But purifier is something which is very brand specific to Honeywell. So, how are we value adding to them and why have they given us these, if you can share something on that side?

Ketan Patel: A very good question. Honeywell itself is now transforming and they want to transform into AI, and they want to become the Google of machinery. So, any firmware basically for a machine or a product, so they want to become a software company more and more, and they want to be in higher technology. So, what Honeywell did was Honeywell divided itself into four companies and they also formed a company called Resideo and now Resideo also uses Honeywell brand licensing for a very big product like of Honeywell which were thermostat which used to be in every hotel every refinery everywhere where temperature has to be controlled and monitored. And now Resideo is paying royalty like us. It is a Honeywell company but it pays royalty to the parent company, Honeywell. So, Honeywell has not categorically told us, but I think they have understood that they are very enterprise company and large projects and large infrastructure work they want to do. And anything which is consumer facing, they started the journey with us three years back and as we keep doing well, they want to give us all consumer facing this. So, we had a very-very big Indian company actually competing with us when we wanted to do this purifier licensing business, but Honeywell chose us because their licensing team is only of four people, their revenue is close to $ 350 million from licensing, and they want somebody who understands Honeywell's working culture very well. So, today even if I want to change a design on the box, Honeywell has come with something called as DLS. It is Honeywell Design Language Science, and the design has to pass through that. Then Honeywell has auditing process for the factories where there is a social audit and that is where the technology that you have to pass through that. Then Honeywell also has its own design ID. So, when we launched this air purifier we had to dye for one air purifier close to $42,500 because Honeywell wanted it in a certain way. So, I think theirs is a complete American mindset where they want to work with fewer people, but they want to work with people who understand the ethos of that company very well. And they think that the consumer is not their play and if somebody builds up the consumer division then probably who knows they would either take that division or that company under Honeywell or they will keep giving more and more products in that range. So, that is what. And Honeywell has not categorically said these things, but this is what I think that is.

Ayush Mittal: Could be. But when we come specifically to products like purifier, how will we be able to add value to them?

Ketan Patel: For example, Honeywell works with us very closely on the specification. I will just tell you about Honeywell, till now when Honeywell was there, they were using HEPA filter 11. Now when we started to do this, Honeywell said you use an HEPA 13 which is a very good product to stop COVID. And then Honeywell helped us to get the test done with NASA that how HEPA does not allow the COVID virus which is 0.015 micron and HEPA can stop something which is 0.01 also, so does not allow the virus to circulate into the air. And then it also helped us to source a composite HEPA cum carbon filter and then Honeywell becomes a distributor for us and then they also offer. So, when they were talking to Marriott and Marriott wanted them to control the air quality because Honeywell is a champion in that and then individually rooms, they wanted then they will offer the same kind of a product. So, I think Honeywell understands this very well at their level to get into air purifiers and get into the specification and getting developed, it would be much costlier affair. It is much easier that…because a lot of flexibility required. Today if you want to spend say $ 42,500 on a bag the decision at our place is kind of a week's time that we speak to Abhijit, we see the pros and cons into it. And in the case of Honeywell would take much larger time and hence much larger time to get a product to the market which will go to market with us becomes easier. So, I think, that is what the route they have taken up.

Ayush Mittal: But for a product like this where there is so much of advanced technology and you need to do some R&D and all those things, this also requires a lot of outlay of capital and expensive, and then to market it advertising and all those things. So, though Honeywell would be doing those things but for a partner they also might be expecting much bigger size and value sheet and those things, while we might be too small a company for them.

Ketan Patel: Can be the case but in our case the capital outflow is not very much and for Honeywell their marketing is already there. So, for example, any trade fair they do across the world, we are invited. So, any trade fair in their booth we can set up a small booth of ourselves and display all our products there. Plus, whatever samples and all what we build they get it shipped to US and then when their internal meetings they have. So, I think Honeywell has close to 19 partners like us, whom they meet every year once in any country like Beijing or Singapore and then their team understands all this. So, I think they have a method by which they want to keep getting similar products. And I think air purifier no longer is a very-very high precedence thing because besides Philips, Honeywell, Blueair, Molekule, there are a lot of companies which has got this technology now, and that would be the case. But you might be right but in our case, I do not know, they were doing they said themselves were manufacturing it, but they stopped it in 2018 end. And then they floated the RSQ in 2019 and then we immediately got it.

Ayush Mittal: My last question is, we are also seeing some other companies which are coming onboard, and these are very large companies in their own countries. As we do more of these partnerships what about the cashflows and balance sheet strength? You will need to have more inventory, more working capital, and those requirements as you scale up with these brands. What are the thoughts on those fronts?

Abhijit Kanvinde: Right now, if you see our debt-to-equity ratio, as a consol basis this is 0.81:1. I think Honeywell has good gross margin so what we need to do is, that's what I discussed with working capital cycle management, we would like to have better working capital turns, we will have to reduce our working capital days and then additional borrowing, if need be, for working capital we will be able to stretch our balance sheet which is not going to be very beyond…

Ayush Mittal: Till now we are not seeing any change in working capital, rather it has been getting extended in recent years.

Ketan Patel: Yes. Your observation is correct. And we were in fact last year also aiming for a 7 inventory turns to 8 inventory turns and that is what we have set our target this year also. But the last 18 months have been very-very difficult because we almost project our inventory for at least 3 to 4 months with almost all parent companies with whom we deal. So, for example Cooler Master comes from Taiwan. We give them a projection three months ahead. And this time because of the lockdown it happened that all our inventory became paid up and the material kept going. So, March we went into a lockdown, so material came in April also, it came in May also. And your observation is currently right, we have to improve on that aspect. You will surely see if things start returning to normal this will happen, that is one. Second, in Honeywell now most of the factories and vendors are almost now more than 2-2 ½ years. So, in Honeywell our cycle from 120 days has become 60 days and because the vendor has started giving us a credit of 60 days. And the third most important part is that in case of India we were the manufacturer, we were getting it contract manufactured. We were shipping it. We were stocking it as a distributor, and we were selling it. In Middle East we have not taken that route. In Middle East we will be the contract manufacturer, but we will have distributors who are separate. So, the 60 days of one month stock and one month credit in the market what we were funding in India, will not be funded in Middle East. So, our cycle will further reduce and that will help us to achieve our 7 to 8 turns. Once we have that kind of free cashflow from operations only it will help us to grow. And the point you have mentioned has been with a couple of other analysts and firms also and I would just like to assure you that it is on the top of our mind and if things start becoming normal you will see a huge change in how the working capital is managed.

Moderator: Thank you. Ladies and gentlemen, due to time constraint we will take that as a last question. For any questions you can connect with Mr. Rahul Trivedi or Ms. Savli Mangle from BridgeIR. 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 untiring efforts, hard work and dedication which makes the company resilient to upheavals such as the pandemic. Also, I appreciate all of you for participating in our conference call.

Please do get in touch with our investor relations team for any further questions. Thank you so much.

Abhijit Kanvinde: Thank you.

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