



**“Butterfly Gandhimathi Appliances Ltd. Q2 FY21
Earnings Conference Call”**

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V.M.G Mayuresan: Good afternoon everyone. Hope everyone is fine. Earlier this year, we had faced an unprecedented scenario, especially in Q1 due to Covid and market was also uncertain during that period. Fortunately things have changed and Kitchen Appliances Industry have recovered faster and has become one of the strongest performers in Q2. Things are better with growth across all our products. We have recorded one of the best quarters in the history of the company both in terms of balance sheet and the profit and loss account.

Revenue of the company has grown by 19% and EBITDA margins are around 12%. We see good growth from all the channels and across all the products. The current momentum is expected to continue and we expect to close FY21 in positive territory.

The working capital days were also minimal due to reduction in debtors' days. This has mainly happened through full implementation of secondary tracking software as well as bringing in channel financing facilities.

On balance sheet, the net debt of the Company is Rs.45.5 crores as on Sep 2020. It was around Rs.180 crore in the March quarter. This is mainly due to better working capital management and the cash generation in the last quarter.

Binay Sarda: Thank you very much. We will now begin the question and answer session. The first question is from Akash Jain

Akash Jain: OMC sales are usually larger, so a little bit of product mix would probably help on the debtor days. So how much of these debtor days you think is sustainable, how much was a one-off if there was a one-off element in that, I think that's the third part we'll really like some feedback on. Thank you.

V.M.G Mayuresan: Thank you Akash. On the sales part, we have done about 20% growth in Q2. One condition which we see in the market is, there has been a significant number of offtake increase which had happened in Q2. I am not sure if it's only because of pent-up demand. After the Covid there has been increased awareness that home cooking is better and people started cooking and spending more time at home and there is a lot of offtake which has happened in our kitchen appliances. So these are not very costly products, these are our affordable products and people are getting multiple products and there is a very good offtake from customers' side that has happened. One good thing which we see in last few months is there is a good offtake even in the traditional retail channel. Yes, online helped us because we can reach everywhere in few days' time, we can reach our customer and even the traditional retail is doing very well in the last few months. So that is what is happening in the sales side.

On the margins, yes the operational leverage played a huge role thereby our EBIDTAs increased to about 12% and we had also seen some cost decrease, especially in employee cost owing to COVID which we are actually reinstating from November 1, so that one small part which is about Rs.2.5-3 crores of

cost which will come back. Most of the other cost decrease will be maintained by the company and because of high sales and operational leverage, the margins are at this level.

On the working capital, we have implemented the secondary tracking software which helps us tracking inventory at the distributor and retailer level. We make sure that the inventory at the distributor and retailer level should be low and the secondary sales should be higher than the primary sales. So we track that on a daily basis, that helps us in managing inventory and also on the receivable side. We are also bringing in channel financing limits on the traditional retail side so that is also helping us getting collections faster.

Akash Jain: And do you think this reduction in debtors is sustainable Mayuresan because I don't know whether there is an element of one-time thing because of online sales or do you think these kind of debtor days are sustainable for you?

V.M.G Mayuresan: Yes, channel mix also played a role. On online to traditional retail, the difference is only 15 days not huge. But the gas dealer network has come down, that has also helped us. We feel that this is definitely sustainable.

Akash Jain: And Mayuresan, now that our online OMC channel sales are only a small part of our revenues like 7%, and our branded sale which has really done well over the last 8-9 years is growing at 15%, so the sustainability of sales growth and the sustainability of debtors will be better because OMC is already a very small part now so they cannot really create an issue in terms of our growth and debtor days. Is that our right understanding?

V.M.G Mayuresan: For OMC we want to stick at the similar level, we do not want to grow it. In the last few years we have been telling that we don't want OMC to grow beyond a point. We want to stick it at a value of this level, we don't want to grow in that segment at all.

Anand Mundra: Akash with respect to debtor days, we have calculated debtor days on Slide 14. So that on assuming H1 sales being annualized for the year, so if I take only Q2 sales because Q1 is very low hence H1 is very low. If you annualize Q2 sales, debtor days are much lower than what is getting reported in terms of number of days. So this kind of debtor days will be sustainable for sure.

Akash Jain: Thank you Anand.

Binay Sarda: We'll take the next question from Pavan from Ratna Chhaya Capital.

Pavan: My primary questions are two, first regarding the increase in payable days. So in the presentation it has been mentioned it is vendor bill discounting, so is it like for the Rs.60 crore increase in payables, are we paying interest for that amount. And number 2, the way I understand there has been a significant increase in EBIDTA margins this particular quarter, but what should be the sustainable EBIDTA margin we should expect for the year?

Anand Mundra: Pavan, payable days if you see in absolute amount, it has gone up from Rs.161 crore to Rs.171 crore if you compare September'19 to September'20, so it

lesser than the sales growth. So payable days if we look from the perspective of sales growth, it has grown lesser than the sales growth, first point. Second, we have initiated the talks of vendor bill discounting going forward it may increase.

Pavan: But are you saying that currently there is no vendor bill discounting in the payables?

Anand Mundra: Rose will you have an answer?

Narasimhan Rose: Vendor bill discounting facility we have. Partly we are paying interest for that also.

Anand Mundra: How much is the amount Rose?

Narasimhan Rose: Around Rs.30 crores we have Sir.

Pavan: Okay and are we expecting any kind of reduction in interest cost going forward or no?

Narasimhan Rose: Yes, Rs.4 crores on quarterly basis.

Pavan: 4 crores on quarterly basis, okay. And regarding the sustainable EBIDTA margins?

V.M.G Mayuresan: See EBIDTA on a medium term, in the sense FY 23-24. Our target is to do a revenue of Rs.1000 crores with an EBIDTA of 10% margin and above. And we are very confident of doing that.

Pavan: Okay fine thanks.

Binay Sarda: Next question is from Aditya Mehta from ZN Investments.

Aditya Mehta: Thank you for the opportunity. Sir first of all congratulations for the good numbers and the new website that we have updated. Sir I would just like to know what is the geographical breakup for Q2?

V.M.G Mayuresan: See if you see geographical breakup, about 74-75% of the sales is from the South and 25-26% is from the non-South markets.

Aditya Mehta: And what about the ecommerce sales? How can we bifurcate that sales between geography? Can we do that or not?

V.M.G Mayuresan: Yes we do that. It's around 70% South and 30% non-South.

Aditya Mehta: 70% South and 30% non-South. And what is the current debt cost?

V.M.G Mayuresan: The cost of debt, the average debt will be around 10-11%.

Aditya Mehta: So, Sir given the industry scenario, the debt cost seems to be high. Are we in negotiations with banks?

V.M.G Mayuresan: Yes, we are actually negotiating now. We are planning to bring it to below 9%, we are currently talking with them.

Aditya Mehta: And last question, Sir just want to understand on this inventory tracking system that you have implemented. How does it work and how does it help in controlling our debtor days?

V.M.G Mayuresan: What happens is, in the secondary tracking what we do is we track sales from our distributor to our retailer and we track their inventory also. So what happens is if there is an inventory stuck with a distributor for a longer period, which we know on a daily basis, we can redirect it to other distributor and make sure that it is sold. Once the inventory is not stuck with the distributor or at the retailer level, your collection will be much faster and you will have complete control over your inventory. Because if you have an inventory stuck for 6 months or 1 year, it eventually comes back to the company in a very bad situation which will be a cost for the company.

Aditya Mehta: So basically, it helps distributors to get rid of the extra inventory which they have.

V.M.G Mayuresan: The ROI will be much better for distributors, and they are also happy with the results.

Aditya Mehta: And Sir this software, are we implementing in South only or is it also for North?

V.M.G Mayuresan: Across India, it is implemented across India. We started with South, last year we implemented it across India.

Aditya Mehta: Okay Sir I will get back in queue now. Thank you.

Binay Sarda: Next question is from the line of Sanjay Shah.

Sanjay Shah: Hi Mayuresan, Hi Anand, how are you? Sir congratulating on the numbers. Mayuresan my question is do you see this as a pent-up demand or a structural growth story for our products? That is my first question.

V.M.G Mayuresan: See end of Q1 and early Q2 we have thought it could have been a pent-up demand but since there is a superb awareness of home cooking and customers preferring to get newer products in the kitchen appliances, being very very affordable products, there is a good demand directly from the market. There is an increased offtake and also on the other side, the unorganized sector is slowly going off. Organized sectors are much better in catering to this demand so that has helped us to grow. And we feel that this is definitely sustainable.

Sanjay Shah: Mayuresan last call you stated the future strategy of growth. In that, there were few points which I have noted down. So are you still on adhering to that and very much on the target? The one was there is no capex required, finance cost control, channel financing to improve, sales from non-South to be 40%+ from current 75, and reporting of monthly sales which usually comes in last 3-4 days to have a scattered monthly sales, so are that all in line and what else can you share with us on that?

V.M.G Mayuresan: That's all in line, in addition to that what we are doing is, since we are growing very fast in few product segments, currently we have a capacity to do a

revenue of about Rs.1000 crores. So we will be planning to slightly start investing on the capacity so that we can be ready up to 1300-1400 crores. Apart from that, everything is going as per plan.

- Sanjay Shah:** What is the capex required for that increase in capacity?
- V.M.G Mayuresan:** The idea is to invest Rs.15-20 crores in 2 years' time.
- Sanjay Shah:** That can be easily done from internal approvals I suppose.
- V.M.G Mayuresan:** And that will easily give 6-7x of what we have invested.
- Sanjay Shah:** Okay 6-7x of the investment, that's great.
- Anand Mundra:** Sanjayji, 6-7x of revenue, so if Rs.100 crores is invested, it has the potential to do Rs.140 crore of revenue.
- Sanjay Shah:** Understood Anand, sounds good. Because we have land at place and only machineries are required I suppose. So now in sales in this quarter, how much contribution was from our new generation launch and what are the other new generation launch in pipeline?
- V.M.G Mayuresan:** Ever year, every season we are launching a lot of new products. New products plays a huge role. We have not launched any new categories, but one category which we have launched which is very similar to our product segment is the choppers, the fruit and vegetable choppers, which has done phenomenally well. We've been one of the largest online selling product in the country after we launched. So that has done significantly well. Apart from that, our new launches are mixer grinders and pressure cookers are doing really well.
- Sanjay Shah:** That's great. Good luck to Anand, to Mayuresan. For any more questions, I'll come back later. Thank you.
- Binay Sarda:** Next question is from Bhaskar Bukrediwala.
- Bhaskar Bukrediwala:** Hi Mayuresan, good set of numbers, congrats for that. Couple of questions, one is, I think part of it got answered but just to also understand geographical breakup, how is the traction building for you where you are small i.e. is northern India. Are you seeing good traction in that part for yourself?
- V.M.G Mayuresan:** The non-South has actually grown very well in Q2 for us. If you see the ratio of South to non-South is changing vastly because of very strong growth in non-South markets. On one side even our distribution and the traditional retail is growing very well in non-South. On the other side, with the help of e-commerce, we are present across India. That is also helping us to grow and we have grown about 50% in Q2, compared to last year in Q2 in non-South markets.
- Bhaskar Bukrediwala:** And the momentum continues in the festive season as we speak?
- V.M.G Mayuresan:** Yes, October was good. We feel it will continue for the entire year.
- Bhaskar Bukrediwala:** Okay, and like you said Mayuresan, you track the inventory levels of the distributors, is there any sense in terms of the distributors that you are

engaging it in the northern side. There is no inventory build-up and products are getting cleared from their end as well? I am just trying to understand the wholesale to retail translation even in the northern market.

V.M.G Mayuresan: Yes, we do that. That is very key. If there is an inventory pile-up, it will affect our sales in the subsequent months. So we never do that, we only do once the secondary sales happens. We track that.

Bhaskar Bukrediwala: You are saying in the northern markets, retail sales are also good?

V.M.G Mayuresan: Yes, across India.

Bhaskar Bukrediwala: Okay, got it. That's all Mayuresan.

Binday Sarda: The next question is from Kush Gangar.

Kush Gangar: Hi, my first question is didn't the industry grow as per our growth or did we gain market share during the quarter?

V.M.G Mayuresan: We would have gained better market share compared to the industry.

Kush Gangar: Okay and, so you mentioned 10% revenue growth for FY21 and we already grown by about 7-8% in H1. Considering the COVID impact in H2, our growth in H2 seems to be lower vs the current quarter. Has the demand slowed down, or what is the point I'm missing over there?

V.M.G Mayuresan: Actually, H1 we have not grown. Last year H1 we did about Rs.393 crores, this year we have done only Rs.365 crores. We have still not made it to last year's H1 level. Even in spite of that, we will be doing a target of more than 10%.

Kush Gangar: Is the increase in gross margin sustainable for 42-43% level?

V.M.G Mayuresan: Yes, it is sustainable

Kush Gangar: Okay, in spite of the increase in steel prices etc.?

Mayuresan VMG: Yes.

Kush Gangar: Do we have any fixed dividend payout policy?

V.M.G Mayuresan: This was a record quarter for us, we have started that, and we would want to continue on a yearly basis.

Binay Sarda: So, we'll have the next question from Mithun Aswath from Kiva Advisors.

Mithun Aswath: Hi. What is the percentage of sales that comes from online currently?

V.M.G Mayuresan: Online has grown significantly well for us Mr. Mithun. But unfortunately, we don't want to share that information. It has become very competitive information.

Mithun Aswath: Okay, because when you see on an Amazon and a Flipkart, you seem to pop up as the top guys when it's a mixer grinder or a wet grinder. So I just wanted to understand, you do give a breakup of the kitchen appliances, cookware, in terms of the sales. But within kitchen appliances, which is largest product for

you and what is the market size of that segment? Then we can understand the potential upside for you.

V.M.G Mayuresan: If you see major 4 product categories for us are the mixer grinders, gas stoves, table top wet grinders, these 3 categories fall under kitchen appliances, then you have pressure cookers, which falls under the cookware. These are the 4 major products for us and if you go into kitchen appliances, mixer grinder would be the largest for us, followed by gas stoves and table top wet grinders.

Mithun Aswath: Would you have the market shares that you have in each of these categories?

V.M.G Mayuresan: I currently don't have, but what we are significantly doing every quarter is we are making sure we increase our market share compared to others where we grow faster than others. Our growth in these products is higher than others.

Mithun Aswath: Also just wanted to understand with this ecommerce coming in, will your seasonality of sales come down, because typically the second and third quarters are the large ones and first and fourth are quite low. Do you see even Q1 and Q4 becoming more normalized with this ecommerce channel that you have?

V.M.G Mayuresan: Even ecommerce is working well during season, even they do a lot of promotions during the festive season especially during the Puja season as well as Diwali.

Mithun Aswath: Is there any particular reason for your margins to have gone up this quarter, is it that one of your products is higher margin? Maybe mixer grinder or wet grinder more than the stove, or how does that work?

V.M.G Mayuresan: On the gross margins, we want to maintain at 42-43%, that will not go below there. It will only increase from there. On the main reason why our EBIDTA has gone up is because of the operational efficiency, because of our record sales and if you take the sale of 288, it is more than 1000 crores annualized. So that is one of the reasons our margins are very high.

Mithun Aswath: Just one last one, I wanted to understand a lot of competitors don't really manufacture too much. But you are maybe slightly different, that you are doing a lot of manufacturing in-house. What is the equation, would you start outsourcing a lot of products or continue to manufacture them? What's the cost benefit according to you, will we focus more on branding or manufacturing?

V.M.G Mayuresan: These 5 product categories which we have been manufacturing will be manufactured by us. Apart from that we have another 7-8 categories which are completely outsourced, and which we will be continuing to outsource. These 5 categories which we have been doing for more than 20 years. Right from day 1 the company has started, we have been into manufacturing and we have evolved over there. And if you see that is one of the reason our products are one of the best quality and even during this covid time, we were able to manufacture without any problem and supply on time, and capture the market. Because of these advantages, we were able to do that.

Mithun Aswath: So, you don't have any imports from China or anything like that?

V.M.G Mayuresan: If you see even during our peak, any time our imports were always less than 5%, now it's becoming even lower.

Mithun Aswath: Okay, thanks so much. All the best.

Binay Sarda: Next question from Nirav Mehta an individual investor.

Nirav Mehta: Hi, so first up, Mayuresan and team, congrats on good numbers and I echo what a few others have said that the presentation has good disclosure so thank you so much for that. I would appreciate if you continue giving these disclosures going forward as well. Couple of questions I had was one, I am assuming and I know you have not gone into details of channel mix, but assuming that online as a channel is picking up, are we doing more to supplement the online strategy? In the sense that are we trying to do more B2C online? I am assuming a lot of online sales happen through the Cloud Tails and WS Retails of the world. Are we looking to supplement direct B2C sales online? And second, are we going to do more around online marketing on let's say social media? For example, do you have a team which is just looking at this piece and how are you thinking about it more from medium to long term?

V.M.G Mayuresan: Hi Nirav, yes online is becoming a significantly larger channel. Butterfly will come into ecommerce pretty soon. We will also get into ecommerce where customers can buy products from butterflyindia.com so that will be coming up soon. Apart from that, yes we have an internal team where we have digital team where they take care of all digital marketing as well as getting into Facebook, LinkedIn, all the social media presence. So we have a team, we are building that team and that is becoming a larger team. It will become a larger team in the future, the focus which we do on advertising and promotions in the traditional retail, this will also become a significant channel in the future.

Nirav Mehta: Second question I had was, if I look at your investor presentation, the new product launch page, there are a number of products there but most of them seem to be in the same categories so in some ways they are more cannibalistic. I could see there are mixer grinders and table top grinders and stuff like that. Are there other more premium kind of products in the pipeline that you are thinking of? For example, I'll tell you one company was planning to launch table top dishwashers for example, and other similar kitchenware products, but more premium slightly different which can expand our total target market. So any plans around that, any thoughts on that would be great.

V.M.G Mayuresan: See that is very key element for growth, new product development is one of the key areas which we focus. We could only put few photos there so we had launched more than 25 products this years, and we are also launching few premium categories in food processors and mixer grinders that is going to come soon, which is phenomenally built. If you see the product, it is wonderful, it is getting launched soon and there is also premium pressure cookers which is getting launched next year. So lot of premium products are

also coming. Earlier 75-80% would be the value-based products, now it's becoming more mid and premium. So this is what is getting launched.

Nirav Mehta: Thank you so much, and one last question if I can just squeeze in Mayuresan was if I look at the current year H1, have there been any changes to how we think of discounting in our ASPs overall because I am assuming the channel mix would have changed quite a bit. Have we increased those in light of slightly different competition, ecommerce channels, etc. So have we changed pricing strategy at all, or discount strategy at all?

V.M.G Mayuresan: We don't discount much, we make sure that our gross margins will not go beyond a point. So we are very particular. If we do a lot of discounting in new channels, it will affect our traditional retail. So we don't do that at all.

Nirav Mehta: Thanks so much, I'll come back in the queue if I have more.

Binay Sarma: Next question is from Akshat Hariya from Multi Act PMS.

Akshat Hariya: Thank you for the opportunity and congratulations on a very good set of numbers and I hope Mayuresan to you and your entire team is doing well. I have a few questions, so firstly towards the end of your presentation, you have given a broad outlook for the medium term where we are saying that in next 24-36 months, we target a Rs.1000 crore revenue and a 10% EBIDTA. Now if I look at our Q2 number for this year, we have already done roughly Rs.290 crores, so while I understand this is one of our strongest quarters and hence the number cannot be or should not be annualized. But you know, the momentum which we are already seeing, even in this quarter as well, in October and November also as you already alluded to, do you think this guidance is a bit on the conservative side and you could achieve this Rs.1000 crore number much before that. So that is my first question.

V.M.G Mayuresan: Yes Akshat, internally we have a much aggressive target where we want to do much better than what we have guided. But we want to convey a little bit on the conservative side, that is what we are doing. But internally we have much aggressive targets.

Akshat Hariya: We won't have a issue because we already have a capacity which can augment to a Rs.1000-1100 crores revenue, right?

V.M.G Mayuresan: Yes right.

Akshat Hariya: I have one question on the gross margins because our margins have expanded from 38-39% range to now 42-43% so that's almost like a 400 bps of expansion. While I think broadly the product mix would have remained unchanged, the channel mix for our company has changed over last 2-3 years. Has that played a role, has ecommerce and online got a better gross margin profile as compared to traditional channel. And obviously this is competitive, so only if you want to share.

V.M.G Mayuresan: See gross margins have improved because of one area, that is the channel mix. Our gas dealer channel has reduced, that is one thing. On the other side, it's not because of online or traditional retail, it's also because of product mix

and lots of new launches which happened in the last few years which were in the mid and premium range that has helped us.

Akshat Hariya: And one final question on dividend, because you have given an interim dividend first time in history of 1.5 rupee, so I think that is a very strong indication which the management is trying to indicate. So the view of the company and board on dividend, are we planning to have some formal dividend policy for the future? Because that gives a very good confidence on the cash flow profile that the company is projecting for itself.

V.M.G Mayuresan: Yes Akshat, we want to create a policy and we want to be consistent and we want to do it every year. That is the plan and we will definitely be doing that.

Akshat Hariya: So while we are distributing the dividend, is the company also thinking of bringing down the net debt levels or are we very comfortable at current levels?

V.M.G Mayuresan: Currently if you see the net debt level has been lowest by end of September, and we want to keep the debt levels on similar levels. We are working on that and we want to maintain that. Only thing is, if you see our debtors, debtors has been very much under control, we will be confident on maintaining that. Inventory can also be maintained at similar level. Only thing, the creditors might decrease by Rs.10-15 crores so that might have an impact during the year-end. Apart from that, the debtors are very much under control.

Akshat Hariya: Okay so only the seasonal debt would come back, but otherwise we are very confident.

V.M.G Mayuresan: Yes.

Akshat Hariya: Understood, perfect. Thanks a lot and all the best to the entire team.

Anand Mundra: Akshat, one clarification. The debt will not go down below this level by March. It may go up by Rs.15-20 crore because of the reduction in creditors' amount.

Binay Sarda: We'll take the next question from Pramod an individual investor .

Pramod Agarwal: First of all I want to congratulate the team for the stellar performance. Few of the questions' answers I have got since the other investors have asked it. Now I want to know this operational profit margin whether this is sustainable in the long run?

V.M.G Mayuresan: Currently this quarter, since it has been record sales, our EBIDTA is at 12% but on a medium term, the target is in 24-36 months we will be doing a revenue of Rs.1000 crores with an EBIDTA of more than 10%.

Pramod Agarwal: Then one more question I have got. Debt will be on this level only, now it is 57 crores.

V.M.G Mayuresan: Debt might increase by 15-20 crores, it will not go below this, might increase by 15-20 crore by year-end.

Pramod Agarwal: My next question is regarding, when we are selling our products online, what is the policy of after sales service of the products?

V.M.G Mayuresan: Yes we have same policy like we have in retail channel, most of the products will have 2 years' warranty. Some products will even have 3 years' warranty and we give servicing.

Pramod Agarwal: No, mostly our presence in southern part of India, and online we are going to pan India.

V.M.G Mayuresan: We are present across India. Our service network is available across India.

Pramod Agarwal: Ya, because these types of products require after sale services. Suppose in that front if we will get, then our sales will come down.

V.M.G Mayuresan: No we are present across India. We have service network across India.

Anand Mundra: Pramod ji, we were working on that service network for the last 3-4 years. So finally everything is in place that's the reason we are getting repetitive sales from across India. And thankfully through online channel, we are able to sell across India without putting up distributors and dealers on specific locations.

Pramod Agarwal: And one more thing, I also want to know about our dividend policy because we are not consistent on dividend, so we must formulate a dividend policy.

Anand Mundra: Ya I appreciate your point, after a long time from FY17, the company has come back to profits, we will definitely come back with a dividend policy by the year end. Since the September results were declared now, the performance was very good and the board thought of dividing all the shareholders. They will come out with dividend policy in next 6 months. The policy is already in place, it is not specifically mentioned what percentage will be given, that is also being decided by the year end.

Binay Sarda: Now we will take the next question from the line of Sameer Gupta.

Sameer Gupta: Hi sir thanks for taking my question. Sir I joined a little late so pardon me if this question is asked before. So how do you look at the standard recovery in Q2 sales growth of 20%? Is it, there might be an element of pent-up demand which people could not just buy in the first quarter that would have come in the second quarter. So from that point of view, should we look at the first half number of growth of 9% on a more sustainable basis, or do you think that this 20% growth reflects the true demand sentiment that is prevailing in the market today?

V.M.G Mayuresan: Earlier at the start of this quarter we felt that there is some pent-up demand coming because of the backlogs of what happened in Q1, but what had happened is because of the increased awareness that home cooking is better, and people spending more time at homes and spending more time at their kitchens, the market, the regular demand has actually, the customer offtake has increased significantly. That is what we are hearing, that is what we are receiving from the market.

- Sameer Gupta:** Sir can you give the number of growth for September month, that would be a little helpful in trying or gauging the demand?
- V.M.G Mayuresan:** I don't have monthly number currently.
- Sameer Gupta:** No issues Sir, just another question. What actually we are seeing is a trend across retail companies also the margin expansion has been splendid this quarter. One theory which is going around is that the unorganized segments are really disrupted and that has benefitted the organized players in terms of lower trade spends and cash promotions because the competitive intensity has reduced. So can you give some color on this aspect? How much of the unorganized market share has been lost this quarter and to that extent, when these come back, should the margins moderate to that extent or no?
- V.M.G Mayuresan:** See what has happened is that the unorganized have reduced, only strong companies and branded companies who could supply during this period have supplied products and have captured the sales and there are some unorganized companies which have gone actually. There are many companies which were present pre-covid, they are not there. But this happens always, unorganized generally comes and goes. Organized companies which have a very strong brand and strong distribution presence, generally they are there for longer term.
- Sameer Gupta:** Got it sir, but this would be a correct assessment that part of the margin gains is also because of the lower trade spends or cash discounts or promotional activities that in normal course would have ensued because of the unorganized?
- V.M.G Mayuresan:** We have not reduced our spends in digital advertising or marketing, we have in fact, increased that, we have not reduced there. Only area where the cost has reduced is travelling, that is a very small cost. Apart from that all the costs have been incurred.
- Sameer Gupta:** What about the dealer incentives and promotions which you give to the consumers?
- V.M.G Mayuresan:** That is there, that has also continued.
- Sameer Gupta:** Okay that has not reduced. That's helpful Sir. Thanks for taking my question.
- Binay Sarda:** We'll take the next question from Aditya Mehta.
- Aditya Mehta:** Thanks again for the opportunity. Sir do we have any estimate ROC number that we can generate at Rs.1000 crore top line?
- V.M.G Mayuresan:** Okay at Rs.1000 crore top line we will be having an EBIDTA of more than 10%, and profit after tax would be more than Rs.50 crores. I think our ROC should be more than 20%.
- Aditya Mehta:** Sir you mentioned that capex for reaching rs.1300-1400 crores of top line, we need to do Rs.15-17 crores of capex. Is it right?
- V.M.G Mayuresan:** Yes for this year, what is happening is there are few areas which we have decided we will start with capex, and there are some areas which the

company is deciding if we need to do or if we can hold it on or outsource, that is something which we are working on. But the idea is, whatever capex we do, there will be a 6-7 times of sales that is generating from that capex.

Aditya Mehta: Sir how are we looking at YouTube advertisement? Also mentioned this in previous concall also that YouTube advertising, tying up with bloggers and cooking channels is quite effective and cost-effective too. And it is seen across all age groups. So how are we seeing this YouTube advertising segment?

V.M.G Mayuresan: I think we have already tied up with 6-7 YouTube chefs I think, we've already done that. We have started that, we will be aggressively doing that.

Aditya Mehta: So because these channels will be regional?

V.M.G Mayuresan: We have started with regional, we will be going across all the regions.

Aditya Mehta: Just one last question, who are our debt competitors?

V.M.G Mayuresan: We do not want to talk about competitors in this public forum, probably you can reach to us later.

Aditya Mehta: All the best sir, thank you.

Binay Sarda: We'll take the next question from Prashant.

Prashant Kutty: Hi this is Prashant Kutty here from Sundaram Mutual Fund. Apologies if any of my questions were asked before, my connection wasn't too good. Firstly sir on the other expense number, we see that this other expense number which you have reported in the quarter is almost maybe the highest in a long while. Could you probably help in understand how much of it will actually get reversed and probably what's your ad spend budget in regard to the year going forward? Could you probably throw some light on this sir?

V.M.G Mayuresan: Major component in the Other Expenses is the advertisement, promotion and digital spends. One reason why it has gone up is because if you see, the channel mix has changed significantly. Only about 7% of the sales is from the gas dealer channel, 93% of our sale is from the retail channel. So we run it on a variable based cost. Because of that, the other expense has gone up.

Prashant Kutty: If I assume that incrementally also, my gas channel is anyway going to remain low, and my retail channel will obviously continue to grow. So are we trying to say that this number is probably a sustainable number going forward in terms of Other Expense, absolute number I am asking?

V.M.G Mayuresan: Absolute number will not be this much, it will definitely be lower. Since it's more of a variable, it is based on sales, so on absolute value it will definitely come down.

Prashant Kutty: What is the ad spend number for the year Sir, what are we expecting it to be for the year?

V.M.G Mayuresan: It will be around 12% of revenue.

- Prashant Kutty:** And the second question is, on the margin Sir. I believe you answered a lot of questions in terms of margins. This is actually the best quarter for us typically from a season perspective, we have seen almost about 12% margins. Any reason why from a longer term perspective we're still wanting to have a lower margin guidance or is it just that this quarter is typically the best that's why we are probably quoting for a lower margin guidance going forward?
- V.M.G Mayuresan:** Prashant this quarter can't be annualized because this is one of the biggest quarter and if you see Q3 and Q4, the sales will come down compared to Q2. So we can't annualize this quarter. Since the costs are lower and being a huge quarter, that's the reason our margins are very high but on a sustainable basis, on a medium term, we will be touching more than 10% EBIDTA at Rs.1000 crore.
- Anand Mundra:** Prashant if you annualize Rs.290 crores, so at Rs.1200 crores we will approximately do around 12% EBIDTA margins and at Rs.1000 crores, 10%. This is what we are guiding for.
- Prashant Kutty:** Sure, got your point. And last bit is on the balance sheet side. I think you highlighted that creditor will go up by about Rs.15-20 crores, are we trying to say that this year we will not be able to completely pay off our debt because looking at this performance we should be able to generate good amount of cash flows even going into the second half? So ideally shouldn't we be looking at completely retiring our debt, is that not the thought?
- Anand Mundra:** Prashant our cash flow will be there in the second half but some of the payment of creditors will be done and the volume of Q4 as compared to Q2 is lower, hence creditors amount will be lower in Q4. So what we have guided for, debtor days and inventory days will be similar but Q4 revenue is lower so absolute amount of creditors will be lower.
- Prashant Kutty:** Sure but I believe Q4 you also have very weak base as well right? So even on that the number will actually be much higher.
- Anand Mundra:** Obviously, top line everything will be higher. What we are guiding for absolute amount of creditors will be lower in Q4 as compared to Q2 by Rs.15-20 crores. That is what we are guiding for.
- Prashant Kutty:** Okay sure, thank you so much.
- Binay Sarda:** Next question is from Naresh Katariya.
- Naresh Katariya:** Hi Mayuresan and the team, congratulations. My question was on understanding the festival season, we've done very well. This time Diwali comes in November vs October last year so I want to understand bulk of our Diwali sales from the company side happens in September or October? Is Q3 going to be much better because we had a later Diwali, that's the sense I am wanting to get?
- V.M.G Mayuresan:** About the bulk of Diwali sale has happened in September, small part has happened in October so most of the Diwali sale is done in the month of September, because the supply chain runs for 30-45 days.

Naresh Katariya: And is Pongal also a big season for us?

V.M.G Mayuresan: Yes, Pongal is a very good season in Tamil Nadu.

Naresh Katariya: So that should be good for Q3, because you would ship a lot of it in November & December I hope.

V.M.G Mayuresan: Yes

Naresh Katariya: I had some other questions but they were all answered. Congratulations and all the best everyone.

Anand Mundra: Naresh if you compare Q3 to Q3, the growth will be much higher but not on quarter on quarter.

Naresh Katariya: I get the point, so I was coming to that only, I think last Q3 was also soft for us and in general I am seeing lot of companies telling October has gone very well, lot of appliance companies so I am hoping the momentum will continue, but that we will hear from you in a few months. Thank you.

Diwakar Pingle: Can we have the next question from Mr. Krishnakumar from Sundaram Mutual Fund, please go ahead.

Krishnakumar: Hi good afternoon Sir and congratulations on a great set of numbers amidst these tough times. I just wanted to share a thought, we have seen companies in the retail fashion space like Arvind, Aditya Birla Fashions who have tied up with partners like Flipkart and Walmart, some of these online giants. And got into a stronger relationship on a particular brand or a product which is then taken aggressively to ramp up basically. We have a plethora of products and also appliances, etc. so is there something that you would you like to explore something like that, or your thoughts that we can get into a relationship strategically with any of these large online global players?

V.M.G Mayuresan: Definitely Mr. Krishnakumar. Actually both Amazon and Flipkart are discussing with the company not like what you said on a strategic side but on a, very closely they are working with us for how to change this industry, how to enhance our presence in the e-commerce space. So that is something which they are talking with us very aggressively and every year we work with them on a very strong basis on how to bring these kind of products automatized kind of products, because they are also partnering with us in such a way that how to bring more automisation in the products. So they are working in fact very closely with us on doing that. But on a strategic level, we have never thought about it, none of them have spoken to us about that. But as you said, this is definitely something which we will have to see.

Krishnakumar: Thank you Sir, thank you very much, wish you all the best.

Mayuresan VMG: Thank you Mr. Krishnakumar.

Diwakar Pingle: I think we'll take the last question from the line of Ratish V before we wind up.

Ratish V: Hi, I had one question. Earlier we used to comment that our gross margins will improve, one of the key reasons will be warranty cost etc. It could come

down, so has that got reflected in this quarter or still that has to play out? That is one, part and second are these gross margins sustainable going ahead even in a lean quarter, the next 2 quarters as you are seeing October month you'd have already been visible in terms of sales etc. Are these gross margins sustainable?

V.M.G Mayuresan: Definitely Ratish. The gross margins will be sustainable. We want to maintain it between 42-43%, it will not go below that so it will be maintained there, even during Q3 and Q4 it will be maintained. Warranty cost every quarter we've been reducing that with better quality products and whatever, we monitor it on a very micro basis.

Ratish V: So how much for example year on year, how much it would have come down by, and how much it further it can reduce can you give some understanding on that?

Narasimhan Rose: From 1% now it's coming to 0.7 to 0.8%.

Ratish V: And what will be a sustainable number of that?

Narasimhan Rose: It will be 0.7%.

Ratish V: Okay

Diwakar Pingle: I think we'll end our call there. Thanks again for joining in. I'd now request Mayuresan to give his closing comments.

V.M.G Mayuresan: Thank you all, thank you for attending our Q2 and H1 FY21 quarterly results. We have got a very good feedback from all of you and we will definitely continue to give this kind of data every quarter. And we will be available for the calls for each and every quarter, thank you all.

Diwakar Pingle: Thanks Mayuresan and team from Butterfly Gandhimathi and thanks all investors for joining in, till we see you next quarter. Stay safe and have a good evening.