"Creative Peripherals & Distribution Limited Q4 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Creative Peripherals & Distribution Limited Q4 FY2019 Earning Conference Call. This conference call may contain forward-looking statements about the company, which are based on 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 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 would now like to hand the conference over to Mr. Ketan Patel, Managing Director, Creative Peripherals & Distribution Limited. Thank you and over to you Sir!

Ketan Patel: Good morning everyone. Welcome to Creative Peripherals & Distribution Limited's earning conference call for the Q4 and year ended March 31st of the financial year 2018-2019. I would like to begin by expressing my gratitude to you all for taking the time to join us. On the call, with me today is Mr. Abhijit Kanvinde, our CFO and Mr. Vijay Advani, the Whole Time Director of the company and Bridge IR, our Investor Relations team.

As we embark upon our new financial year, I would like to take you through our past journey and reflect upon the progress we have made since inception. I would like to put our performance in a strategic context and throw some light on the foundation we have been building for our company and the growth prospects in the near future.

Our company started as a small proprietary trading concern, named as Creative Computers with 10 employees back in 1992. Today with a pan India presence in about 26 locations and more than 3,200 products and 5,000 distributors we have transformed into specialists in market entry, brand awareness, strategic marketing and distribution for global renowned brands.

Our supply chain management is flexible and agile to adapt with the dynamically changing and growing consumer electronics market in India. Over the years, we have managed to stay ahead of the competition by being nimble footed and adapting deftly to all the changes that the evolving IT and consumer electronics industries constantly demand. It is our stated mission to evolve as an accomplished market specialist for experiential products/brands in India, Middle East and Southeast Asian markets.

We are a market entry specialist for all new brands desiring to enter these regions and address all the three channels, online, retail, and general trade, along with on-ground execution of marketing strategies. Our value-added business model includes end-to-end solutions starting from market research and competition analysis for brands to recommending viability in the specific regions across India. To achieve this, we possess the required skill sets and experience along with adequate market intelligence. We prepare and regularly monitor strategic plans for market entry and penetration for the brands and their target segments.

Further, our services extend to conducting presales and marketing activities for the success of the brand as well as to enable our channel partners to leverage their expertise. We are among the very few large players who conduct specialized training modules, events and promotional activities at the ground level with our channel partners. This is possible due to the skills, dedication and experience of our teams, which constantly track latest market developments to build a closer market connect.

We work closely across channels including large format retail, e-commerce and specialised retailer in all regions. We conduct regular workshops and demos for resellers with our dedicated corporate and retail sales teams. Our company's wide range and superior logistics capabilities help us provide end-to-end service to customers including warranty and post warranty, high level repair services and response centres, among others.

Currently, we have a strong long-term association with over 25 globally renowned brands, which we categorize in four divisions, IT, Lifestyle, Imaging and Security products. In IT we offer a range of computer peripherals, printers, supplies (cartridges), PC components, storage and similar IT products. The wide spectrum of products from multiple vendors has helped our company to achieve economies of scale and provide customers a single sourcing point. We aim to maintain exclusive distribution agreements in terms of product, segments or regions. One of the key brands under this category is Honeywell, a fortune 50 company, with whom we have deep integration in terms of contract manufacturing and distribution across India and abroad.

The Lifestyle segment has been changing rapidly. Consumer trends are now moving from utility oriented to experience oriented products. Our wide product range encompasses TVs, headphones, projectors, etc.

In Imaging we offer a range of cameras, lenses, backpacks, imaging accessories, such as tripods etc. This category is growing aggressively as trends in photography change rapidly. Apart from setting up innovative distribution channels, we train employees and help clients develop content to give a whole package of experience to the end consumers. One of the key drivers in this segment is GoPro, which has seen tremendous user adoption in urban markets in India.

In Security, we strive to cater to the growing needs and demands for security products and are expanding in that direction rapidly. We are evolving into a major player in this segment with exclusive agreements with global giants in this segment such as InVue.

Our focus is on offering experiential products and enabling such brands to enter and establish in new markets. We continue to aim for higher operational efficiencies and adding high-margin value-added products to our portfolio. Associations with Honeywell and GoPro are steps towards that direction.

I would now like to take you through some key developments during FY2019.

We entered into an agreement with Thermaltake Technology, a provider of gaming gear, computer hardware and mobile accessories, to distribute and market their products across the North, West and South regions in India. The agreement would give us right to distribute and market the Thermaltake, eSports and LUXA2 brands. This brand strengthens our Lifestyle product segment. Honeywell entered into an agreement with us where we design, package and do contract manufacturing of some of their products like connectivity and peripheral products under the

Honeywell brand. The design ID for these products is owned by Creative Peripherals. The agreement is across India, SAARC and Middle East countries. Consequently, we also launched two new variants of Qi-certified Zest Wireless Chargers and we expect huge demand for such products in India and abroad. Honeywell also extended the trademark licensing agreement, which enables us to expand our product offerings to six new countries in Middle East – Saudi Arabia, UAE, Bahrain, Oman, Qatar and Kuwait.

We renewed our exclusive agreement with GoPro to distribute their products in India. GoPro officially launched HERO 7 camera in three variants, HERO 7 Black, Silver and White, in India in October 2018, three days ahead of any other country outside APAC region. We received significant traction across e-commerce platforms, modern trade and photo specialist stores. The top most selling model HERO7 Black received an overwhelming response selling 1,000 units in the first week on a popular e-commerce platform.

We are also the sole and exclusive distributor for InVue security products across India. InVue has brand partnerships with Apple, Samsung, Google and Huawei in the US with a 75% market share. Demand for such security products is growing and our company expects to capitalize on this by entering this fast-growing product segment. We have bagged and successfully executed an order of InVue products of over USD $345,000 in the month of December 2018.

Additionally, our company entered into an agreement to sell and market Philips Digital signage products and Daewoo-MEPL LED TVs in India. We continue to focus on market penetration and distribution of experiential lifestyle products.

I am also happy to share that the board of directors has approved the company's migration from NSE SME Exchange to the NSE main board. We expect this move to provide the company a larger platform and visibility in the market and expand the foundation for future growth. We have already started this process and expect to complete the migration by Q2 FY2020.

Furthermore, the board has recommended, subject to shareholders approval, a final dividend of Re. 0.50 per equity share of Rs.10 each for the financial year ended March 31, 2019.

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 for the Q4 and year ended March 31, 2019. Thank you.

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

In the quarter ended March 2019, our company achieved net revenues of Rs. 114.19 Crores, which is year-on-year growth of 46% from Rs.78.16 Crores in the same quarter last year. This is mainly on account of strong growth driven by key business divisions of imaging and IT, and specially niche brands like GoPro and ViewSonic.

EBITDA stood at Rs. 4.05 Crores in Q4 FY2019, an increase of 83% as compared to Rs. 2.21 Crores in Q4 FY2018, on the back of higher revenues and improved operational efficiencies. The profit after tax for the quarter is Rs. 2.32 Crores as compared to Rs. 0.9 Crores in Q4 of FY2018. This represents a growth of 158% year-on-year. Our EPS in Q4 FY2019 stood at Rs.3.99 registering a growth of 156% as compared to Rs.1.56 in Q4 FY2018.

Now I will turn to year ended March FY2019. Net revenues for FY2019 stood at Rs.370.71 Crores, a significant year-on-year growth of 48% from Rs.250.96 Crores in the previous financial year. This is mainly on account of strong growth driven by key business of imaging and IT, especially niche brands like GoPro and ViewSonic.

EBITDA stood at Rs.13.2 Crores in FY2019, a rise of 76% as compared to Rs.7.51 Crores in FY2018. EBITDA margins were 3.56%, an improvement of 57 basis points year-on-year, on account of increased contribution of high-margin value-added products in imaging and IT. The profit after tax for FY2019 is at Rs.5.75 Crores as compared to Rs.2.89 Crores in FY2018. This represents a growth of 99% year-on-year.

Our EPS in FY2019 stood at Rs.9.91, registered a growth of 97.41% as compared to Rs.5.02 in FY2018. This is all from my side. Now we can open the floor for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Mehul Savla from RW Equities. Please go ahead.

Mehul Savla: Good morning. Just wanted to check we've seen lot of other companies' results where there is lot of talk about liquidity impacting the channel; but your company has shown strong growth. So what is the current situation or is that you have outgrown the industry?

Ketan Patel: One of your assumptions that liquidity impacted the last year is true because lot of NBFC funding had stopped. One of the advantages for us is that we were catering to companies which were well funded like Amazon, Flipkart and the modern retail where lot of investment has been coming. That is why we have been able to outgrow the industry, but otherwise overall liquidity was an issue in the general trade or the traditional retailers as we got it.

Mehul Savla: So do you see any change coming there or do you think there is now a kind of secular shift from traditional channel to the more modern and online format?

Ketan Patel: No, it depends upon what kind of products do you distribute or you sell to the channel. Right now the whole market is moving towards uni-commerce platform where the customer would be able to experience the product in the general channel or the retail channel and may buy it from there or may buy online or go to the modern retail and buy it; so brands are constantly working that how they amalgamate all the three channels and so the future would be that brands would either have differentiated products or brands would have differentiated model in amalgamating the general trade also. So the shift in India per say would take sometime but with the Internet penetration and with the addition of the CDE class cities on the e-commerce platform it would be 40-60 kind of mix, 40% may go to the e-commerce and 60% may remain with the channel, the channel will not get affected because the consumer is in overall is increasing in India to a larger extent.

Mehul Savla: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Neha Jain from Ertiga Wealth. Please go ahead.

Neha Jain: Sir I would like to know what is the revenue breakup for four divisions that we have?

Abhijit Kanvinde: For FY2019 the IT peripheral was at 53%, the Imaging was at 43%, Lifestyle was at 3% and Security was at 1% that was a rough breakup up of the total revenue.

Neha Jain: What are our top five distributors?

Ketan Patel: Neha the top 5 brands, which we distribute?

Abhijit Kanvinde: The first brand in Imaging is obviously GoPro, the second we can say is Samsung, third is ViewSonic and fourth AOC you can say, fifth is Rapoo.

Neha Jain: Also Sir we see a decline in the GoPro market so overall the GoPro market, so how do we see it impacting our business?

Ketan Patel: Neha very good question. GoPro has traditionally 75% market share in the $300 plus action camera worldwide; these brands first they usually penetrate US then they go to Europe then they go to the Asian countries and then in Asia later they come to India. So currently if you see India, we would do this year close to $15 million income of sales, but Japan this year has some $66 million in sales for GoPro. Korea this year has done 40 million of sales in terms of GoPro if you go to Thailand, Thailand has done 30 million of sales. So there are two things, the adaptation for product like GoPro is now just catching up in India, so I think for another five to six years GoPro has a very good future in India that is the first part, second is these brands very clever in terms of tweaking their market offerings when they come to Asia. So for US it was always adventure sports, when they came to Asia, it is all about capturing things differently, capturing your travel, capturing your family moments and with the increase in the Internet penetration and with the increase in the millennial I think GoPro has another 7 to 8 years with the existing product and in technology you never know they will get another new product which would just take them up. So GoPro has a great future at least for the Asian market for the next five to six years.

Neha Jain: Sir in terms of GoPro is there any other product which can be a competitor?

Ketan Patel: In terms of GoPro fortunately they do not have a competition because GoPro has already developed a platform so GoPro is not a camera actually they say they are content capturing and content sharing platform so their quick story is one platform where you can take photos and share it on the Instagram directly and with the new generation of the influencers, there are lot of people who want to create their own content so right now GoPro has an unparalleled market share and currently we do not see any camera companies competing with GoPro. GoPro tried to do the same thing with the drone, but in drone when they found that DJI had the same market share as GoPro had in camera, they as a company decided to not to be in the drone segment; so I think GoPro is going to consolidate on the camera segment and right now they do not have anybody.

Neha Jain: I mean Sir going forward how many brands we target to distribute their products in India?

Ketan Patel: There are a few of key criteria as a company, which we have decided when we take up a brand. Whenever we take up a brand for distribution in India, the brand has to be the number one or number two in the world, second we see as a company if we can do any value addition to that brand because we clearly understand that if we take any brand which is just box to box moving that relationship will not last for a longer period. So if we can value-add to a brand then only we take the brand distribution. So usually the criteria is that in a year we evaluate 10 to 12 brands and it could be either we would have identified the brands or the brands would have heard from the retail or from somewhere and come to us and from there we would take two to three brands. So currently we are discussing with the couple of brands in the IOT and robotics space, which we would like to offer to the Indian consumers and of course we always see that whether our skills sets are there or we will have to develop the skill set to get that. So that is I think in the coming year we would add another 2 brand or 3 brands max.

Neha Jain: Okay Sir in terms of timeframe so once you start any discussion with the brand so what is the timeframe which we decide on, so how it is and what are the terms and conditions and negotiations which happen, between Creative and the brand?

Ketan Patel: So usually the timeframe is between 3 and 4 months whenever we start a discussion with the brands. American brands they think very differently, and they think whole world is like America so if they get the Indian perspective right then they may have to tweak their market offering for the Indian consumers. So if they can tweak that offering to the Indian consumer and then if they have a strategy, say for example when we started GoPro for the first six months we never went to retail because there was no India-specific content available. So for the first six months we only engaged with close to 20 evangelist or influencers as we call, and we got the India-specific content developed. Then we deployed close to 200 point of sales in Reliance stores because if you want to sell premium product then you need to give premium experience to the consumer, and then we trained close to 1,000 people, shop floor guys so that when the consumer asks a question they are answered properly. But GoPro was ready to walk this mile. So whenever we will talk to a brand usually we will give them a go-to market strategy which will work for India, if they are aligned to walk that strategy then that is the way we will go with the brands. So lot of brands are not very gung-ho, they may say that we will not give you exclusive right for India. And we ask for exclusive rights is not that we want higher margins, but we want to protect our hard work because usually it happens that if you do not have exclusive rights you build a brand for year or year-and-half and then somebody else takes over that. So lot of brands have this apprehension of not giving exclusive right to India. So yes, if all our check box ticks that we get exclusive, the brand is ready to work on GTM and wants to invest also in the India market plus if they have long-term horizon then we would take that brand. Also we would see that if the brand has a growth potential, so for example when we find the Honeywell license, so we check whether if we put our brand name how much extra margin we get and when we put a Honeywell brand name on the products we design how much extra margin you get. Will the Honeywell brands resonate in Asia very well, will the Honeywell brand resonate in Middle East very well and we found that the Honeywell brand will get us much higher premium when we go to the Middle East that is what one the selecting criteria when we took up Honeywell.

Neha Jain: So you are talking about the manufacturing of Honeywell products, right?

Ketan Patel: We do contract manufacturing for Honeywell. We clearly understand that still we do not have strength in manufacturing, so Honeywell have got identified close to 27 factories across the world which is audited because it is a Fortune 50 company, so it does not want any child labour, it wants insurance for everybody then it should have fire safety rules, all that, so this 27 factories Honeywell has identified, so we usually work with a few of these factories and get contract manufactured our product.

Neha Jain: And Sir one more last question in terms of revenue growth and a PAT growth how do we see ourselves in the next five years?

Ketan Patel: Okay, so Abhijit would answer that.

Abhijit Kanvinde: Right now the current financial year I can talk about and the current financial we are looking at a topline of more approximately between Rs.500 Crores and Rs.515 Crores that is on topline, and we expect an EBITDA margin of approximately 4.5% and the PAT margin between 1.75% and 1.8%, in that, that is for the current financial year (FY2019-20). Going forward next five years by 2020, I will talk about 2021, by 2021 we expect to be Rs.900 to Rs.1000 Crores topline company.

Neha Jain: So from FY2020 you are targeting Rs.500 Crores and FY2021 you are targeting 100% growth?

Abhijit Kanvinde: That is what we are targeting.

Ketan Patel: Because Middle East would have started for us.

Neha Jain: So that will come in FY2020 or FY2021?

Ketan Patel: The sales in Middle East would start from this FY2019-2020, so we would have our launch for this product somewhere in July or August and we think that that will add substantially to our turnover and with the Honeywell we can piggybank on getting brands like GoPro for Middle East or some other brands, which we are distributing already in India.

Neha Jain: That is all from my side and all the best Sir.

Ketan Patel: Thank you so much.

Moderator: Well ladies and gentlemen, that seems to the last question for today. I would now like to hand the conference over to Mr. Ketan Patel for his closing comments. Over to you Sir!

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

Abhijit Kanvinde: Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Creative Peripheral & Distributions Limited we conclude today's conference. Thank you for joining us. You may now disconnect your lines now.