"Dollar Industries Limited Q2 FY-22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Dollar Industries Limited Q2 and H1 FY22 Earnings Conference Call hosted by PhillipCapital PCG Desk. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dhiral Shah of PhillipCapital India Private Limited. Thank you and over to you, Mr. Shah.

Dhiral Shah: Good afternoon all on behalf of PhillipCapital PCG Desk we are glad and thankful to the management of Dollar Industries Limited for giving us the opportunity to host this call. Today from the management side we have Mr. Vinod Kumar Gupta – Managing Director, Mr. Ankit Gupta - President, Marketing, Mr. Gaurav Gupta – Vice President Strategy and Mr. Ajay Kumar Patodia – Chief Financial Officer of the company. First of all, I would like to congratulate Dollar management for delivering an excellent performance in this challenging time. And now without further ado, I would like to hand over the call to Mr. Vinod Kumar Gupta for his opening remarks and followed by a Q&A session. Thank you and over to you Vinod sir.

Vinod Kumar Gupta: Good evening ladies and gentlemen. On behalf of the entire management team at Dollar. I welcome everyone to the second quarter and half yearly FY22 post results conference call. After a tough Q1 which impacted a lot of states and citizens due to the COVID second wave, Q2 has come with great relief led by state wise re-openings. Unlike last year, this year manufacturing companies were allowed to keep running their operations. However, man power was not easily available through Q1 which impacted our overall states as well some of our projects.

Coming to the positives, this quarter as you all would have seen ours numbers by now has turned out to be the best ever quarter for us in terms of revenue. Our company declared its best every quarterly revenue of 391 crores in this quarter and EBITDA and net profit of 62 crores and 41.2 crores respectively. As Q2 has displayed the bumper performance on all fronts, our thirst for growth at all levels is clearly visible in this quarter. And we are looking to further improve on this in the coming two quarters to meet our targeted growth rates.

On the working capital front, our overall working days had reduced from 217 days in September 2020 to 178 days in March 2021, this has now further improved to 161 days in September 2021. On a year-on-year basis the improvement was seen on receivables which were down from 153 days to 109 days, while inventory has reduced from 131 days to 116 day. Our return on equity improved from 15.64% to 21.60% while our return on capital employed improved from 23% to 30% at the end of September 2021. Debt equity ratio continues to stay in control at 0.26 times while interest coverage have improved to 32.6 times. Our Project Lakshya has now mapped more than 1.5 lakh outlets, while more than 40,000 outlets have been enrolled under this project. We have made significant progress in this quarter having increased the number of distributors under this project by nearly 50% versus Q1 FY22.

We have now 91 distributors under project Lakshya and this has helped take revenue contribution from Lakshya distributors to 6% of the first half revenue. Our sales teams are back working hard to grow the business as well as to maximize the efforts for project Lakshya. We are happy to share with you that we have just inaugurated our first EBO on 26th October, 2021 at Ayodhya in Uttar Pradesh. This is the first of eight to ten EBOs planned by us in this financial year. The EBO shall work on the FOFO model and our focus will be initially to setup these EBOs in Uttar Pradesh and Rajasthan and move it to other states gradually. Another positive development during the quarter has been that we have now entered into channel financing arrangement with the large private sector bank which will help reduce our receivables and we will look to bring in all our distributors under channel financing. We continue to march ahead focusing on our, three key pillars namely Brand architecture, restructuring the distribution and investing in digitalization. I shall now hand over the call to Mr. Ajay Patodia of our CFO to reflect about the financial performance of the company during the quarter. Thank you.

Ajay Patodia: Thank you, Vinod sir. Good evening everyone. Welcome to quarter two earning call of Dollar Industries Limited for financial year 22. Now, quickly updating on the financial performance, the company total revenue for first half up to September 21 stood at Rs.596.5 crore and Rs.391 crore in this quarter as compared to Rs.417.56 crore in last six months up to September 20 and quarter two of FY21 around 257.93 crore, a growth of 42.86% for half yearly basis and 52% per quarter basis. The EBITDA of the company for half year stood at Rs.98.25 crore and for the quarter 62.02 crore as compared to 64.5 crore for half year 21 and 35.67 crore for Q2FY21. A growth of 53% for half year and 74% for quarter FY22. The profit before tax of the company for our half year up to September issued at Rs.87.39 crore and for the quarter around Rs.56.34 crore as compared to Rs.51.97 crore and Rs.29.93 crore for half year and quarter two FY21. A growth of 68.15% for half year FY22 and 88% for quarter two FY22. The profit after tax of the company for half year issued at 64.36 crore and for quarter FY22 Rs.41.25 crore as compared to Rs.38.80 crore for half year FY21 and Rs.22.36 crore for quarter two FY21 a growth of 67% for half year FY22 and 84% for quarter two FY22.

Now, moving on to brand wise contribution for half year, FY22 half year FY21. BigBoss stood at 42% versus 41% in last year. Champion 0.41% versus 0.39%, Dollar socks 1% for the year 1% for NXT, 3% a growth of 1% from last year, Missy 8% from 6% last year, Pepe 0.15% from 0.6%, Regular 34% from 37% our total thermal sale is around 10% of the revenue in for six month as compared to 9% in the last year. I now open the forum for question-and-answer.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ankit Babel from Subhkam. Please go ahead.

Ankit Babel: Sir my first question is on your working capital again. So you did mention that the channel financing has been started and you expect a 100% of your distributors to come under this channel financing thing. But, I need to know the timeline sir by when you expect full coverage of your channel financing amongst all your distributors?

Ankit Gupta: Ankit here. So, with respect to our total number of distributors, which is currently around +1000 distributors, and during the month of September end only we got into the contract with the private sector banks regarding the channel financing, and we are very optimistic that within two to three years time, we'll be able to cover the entire population like the entire number of distributors that we have. So will first start with the Lakshya distributors also because when we appoint a Lakshya distributor or when we enroll a distributor under this particular project, we have a higher bargaining power with them, we keep our condition. So from now on, this will be our foremost condition with respect to channel financing with them. And apart from that we will be pitching to all our distributors in a phased manner. So the distributor who is more distressed will approach them first, we'll try to convince them first. It's not an easy task to bring a distributor on board, it's easy to say, but when we implement it it's really very difficult to get them on board. So, a lot of convincing would be required from our side as well. And that's why Mr. Patodia is making a team under him to drive this particular project. So, like in two to three years' time, we should be able to get maximum of our distributors on board.

Ankit Babel: So, even if you get 80%, 90% on board, where do you see your receivables after that?

Ankit Gupta: It would be, see if we bring 80% of our distributors on board your overall debtors would deduce by maybe 60% or 70%.

Ankit Babel: No, in terms of days, so currently it is around 90 days. So, you believe it will come down to say 25, 30 days?

Ankit Gupta: Definitely it should come down to that particular level because the distributors who will get enrolled in channel financing we are getting the payment in day one. As soon as we bill to the distributor we get the payment from the bank. So, the remaining distributors who would be around 25% odd distributors who are left. So, there receivable days overall at a company level if you see the receivables days would come down to 20, 25 days, it is easily possible once we get everyone on board.

Ankit Babel: Okay and your current inventory days is around 116 days now, where do you see your inventory days once you achieve this 2000 crore sales target by FY25?

Ankit Gupta: So overall, what we aspire is, if you see at an industry level also all the listed players in this particular industry 90, 95 days is the optimum point that inventory will be there because we deal in men, we deal in woman then there's a kid segment. And, also if you see that the total number of SKUs that we carry is a huge number. And day on day, we are increasing our product range also like in Dollar, we are going ahead with the lingerie segment, we are increasing our number of size that we have in our athleisure range, from next year onwards, we'll be focusing on our kids range as well. Apart from that, if we distinguish ourselves with the peer group also, we have the entire backward integration which none of the other companies have. So, we have our stocks over there as well. So, like in the spinning mill our stock would be, raw material stock would be the cotton. So, we have to store a huge amount of cotton as well. So, what we see that 95, 100 days should be the point where we would aspire to come down to, currently it is around 116 days so over 2.5, 3 years' time period will aspire to get down to this 95 to 100 days level.

Ankit Babel: Okay. So just to conclude this working capital part, so 95 days in inventory and a 30 days in receivables and you have a trade payable days of around 50 days. So, a net working capital you are targeting at around 75 to 80 days is the calculation right sir, over a period of two, three years?

Ankit Gupta: So, if we look at this last call that we had, the kind of guidance we gave was in FY24, 25 what we aspire is 120 days, so 120 days we said when we were in talking terms with the channel financing partners, and currently the numbers that we are got into is solely based upon how many distributors are on board with respect to channel financing. We are giving our 100%, 200% to bring all the distributors on board with us in respect to debtor days coming down, receivables days coming down, right. So, it's all contingent upon how many distributors come on board with respect to the channel financing. So, if 80%, 90% of the distributors come on board, then your calculation is obviously right. But, I would still maintain the same that by 24, 25 we are aspire to be at around 120 days level.

Ankit Babel: Okay. Sir, my second question is that, definitely this channel financing will come at a cost. So, earlier you had guided that at around 2000 crore revenue will do somewhere around 18% margins. So, after taking this cost also you believe that you can do an 18% kind of EBITDA margins when you achieve this 2000 crores sales target?

Ankit Gupta: So what we have said was, the EBITDA levels would be around 17.5%, 18% that's correct. But see in channel financing what would happen is obviously it will come with a cost, we have to incentivize our distributors also. But that we can over time, gradually that we can bill in our pricing model, because we still have a gap from our competitors also like before also, I said that we have a price gap of around 2% to 3% from our peer groups. So we'll try to cover that also plus bill in the extra incentive that we have to get to the distributor. So yes, by 24, 25, we are very much hopeful and we'll be able to achieve the guidance that we had already given.

Ankit Babel: Okay, that's helpful. And sir my last question is that, historically your Q3, Q4 has been better than your Q2. So you have already, at a run rate of around 400 crores now. So, can we expect this run rate to continue in the coming quarters and with that would you like to revise your earlier guidance of just a 15% growth in this year?

Ankit Gupta: So, the guidance that we will give would be around 15%, 16% overall growth, we won't be changing it. The reason why basically, there are two to three reasons one is the volatile market in terms of the raw material, because the yarn availability is an issue in the market that rising prices is an issue. So, one is that, the second would be the government regulations, because from January onwards, they are to revise the GST structure for our products for the textile industry and the hosiery industry as well. So, these are the two dynamic variables that have come into the picture plus the rumors about the third wave and the COVID not been going. So, we don't know how the market will react or how the situation would be by the end of third quarter or the fourth quarter starting. So, overall, we won't be able to change our guidance, maybe 1% or 2% here and there.

Moderator: Thank you. The next question is from the line of Bajarang Bafana from Sunidhi Securities. Please go ahead.

Bajarang Bafana: So, Ankit again everybody is going to try to understand more on your guidance part and how new things look like going into Q3 and Q4. So since you guided are a couple of moving parts to be future growth trajectory in terms of phase three, which is perhaps experts are guiding as of now that since most of the countries getting vaccinated, so even if it comes, the impact is going to be pretty limited and second on the GST part which you highlighted that by January the rates are going to be revised on the higher side and to have some impact on the unorganized part which would come into play. So, even then if we see in the first half we have achieved 600 crore of top line and our margin is again closer to 17% vis-à-vis 15% guidance. So, you want to keep yourself safe by saying that will be at our earlier guidance of 1200 crores but looking at the momentum and the circumstances and since the product prices have gone up. And of the day the value criteria will be higher for the company. So, if you could break it up in terms of the volume part also will be really helpful, if assuming there is no third wave as such and no meaningful impact from that. So, considering the normal circumstances, what could be the growth trajectory, and how are you seeing the impact from the GST side from your own conviction will be helpful.

Ankit Gupta: Hi, Bajarang so, overall if we talk about the EBITDA level, the profitability of the company, earlier we gave a guidance of around 14.5% to 15%, which we are hopeful that we will be able to do 15% to 16% this year, this particular fiscal, given the results that we had in the first half. Apart from that in the revenue side, maybe from 14% to 15% we can give a guidance of 15% to 17%, because we don't want to overcommit since the market is very volatile, and there are a lot of variables that are there in the market. So, we really don't want to over commit anything and under achieve, instead we'll still be under committing and over achieving.

Bajarang Bafana: Got it and can you give some color on the festive demand which is going right now in terms of you're the Durga Puja which has gone recently and now the Diwali which is again, there are n number of photographs that we are seeing that these people are, whether they are in the buying mode, or in a Corona buying mode nobody knows, but there is a humongous crowd on the street, and we have heard for a couple of distributors, that they are on the textile side are completely running out of stock, the kind of demand that they are seeing after renewal of let's say, last almost one, one and a half years. So, are we seeing similar sort of demand, for our products also when we will talk about the general market in the festive season?

Ankit Gupta: So, the demand has been really very good. And that's why we were able to achieve this kind of growth in quarter two, we had a volume growth of around 21%, this particular quarter. So, it's not just the value, which has driven up the growth levels of 52% for this quarter, it's also the volume growth that we have got. So, it is majorly the athleisure sales that we had apart from that, we saw very good sale in terms of Missy leggings and which was not there last year, which took a great hit last year. Apart from that, we were able to maintain sales for the sock range also which took a hit due to the COVID pandemic and also Force NXT. So, if we talk about Force NXT, we saw growth of around 40% during the quarter and in six months we saw a growth of 43%. So, this is the kind of growth that we saw during the quarter two and the athleisure range for Force NXT, the athleisure range in BigBoss, we saw a huge growth in that. The thermals which was 9% last year, was at 10% this particular half yearly. So, we are seeing a good traction in thermal also, it's just that there were speculation going around, there is a contemplation that this year the winters would be harsher and it would be the winters would be colder this particular fiscal. So we are hoping for a very good winters and the thermal sales should shoot up in quarter three.

Bajarang Bafana: Got it. But any new category that you're looking at, because the major brands like BigBoss and Dollar which contributes close to 80% of our overall turnover, which are slow moving or slow moving growth but the higher growth we are seeing in Missy and thermal and maybe this NXT brand of the new generation the premium products. How do you see that portfolio moving, going into the NXT two to three years perspective, can this be a sizable number closer to let's say 30% from current 20% contribution over the next two, three years timeframe?

Ankit Gupta: So Missy, and Force NXT taken together is about 11%.

Bajarang Bafana: Thermal also.

Ankit Gupta: Yes, so the thermals contribution overall is around 9%, to our sales. So, that comes to around 20% overall currently. In three years, four years' time period, we can move us to 28%, 30%, kind of a contribution from this particular brands. So we are very hopeful that Force NXT would grow at around 39% year-on-year for next two, three years and Missy would grow around 20% and 30%.

Bajarang Bafana: Got it. So, best of luck because most of our parameters, whether in terms of top line growth or in terms of margin trajectory, in terms of working capital, we are all moving in the right direction in terms of ROE and ROC in days to come. And, I wish all the best for your future growth perspective.

Moderator: Thank you. The next question is from the line of Mokksh from Moksh & Associates. Please go ahead.

Mokksh: So, I just have a small question. So, I just saw the news that you opened your first EBO in Ayodhya, UP. So, wanted to ask like how are we planning it forward are we going all in on EBO or are we going for a slow kind of growth?

Ankit Gupta: So, we will be opening 8 to 10 stores this particular fiscal. All the stores would be on FOFO model. So, the company investment is the least when it comes to EBO, and we will watch those EBOs for three to four months we will observe the workings because we are not into retail currently, we are trying to move towards that like opening EBO and interacting with the consumer directly. So, that is a new model for us. So we don't want to goof up in the very first time. So we'll observe their working for three to four months and if everything goes well, then over three years period we will be opening around 75 to 100 EBOs.

Moderator: Thank you. The next question is from the line of Vaishnavi Mandhaniya from Anand Rathi. Please go ahead.

Vaishnavi Mandhaniya: Just a quick question on the channel financing, we had done this earlier as well right historically, we had tried to implement this across our distributor network. So, what is the difference between what we were doing then and versus now?

Ajay Patodia: Hi, Vaishnavi this is Ajay Patodia. Previously, we had the channel financing scheme signed with SBI, State Bank of India, but there is some problem with in the system, there is more time taken for sanctioning the loan, but this time we had make arrangement with the private sector bank ICICI Bank, and the platform is fully digitized. There is a time gap of only 35 minutes, if they dealer applied of the facility within 35 minutes we get the sanction or rejected. If rejected there is a reason given that if there is any mistake in CIBIL or any type of ranking. But in this model it is fully digitized and very simple to join the scheme. So we are very hopeful that this is very beneficial to our dealers.

Vaishnavi Mandhaniya: Okay. And any updates on the project Lakshya, we did say that we have 491 distributors under the project currently right?

Ankit Gupta: Sorry, can you just repeat the question?

Vaishnavi Mandhaniya: Any further updates on project Lakshya, I must have missed your beginning remarks, but you said that there were 491 distributors under the project currently right?

Ankit Gupta: No, it's not 491. So, first quarter of this fiscal, we had around 60 distributors who got enrolled with us and during second quarter we added around 31 new distributors under this particular project. And by the end of this fiscal it would be somewhere around 125 to 150 distributors under this project. In three years' time, we are aspiring to complete this particular project in three, three and a half years' time. So, the new sales that we are opening for this particular project is Bihar, the entire Northeast and Andhra Pradesh. So, these are the few states that we have started working on and apart from that, we were already present in Gujarat, Maharashtra, Rajasthan, Karnataka, Telangana.

Vaishnavi Mandhaniya: Okay. And one last question, can you please, like the gross margin decline that we have in this quarter right, the reason for that?

Ankit Gupta: So, our advertisement expenditure was a bit high in this particular quarter. The overall the cost of material consumed was a bit high than quarter one, due to higher production and the thermal production and everything. So, these are the few reasons and the difference is not much. So, this particular quarter we did around 15.86% against 17% last quarter.

Moderator: Thank you. The next question is from the line of Ankit Babel from Subhkam. Please go ahead.

Ankit Babel: Sir, just a follow up this general financing will it have a recourse on Dollar Industries?

Ankit Gupta: Yes, Ankit so there will be a recourse, but the thing is that our each and every payment has been secured through the direct trading agents that we have. So, there will be low garbage coming on to our books and we are totally secured in that particular respect.

Ankit Babel: But there would be a notional debt in the balance sheet to the amount of challenge financing done because of IndAS is my understanding right?

Ajay Patodia: No, only the liability party is in our balance sheet, because in channel financing the bank sanction the loan directly to the dealer and we have the secured by our trader agent. So, in this case.

Ankit Babel: Okay, secured by your agent. So, course is basically on the agent and not on you?

Ajay Patodia: Not on us.

Ankit Babel: Okay. And sir sorry, I missed that part which I asked earlier, as we discussed that there will be some cost which would be there in this channel financing. So, the guidance of 17.5% to 18% is after considering that cost?

Ajay Patodia: Yes. After considering all the costs, we have the target of around 17% to 18%.

Ankit Babel: Okay. And sir, you also mentioned that it is easier said and done to include all the channel partners and under this channels and NC. So, what is the reason for a protest why our dealer will protest for it?

Ankit Gupta: So, what happened is Ankit, the distributors in our particular trade, are mainly unorganized so they are more comfortable to work with the company directly instead of dealing with a bank. So, once the bank comes into picture they are very much afraid about the mortgage part or the bank taking over, the interest the paperwork that comes along with it. So they're not used to doing all those stuffs right now currently. And this is true for all the distributors in our industry, whether it be for Dollars distributor or any other peer group distributors. So most of the distributors are unorganized. Now, we are seeing that new distributors are coming into this field, who are originally from maybe real estate or FMCG, or any other trade. So, the other trade distributors who are coming are much more organized than the original distributors who belong to this trade.

Ankit Babel: So, it's just an operational part there won't be any financial loss to them?

Ankit Gupta: No, it's just that some paper work from the bank side or the interest calculation, that they have to pay to the bank. Currently, it's very easy they pay to the company and there's no interest being charged for late payment right, for the bank even one day would matter. So, this is the only problem, this is the only reservation that the distributor has.

Ankit Babel: Okay. So far whomsoever you are discussing with, how's the response?

Ankit Gupta: So, we have just signed it. So, all the onboarding would start from this month itself, like from November month itself. So we will be teaching the distributor from this particular month, because the platform was getting ready with the bank, and they were onboarding us on their platform first. So the agreement part has just completed and all the backend integration has been done. Now, from this month onwards, we'll start onboarding the distributors.

Ankit Babel: So, when the bank is doing the discounting, they consider the credit rating of the distributor or the agent to whom the recourse is there?

Ajay Patodia: They first check the CIBIL of the distributor.

Ankit Babel: So, if the CIBIL is not good then?

Ajay Patodia: then the case is rejected and even we don't want that if any dealer who has defaulted in the payment to bank.

Ankit Babel: To be your distributor?

Ajay Patodia: Yes.

Ankit Babel: It has nothing to do with the CIBIL of the agent?

Ajay Patodia: No.

Ankit Babel: So the agent will just act as a guarantor?

Ankit Gupta: Yes.

Moderator: Thank you. The next question is from the line of Akhil Parekh from Elara Capital. Please go ahead.

Akhil Parekh: My first question is on project Lakshya, we say that 9%, almost 90 distributors are on boarded on the project Lakshya, so that is around 9% to 10% of the total distributors, while the contribution of sales of this distributor is only 3%. So could you please help us explain where discrepancy is, is it that we have on boarded the distributors who are not contributing significantly at this point of time towards the business?

Ankit Gupta: Hi, Akhil, Ankit here. The total contribution in sales is 6% and the number of distributors around 91 distributors who have got on boarded, the number of distributors got on boarded in the month of September itself is around 10 or 12 distributors got on boarded in September, it takes generally around three months' time for a distributor to get settled down and to get stabilized because all the enrollment process or the sales team going to the retail point, enrolling them and then bringing them on the platform with respect to whether it be tele callers or the auto replenishment system model, the b plan. So it takes around the three month's time for a distributor to get stabilized. So if I say that 91 distributors have been enrolled into this particular project, that means they're just started working. There are few distributors who have just started working so their data would be a bit on the lower side if you see and with +1000 distributors, it's almost neck to neck so 7.5 of it kind of a distributor versus 6% of our total sales. And by the way, this 6% of total sales is the total sales under this particular project is not the old sales which have been converted into Lakshya projects. It's the sale coming from the new areas also where we are made new distributors under this particular project, where we were not present earlier.

Akhil Parekh: Okay. So that's an incremental sales basically?

Ankit Gupta: Yes, that's obviously the incremental sale for the company.

Akhil Parekh: Okay, thanks for the clarification. Second question is on the cotton prices and the price hike, if at all what we have taken during the quarter and for the worse?

Ankit Gupta: So during the quarter, we didn't take much of a price hike and going forward yes, they will come a situation where the price would be necessary because of the rise in prices, and so actually we don't plan to increase it very recently, to be very honest let's say how the purchase go during the mid of the month and there may be a requirement of taking a price hike in the month of December but not currently.

Akhil Parekh: But are the cotton prices stable right now or they are still inching?

Ankit Gupta: They are still unstable currently. And we can see a price hike in terms of yarn prices and the cotton prices as well.

Akhil Parekh: How much of inventory we are holding right now in terms of before the quarter?

Ankit Gupta: The cotton inventory, it's around one and half, two months cotton we have in our books, I will get back to you on this Akhil, I'm not very much sure about the number. But it should be somewhere around that only.

Akhil Parekh: Sure, got it. And just one last clarification, in terms of the brand wise contribution in this how much was Force brand?

Ankit Gupta: Sorry?

Akhil Parekh: The brand wise contribution for Force for this quarter versus last year.

Ankit Gupta: So, Force NXT was 3% with respect to 2% earlier.

Moderator: Thank you. The next question is from the line of Sonal Minhas from Prescient Capital. Please go ahead.

Sonal Minhas: I have two questions. First one was regarding the terms of your channel financing, just wanted to broadly understand what margin do you leave on the table, As you tradeoff for the debtor days going down for you, that's the first one. If you could answer that I will go on to the next one after that.

Ajay Patodia: Currently, we have the credit period for our distributor is around 45 to 60 days. In channel financing whenever distributor is joined with our scheme, we get the certain incentive in the bill also and he has to pay within the advance bill we generated, we get the payment from the bank side. And there is very minimum interest rate for our distributor. Which is to pay to the bank, if we pay the bank within five to 10 days, he get the full incentive on his account. Otherwise, the interest rate is almost half of the total incentive.

Sonal Minhas: Okay, got it. So sir just asking just out of curiosity that these incentives could have been done on your balance sheet in the past, I know you're new with the company, but just understanding and you have done this earlier as well. Typically, like when you discipline dealers, distributor on working capital, there is a lot which starts behaving and there is a lot which doesn't want to accept this. So, I'm just trying to understand where are we in terms of our practice of reducing our working capital as to is this the last resort left for us because we've been doing project Lakshya, we've been trying to do channel financing. And we've been trying to discipline our dealer, distributors to actually pay on time and then maybe take a higher percentage of margins. So this financing is a way, but fundamentally at a business level, I just want to understand where are we, in terms of our discipline of our dealer distributors to pay us actually, because if we can control them, we can control them through whatever we do on our own, or through project Lakshya, or through bank finance as well. So this is just a way to execute this scheme. So, just asking this to understand this more.

Ankit Gupta: So, in our project Lakshya, the credit period is around 45 days, which unlike our traditional business where we have around 60 days credit period, and currently in project Lakshya the average number of days of payment is way lower than what we have in general. So currently, if you're standing at around 109 days, so in project Lakshya it's around 55, 60 days and that is only due to the kind of lockdown that we are seeing during the phase one, phase two, which really flows of payment from the retail market to them. So, in channel financing what happened is, there is a proper SOP that has been made and the distributor has to follow that particular SOP plus we have a lot of conditions also, which is different from the traditional business that we do.

Sonal Minhas: My question to you is, let's pick your top five distributors, which make up a large part of your sales. And where are they in terms of their debtor days right now and if we were to bring them to 50 to 60 days, or to 45 days under Lakshya, Lakshya is being more conservative on numbers there, on lower on numbers there. What would it actually mean to your business, this is what I'm trying to understand. So, I don't want to look at the tails of your business through project Lakshya, which is very small in terms of the impact on the top line. Let's look at the head of your business and look at your top five distributors. And where are they in terms of their credit, because you say typically give 60 days, but it's hitting 109, 115 days. So what does it actually entail to bring them under maybe channel financing, maybe Lakshya, just want to understand that?

Ankit Gupta: So what happens is typically the big distributors that we have, currently they occupy around two to three districts among them. The first part is, they cover a bigger area than what we actually give it to a project Lakshya distributor. So currently, we are not touching them, because they are a good part of our sales, we don't want to take a big hit until unless we cover or we generate equal amount of sales from the surrounding areas. This is the first part. The second part is, their debtor days would be around 110 and 115 days, I wouldn't deny that. And that's why the whole receivable days is skewed towards that number only. The big distributors are also paying late, I won't deny that. But once we plan to bring them on board. So what we did with the old distributors who were on boarded into Lakshya project is that we gave them a timeframe of around one month, two months' time, we told them to bring the overall credit to a particular limit, and then only we started those distributors. It's not that if a payment cycle has been disturbed for a particular distributor, we can just start the Lakshya project for them. So we have made a criteria of that, if you come down we give them two months, we give them the ultimatum. We tell them if you want to take a bank loan or a working capital loan from the bank, you can take that but within one and half months' time or two months' time, you have to come down to 60 days, then only we can enroll Lakshya to you otherwise it's a no, no for us.

Sonal Minhas: Okay, so tell me what is the resistance of them actually moving down to 60 days, forget bank financing, project Lakshya, so today if you as the promoter of the company goes to them and say, sir, you've paying me back in 110, 120 days roughly. And this is the margin I give you, and this is just for the sake of building an argument. So throwing a number, so let's say I give them three more percentage points, five more percentage points on margin. And you come down to 60 days, what is the nature of the discussion with that, just want to understand would they and if he won't, why won't they as of now, because financing and Lakshya are execution pieces, but you can do this even without these right now by putting more margin on the table, actually. So just trying to understand that.

Ankit Gupta: So, let me give you an analogy. So if there's a thief in Singapore, and there's a thief in India, so the thief in India would be much more relaxed and the one who will feel things in Singapore, maybe UAE, Dubai, they would be in much more bad shape, due to the only fact that the system, the police department is how strong that's the only criteria, which is the real criteria for the thief also. As to how relaxed he is where. So the same analogy is over here is the distributor, when they come into a regime with the bank where they have a stricter policy, they would behave in a particular manner. But as soon as the companies start giving extra discount without proper policy in place, even though we keep a policy, we make a policy for them. They know that in the past, it has happened, we have moved from 75 days, 130 days, because before demonetization if you see our numbers it was around 75 days of total receivable days. Which has now increased to 130 days, we were being liberal with them.

Sonal Minhas: Basically you are saying you outsource the job eventually, that is exactly what you're trying to say.

Ankit Gupta: That will suit for most of the industry who used to deal with the consumer durables. So there was a point in 2018, 19 where there was a huge liquidity crunch in the market, where all the companies had a bad debtor days. The receivables days rose in that particular period and the company who could take a hit on their sale was able to control their debtors days otherwise, the debtor days increased for everyone at that point of time. So when they know that they can get some kind of liberty from the company, the company doesn't have an option because they have good sales in their particular area. So that's when the bargaining power of the distributor is higher, that's what creates a problem. So in Lakshya project we are trying to bring that particular bargaining power into cheque and maintain the company's bargaining power. Keeping the company on the upper hand in that particular level.

Sonal Minhas: So, I appreciate the analogy that explains. So, just trying to understand these large, top five dealer distributors from a disclosure perspective, if we could just talk about in your disclosures not taking leaps with a subsequent call that have we moved the needle for the top 10, top 15. Maybe that'll help us to also understand that are we moving the mountain here or are we actually moving, that's one. And secondly, just want to understand do you these large distributors, do they deal with your competitors I'm assuming as well. And they have similar issues with them, your competitors have issues with them as well. Just asking out of curiosity, actually.

Ankit Gupta: So basically, most of our distributor are exclusive to us. They don't deal with the peer group, mostly the big distributors that we are talking about. So, I wouldn't be able to comment upon how we deal with the competitor brand of the peer companies. Apart from that, yes we take your advisement into consideration that now that we will be onboarding distributor for channel financing. We'll also talk to our big distributors who were willing to come to channel financing or not, and maybe in the next quarter results or maybe one, one and a half months after if we were want to have a follow back upon this, we can surely give you the results or like what happened with that.

Sonal Minhas: Sure. We are just looking at 80:20 then, then the 80% of the puzzle, than actually a 20% of the puzzle, that will help us see how you are moving in your working capital cycle. You have been really helpful on this one. Thank you.

Moderator: Thank you. The next question is from the line of Devanshu Bansal from Emkay Global Financial Services. Please go ahead.

Devanshu Bansal: Sir you sort of indicated that realizations have improved about 30% in this quarter, can you help us can you break this up into the price hikes that we have taken and what has come through the product change?

Ankit Gupta: So, out of the 52% growth that we saw in this particular quarter 21% was the volume growth and 31% was the value growth, the overall ASP of the company was Rs.67 vis-à-vis Rs.66 last year second quarter. And for a half yearly figure if we see it's Rs.64 vis-à-vis Rs.54 last year.

Devanshu Bansal: So, broadly 20% of this has come from price increase and 10% odd has been due to product mix? Broadly 20% has come from price hikes and 10% through product mix is this correct?

Ankit Gupta: Yes, due to product correct.

Devanshu Bansal: Okay. Secondly, wanted to understand this challenge which you indicated in terms of GST increase in January 22. So, given the condition, do you think that you'll be able to pass on the entire price increase or we have to absorb some of that?

Ankit Gupta: No, we will be able to pass it down the channel. So we don't have to absorb it in our books.

Devanshu Bansal: And how much of that increase would be sir?

Ankit Gupta: That is uncertain right now, because the government has not made any announcement with respect to the GST slab that our industry would be in.

Devanshu Bansal: Sure, so I wanted to understand since we have already taken over the last two years, we have taken quite a bit of price hikes and this incremental price hikes then won't it affect the demand for our products?

Ankit Gupta: So, what happened is, if there is a price hike in the raw material and which is a very substantial hike, so we have got no other option but to pass on to the consumers, it's just that till now we are able to pass it on very smoothly, and there has been no resistance from the market. And in fact, after increasing 20% till April of this particular year. We still did a very good second quarter, vis-à-vis last year second quarter. So we're very hopeful that the overall demand shouldn't change much.

Moderator: Thank you. Mr. Dhiral Shah you can go ahead with your question please.

Dhiral Shah: Sir, my question is, what was the at leisure growth which we have seen on the Y-o-Y basis?

Ankit Gupta: So at leisure contribution is around 12% this particular half yearly, it was somewhere around 10% contribution last year.

Dhiral Shah: Okay. And sir on the EBO side, what was the ROI for our franchisor and what will be the minimum investment required in this and who bears the inventory risk?

Ankit Gupta: In the EBO part?

Dhiral Shah: Yes.

Ankit Gupta: EBO is completely FOFO model, where in all the CAPEX investment has been done by the franchisee, the total amount for a store of around 500 square feet would cost around 10 to 11 lakhs the CAPEX expenditure. So, there are two models, there is one model where the products would be sold on SOI basis and there is one module which is an outright basis wherein we'll provide some small amount of stock correction in six months' time. So, the first store that we have opened his own outright module and the realization for the company would be much better than what we have in our traditional sales.

Dhiral Shah: Okay, and sir on the modern trade side what was the growth we seen in online channel?

Ankit Gupta: Around 75% to 77% kind of growth that we have seen over last year.

Dhiral Shah: Okay. And sir lastly on the export side. So, what was the contribution from the export and what was the growth register?

Ankit Gupta: So, overall export was around on a half yearly basis we saw around 32% growth from last half year. So, last year six months was around 20, 22 crores this was around 30 crores this particular half yearly.

Dhiral Shah: Pardon sir, this year it was 22 crore?

Ankit Gupta: Last year it was 22 crores, this year it was 30 crores.

Dhiral Shah: Okay. And what was the ad spend in H1 and the volume growth for H1?

Ankit Gupta: The volume growth was around 16% in H1 and advertisement expenditure for six months was around 32.74 crores which was 5.49%.

Dhiral Shah: And for the full year we are listed to maybe 60 to 65 crore right?

Ankit Gupta: Yes, around 55 to 60 crores.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to the management for their closing comments. Over to you sir.

Vinod Kumar Gupta: I take this opportunity to thank everyone for joining this call. I hope we've been able to address all your queries. For any further information kindly get in touch with us. And thank you. Thank you once again and very, very Happy Diwali to everyone. Thank you very much.

Moderator: Thank you. Thank you members of the management. Ladies and gentlemen on behalf of PhillipCapital PCG Desk, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.