"Butterfly Gandhimathi Appliances Ltd. Q1 FY22 Earnings Conference Call"

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Binay Sarda: Good morning to all the participants on this call. Before we proceed to the call let me remind you that the discussion may contain forward looking statements that may involve known or unknown risks, uncertainties and other factors, it must be viewed in conjunction with our business risks that could cause future results performance or achievement to differ significantly from what is expressed or implied by such forward looking statements. Please note that we have mailed the results and the presentation, and the same are available on the company's website. In case if you have not received the same, you can write to us and we will be happy to send the same over to you. To take us through the results, and answer your questions today, we have the management of Butterfly Gandhimathi Appliances limited, represented by Mr. V.M.G Mayuresan - VP Finance and Strategy, Mr. Narsiman Rose and Mr R Nagarajan from the finance team, along with Mr Anand Mundra - Management Consultant to the company. We will start the call with a brief overview of the quarter gone past and then conduct Q&A session. With that said, I will now hand over the call to Mr. Mayuresan, over to you sir.

V.M.G Mayuresan: Thank you Binay. Good morning everyone. Hope everyone is safe and healthy. We have done revenue of Rs.144 crores in Q1, as compared to Rs.76 for Q1 of previous year. We estimated higher revenue, which got impacted due to lockdown, our manufacturing facility was closed for about five weeks during the quarter, as COVID recedes further, we expect the demand environment to improve from Q2. During Q1 our EBITDA margins were also lower due to lower revenue. The working capital days have slightly gone up as compared to previous year due to lesser revenue, and also higher inventory build up to take care of upcoming season. Thank you. Let's go for Q&A.

Binay Sarda: Thank you. So anyone with a question, please raise your hand and then we'll accordingly queue you for the questions. First question is from Aakash Jain from Money Curves. Please go ahead.

Aakash Jain: Thanks a lot for taking my call. Mayuresan, I have a couple of questions, I think one is, like you said things are obviously improving in Q2 but in your presentation you also continue to stick with the earlier guidance of 10 to 15% revenue and margins as of last year. So do you think that's achievable assuming that there is no more COVID third Wave and all that, things remaining okay, do you see you can get there. The other question I had is on revenue, I think our performances is okay, slightly probably for look at all the peers, and I compare what has been the year on year growth or what has been the decline from Q4, our revenue performance is not significantly lower but somehow our margins seems to be significantly lower as compared to our peers, even if you adjust for revenues, somehow probably they are able to manage their employee costs and their advertising and distribution costs far better than us and to me, that is a significant area that probably the company needs to look into because if I look at all the three peers, obviously, some of them have slightly higher revenue base, but even if you adjust for higher revenue base for the recently listed player their margins are significantly higher than us and I think we really need to look at our efficiencies and margins because that is one thing, like slight disappointment for this quarter. Thank you.

V.M.G Mayuresan: Yes, as per our outlook we definitely feel 15% growth, with a similar EBITDA margin is definitely doable. In the Q1, our margins are slightly lower, one of the main reason is because of lower revenue. We expected, at least 15 crores of more revenue than what we achieved because of certain lockdowns that impacted and our fixed cost was not controlled because of that. But going forward, we feel that, seeing the current scenario, like what we see in July, it's looking very promising, and I think we can definitely do 15% growth, which we feel is definitely doable and also on the margin front, we have given a little conservative number that we will be closer to last year numbers. We are trying to do more on that also.

Aakash Jain: I have a follow up question just on this Mayuresan, one is what is probably happening, and I am not so sure if I have to make a wild guess, I would basically say that earlier a lot of our sales were driven by offline channels, our MT and GT and all of that. Now, significant part of sales is also coming from online. I don't know whether advertising spends now need to have a full relook in terms of how much incremental advertising revenues we are doing on what channel, it's quite possible that our offline channel is not as strong now because online is become stronger, but we continue to spend as much money on the offline channel or on advertising. So, I don't know whether our advertising basis going up much higher than what I can see for our peers, so

I think advertising and employee cost are clearly two areas where I think some possible relook can happen that's just a feedback from an investor.

V.M.G Mayuresan: Definitely Aakash, on the advertising if you see, advertising is always variable in our case. For different channels, we have different costs which is variable, even in E-commerce we have a considerable amount of digital advertising, which happens with respect to the training. So, yes we are really looking on how to make it better and also on the retail side, we want to keep it more of a fixed way going forward. That's what we are relooking

Aakash Jain: Ok, thank you so much Mayuresan.

Binay Sarda: Thank you. I will just unmute participant. Please unmute yourself and please state your name and institution name.

Priyam: Hi Mayuresan**.** This is Priyam here from Infinity Alternatives. So, congratulations on a decent set of numbers in a tough quarter. Just wanted to understand out of the 870 crores sales which we did last year, what is the export proportion in it, because when we look at peers, the larger one is talking about 500 crores export turnover in 2-3 years and the recently listed one is talking about 200-300 crores export turnover. So, what are we doing on this side?

V.M.G Mayuresan: Our export is in fact lower. Last year we did about 11 to 12 crores of export. We are just starting. Only one year back, we started getting in lot of distributors for export. Unfortunately, due to COVID we were not able to take it further and initially our focus was on the retail market where we want to gain market share and come back to where we want to be and now, we are we have started to focus on exports also and we have gotten a lot of distributors, whom we are we are discussing and trying to go multi folds in that area. There is a huge scope for us because we are just trapped in 10-11 crores. And we definitely think we can go 100 crores in two to three years' time.

Priyam: Okay, so when we charted out our journey from say 900 to 1400 which is our current capacity, exports would be 100 you mean to say in that.

V.M.G Mayuresan: Yes, it will be more than 100.

Priyam: Okay and in terms of recent, so if I want to understand the channel mix for the current 140 crores, sale channel mix or geography mix. So south has been more impacted due to COVID, so what would be the non-south portion in this first quarter, as compared to what it was say last year.

V.M.G Mayuresan: Channel mix, it's very similar to what we had last year. Even though south was in retail, but we were able to cover it in E commerce, so that helped us to grow. But if you see the overall channel mix, close to 34-35% is from non-stock markets for Q1, its slightly on the higher side.

Priyam: Okay and then in July when you say that the sale has been good. Is it both from south and non-south the sale has been improving?

V.M.G Mayuresan: Because all the retail markets have opened in July, it's functioning normal and we're seeing a very good demand. Market is actually good.

Priyam: Okay can you just give a broad range about the quantum of price increase which we have taken in this quarter or say in the last six months?

V.M.G Mayuresan: The last six months we have started increasing from Jan, if you take from Jan, we have done about 3 price increases. So, some products have gone up by 10%, some products have gone by 15%. So, it's between 10 to 15%, in the last six to seven months.

Priyam: Okay. And is it enough to capture the raw material inflation which has happened because when I look at our EBITDA margin guidance as compared to last year, this year we are expecting around 100-150 crores incremental sales over last year. But if our gross margin is same and advertising remain same, why our EBITDA margin guidance is lower? Are we being conservative here or is there something which we are missing here?

V.M.G Mayuresan: There is a decrease in gross margin. Gross margin has actually come down by about 1%, that is the main reason our EBITDA is coming down a bit, but we are also evaluating that to see during the season if we can do something on increasing margins but product mix as well as, we are also considering some price increase. So that is something which we are looking at this point.

Priyam: Okay, thank you. That's all from my side. All the best.

Diwakar Pingle: I just request all the participants, there is a smaller technical glitch some of the names is not popping up properly. So, my only request is when you kind of go ahead and ask the question, please state your name and institution name. For some reason Binay happens to have replicated 25-30 times here and I don't know why, sorry about that. We will just open you up and you can state your name. Thanks. Sorry about this.

Investor: So, thanks for the opportunity. Just a couple of questions, so one is in case of our advertisement and promotional expenses. I mean, when we look at this expense, if you can just help us understand what the promotion and dealer related expense are because when we compare our numbers with our peers, it looks like that our gross margin, looks higher because of that and our ad spend also looks higher because of that. And why can't we classify those promotional expenses in the raw material cost or let's say netted off from the sales, because I think that is the practice what other players also follow, and it makes our numbers more like to like comparable. So, if you can just give some commentary over it on, what is the right way to really look at it, because in last year which was you know COVID environment, there were so many uncertainties, but that whole number acts like a variable cost and even in this quarter that number is acting like a variable cost because these are discretionary spend which anyone would take back and you know, it gets reflected in a better EBITDA margin. So, some thoughts over there would really help.

V.M.G Mayuresan: All product related schemes, even in terms of promotion activities, all comes under the raw material costs. The gross margin is net of that. All ATL, digital advertising, commerce advertisements, below the line expenditure all those things will come under advertisement and promotions. All product related schemes are already net off in sales. So that is already shown with the impact in gross margins.

Investor: Okay, then why would we not take back our ad spend in this quarter. I mean what stops us from that and still not clear with that. I mean, in this quarter why we could not have taken ad spend back.

V.M.G Mayuresan: Q1 is generally lower in ad spends, generally ad spends goes higher in Q2 and Q3. Since it's variable, it generally picks up during the season and in Q4 it comes back to a lower level.

Anand Mundra: This quarter, there were no advertising expenses or there will be minimal advertisement expenses. The EBITDA margins are lower because of lower size of the business, we did only 140 crores odd revenue.

Investor: Yeah, I get that. But Sir, the larger question is more on the manufacturing efficiencies. When we compare our cost structure of manufacturing with let's say with other peers. And one of the peers which has recently listed, so why is there such a big gap in the manufacturing cost, that is in our P&L, which is there in their P&L, and where can these efficiencies come start reflecting in our P&L. I mean some thought process over there how things are different and how we should understand those number.

V.M.G Mayuresan: Major costs in terms of employee cost are because of sales, marketing and service. Manufacturing cost is actually one of the lowest. We have one of the lowest manufacturing costs. More than 80% of our sold products are manufactured in house and since we have a huge volume the manufacturing cost is low. In fact, the reason why our EBITDA has gone down is only because of the revenue. We anticipated 50 crores higher revenue which, wasn't there because of lock downs, and we had a five-week shutdown even in our manufacturing plant because of the regulation here.

Investor: And in case of E commerce channel which basically you know that when other players are capitalizing on that and we have shown very strong scale up in last two years and it's been a commendable performance. Just, but based on some feedback from the channel from basically dealers and distributors we bought that you can do ecommerce you can sell the product pan India, and it is not difficult but in case of after sale service, let's say when someone has received a product in a non-south area where our after sales service centres are not really there, then in case of handling repairs how does things work because every company has their niche stores and spares. So how does that work because, do we see a risk of brand dilution that we are selling the product pan India but then after sales service network is not there pan India. So how are we trying to you know balance over here?

V.M.G Mayuresan: Our service centres presence is there across India. We are there on a pan India basis, some areas we are there with the franchisee model, some area we have there with the direct service model.

Even though we are not present across in retail channel, but we are there for after sales service.

Investor: Okay, thanks a lot Sir. That was helpful.

Binay Sarda: We have the next question from Rohan Advant from Multi Act. Please go ahead.

Rohan Advant: Thank you for the opportunity, and congratulations on a good set of numbers in context of the environment. My question again is on ad spend and if I look at ad spend that we did last year which is roughly 95 crores and if I look at TTK which has done 110 crores of ad spend on 2200 crores of revenue. So, at what points or what scale do you think that ad spends as an absolute number is sufficient and as a percentage it should keep on decreasing, are we near that scale right now or is it still a couple of years away. So that is the thing I wanted to get.

V.M.G Mayuresan: Yes Rohan, we are actually here that. Our ideas is when we reach 1000 crores of revenue, until then we go with a variable method, and after that we want to keep it as a fixed cost model. Since we have almost near that, we will probably be keeping moving towards fixed model.

Rohan Advant: Okay, thank you. That's all from my side.

Binay Sarda: Next question from Aditya Mehta. Please go ahead.

Aditya Mehta: Hi Mayuresan, thanks for the opportunity. So Mayuresan, in one of our previous concall we mentioned that we will be going for expansion as we are nearing 1000 crores of turnover mark, but if we look at our gross block it's still the same as of last year. So, haven't we started going for expansion or if we will look out sometime later.

V.M.G Mayuresan: We already started investments. We have done about close to 10 crores of investment already, we will be doing another 15 to 20 crores, with 30 crores of investment we can go up to 1400 crores of revenue. So it's going on, it's been little slowed, because of COVID scenarios but we have already done about 10 crores and another 20 crores will be done by this year or early next year.

Aditya Mehta: Okay, got it. And just one more question. So, just want to understand what the industry wide scenario is if you see that raw material prices are increasing and there might be some issues with unorganized players to procure raw materials in known time. So, is it the business for them as usual or they are facing some difficulties too?

V.M.G Mayuresan: It's very difficult scenario for them, not only because of price fluctuation, the availability is also a serious problem here. So, it's both ways they are getting affected, and larger brands, like us, we were able to get that without a problem but for unorganized that is becoming a huge problem.

Aditya Mehta: Okay and so just one more question. So, I was going through your annual report and just want to highlight one point that we mentioned that IOT and AI, Artificial Intelligence have begun to redefine cooking and kitchen appliances and strategic plans have been drawn for next gen growth with automation and future driven products. So, just wanted your views on this point.

V.M.G Mayuresan: So, we started doing that in manufacturing, to enable better manufacturing and better controls. We are also thinking of getting those in our products, because new age product in few years will all be enabled with IOT, so we are also trying that and we are also taking help of various institutions, to see how it is viable to bring it in our products.

Aditya Mehta: So, this AI and IOT thing will this be in kitchen in appliances only or we will have a separate division for home appliances, then we will integrate into them.

V.M.G Mayuresan: We are trying to integrate that in our products because even we feel in our products for the future as that will become the future in three years' time.

Aditya Mehta: Okay, thank you Mayuresan and all the best.

Binay Sarda: Thank you. I would request you to please kindly, state your name and your institution name once you begin to ask question.

Pawan: I would like to understand what the current channel financing limits and bill discounting facility outstanding.

Narsiman Rose: 18.4 crores.

Pawan: That would be what sir.

Narsiman Rose: Bill discounting.

Pawan: What would be channel financing.

Narsiman Rose: Channel financing and bill discounting is about 18.4 crores.

V.M.G Mayuresan: Debtors, channel financing is about 18.4 crores utilised as end of June.

Pawan: Also, there is a bill discounting facility which was outstanding as of Q4 of 28 crores. It was a different one than the channel financing.

Narsiman Rose: Channel financing and bill discounting only in March is 28.47 crores now it is 18.4 crores.

Pawan: And now there is another number of 50 crores where you share 45 days of interest funding with the retailers. So, what is that portion?

Narasimhan Rose: No overall limit is 50 crores, we have availed channel finance Facility from the NBFCs for the November session as on June, under the March only we have given them yes.

Pawan: Okay, that outstanding would be 18 crores.

Narasimhan Rose: Yes.

Pawan: So, the bill discounting and channel financing, whatever is outside our current balance sheet debt that is only 18 crores.

Narasimhan Rose: Yes.

Pawan: That's fine and secondly, we have already done 70 crores of incremental revenue as compared to FY21 in Q1. So, are we saying from here on we will be able to maintain that same kind of vigour on the sales as on last year?

V.M.G Mayuresan: Yes, current situation what we are seeing in Q2 is very good. And definitely, we can see a good amount of growth in Q2, Q3 and Q 4 unless we have a third wave, which we hope it shouldn't be a scenario during at least the seasonal period. And we are very confident that we will do at least a minimum of 15% growth for this year.

Pawan: Okay, that would around current between 950-1000 crores of revenues.

V.M.G Mayuresan: Yes

Pawan: On EBITDA margins, we are guiding the same as last year.

V.M.G Mayuresan: Yes

Pawan: Okay, thank you.

Binay Sarda: Thank you. Next question is from Mukul Jain from Carnelian Capital.

Mukul Jain: Thanks for the opportunity. I had a question on the E commerce front. So just wanted to know, what is the proportion of E commerce in the Q1 FY22 against normal mix.

V.M.G Mayuresan: E commerce for this year we estimate to be between 30-40%. It will be closer to 40%, Q1 it was slightly on the higher side, not a huge way but the by the year end we estimated to be between 30 to 40%.

Mukul Jain: So Q1 if you would let me know the percentage terms.

V.M.G Mayuresan: Q1 it is about 44 to 45%.

Mukul Jain: Just a follow up on that, so what are the additional costs or cost differences which we like see in the general trade versus the E commerce. So, for example, I know ecommerce we have to give commission to the Amazon and Flipkart, apart from that we have to do some digital advertising. Any other cost which is different, per se with the general trade versus the modern trade.

V.M.G Mayuresan: In terms of advertising and promotions there is digital and commerce heads, which is spent on E commerce sales. When you type, for example a product like mixer grinder your name should come on the top and with your brand and with your ratings your product gets sold. So, your name to come on top there's an advertising cost, which is paid.

Mukul Jain: So that is the additional cost above the normal cost, which we incur.

V.M.G Mayuresan: Yes

Mukul Jain: Thank you. And one more question on the cookware front. So, across peer we are selling cookware which grew exceptionally well as against the pressure cooker. So, just had a question what the driving factor behind is the demand which is coming, actually from the cookware versus the pressure cooker which was a bit low on YoY basis.

V.M.G Mayuresan: Pressure crooker we have done significantly well in Q1 compared to last Q1. Even though the base is not exactly comparable, we estimate pressure cooker to do significantly well for this year because compared to competitors, our business is very small. There's a lot of scope for our cooker to grow, and we are also launching new products on all the categories and on the cookware, pressure cooker and cookware means pressure cookers and nonstick cookware. Nonstick cookware also has an immense scope for us, because our base is very small.

Mukul Jain: Okay, as I see in your presentation, it has grown to 200%. So just a bit on margin front, so what would be the difference between the pressure cooker and cookware roughly.

V.M.G Mayuresan: So, pressure cooker margins are slightly higher than non-stick cookware. Non-stick cookware, it's a highly consumable product with those in high volumes. In terms of margins, there's a difference, pressure cooker has one of the highest margins in our product portfolio.

Mukul Jain: Okay, got it. Thank you so much.

Binay Sarda: We have the next question Akshat Haria from Multi Act PMS.

Akshat Haria: I had few questions. Firstly, on our growth for the year the presentation says that we can grow between 10 to 15%. However, only if I look at Q1 we have already done 145 crores as compared to 75 crores last year. So that's a significant part of that annual 15% growth is already captured over here apart from that we have already taken roughly 10% price hike across our product categories over last six months, so that essentially implies that maybe our volume growth, which we are forecasting as of now is pretty much low single digit. So is that interpretation right or is our guidance very conservative.

V.M.G Mayuresan: Q2, Q3 and Q4 base is actually very high last year. But internally our target is much higher. So we have given a conservative outlook of 10-15% growth. Internally, our goal is to achieve that.

Akshat Haria: Okay and also next question on the margin side, we have taken as you said, price hikes across our product categories in the range of 10% plus or minus. However, if we look at all our major commodity the raw material price inflation over there seems to be much higher and the trajectory only seems to be upwards. So, if we continue to take these kinds of price hikes say a 5% a quarter or 4% a quarter price hike, what would be our demand elasticity at those price levels and at what price does the management thing that you know there could be some impact on our demand situation?

V.M.G Mayuresan: We are doing multiple ways to make sure our gross margins are kept in track. One is by price increase, not all the costs can be passed to consumers. So, on the other side, we are trying to reduce product repair services for the reason to maintain good margins, even in spite of that our margins have come down by about 1-2% in gross levels and currently, what we were seeing 3-4 months back, that kind of uncertainty is not there, there is an increase but not very volatile. So, we are trying to see how to increase or how to reduce schemes. So, we will make sure that we will be able to grow without affecting on the inflation component.

Akshat Haria: One last question on the export front because most of our competitors have been speaking that export looks to be a very promising market for our category, over the next two to three years. So, what is exactly the kind of markets that we are looking at. I am sure we will be looking at Indian market to begin with, but the kind of market and also I presume this we would be doing it on negligible credit terms or almost on cash in advance basis. So, just your view on export market opportunity and the kinds of markets that we are looking for in exports, over the next two to three years. Thank you.

V.M.G Mayuresan: Current exports is done on immediate payment terms but with the growth potential which we have there might be negligible credit in some areas which we are thinking. We have started bringing in lot of distributors. Unfortunately, because of COVID we were not able to focus that and even internally our focus is we want to be more getting market share in the domestic markets and export as something which has immense potential for us with our brand strength and the very high Indian presence across the world. We definitely feel that in 2-3 years' time we can cross 100 crores of revenue only by export.

Akshat Haria: Sure, thank you and all the best.

Binay Sarda: Thank you. So, we have the next question from Venkatesh Subramanian from Morganic Capital.

Venkatesh: I just had a broad industry level question. What is your judgement of the online shoppers, are the millennial a little more accepting with respect to not wanting service requirement later? Are they more prone to use and discard and therefore are they becoming a little brand agnostic or do you think they are chasing price points?

V.M.G Mayuresan: Before COVID it used to be more millennial population getting into E commerce, but with the COVID we see that even the general population is going towards E commerce, because of shops not opened. So that is the reason E commerce is growing much faster than the traditional retail market, because of the current scenario. And yes we capture, even our service recalls with different channels as well. In that data, it's becoming a more use and throw kind of case at this point because there are service calls which is happening, there are things going in sink and even non warranty cases also coming. So, I am not able to say at this point its changing.

Venkatesh: And how accepting are the customers when it comes to brand extensions and what are the limitations there of. I mean brand extensions as butterfly, do we think we will get accepted if you went to let's say, ironing accessories, etc.

V.M.G Mayuresan: You mean to get into newer categories.

Venkatesh: Correct.

V.M.G Mayuresan: Currently, our focus is more into kitchen and small appliances. We have not focused on getting into other areas, but slowly we will be getting into some other areas which is closely associated with these products. We can't get into a larger appliances very fast but we will be more focused on products which will be sold under similar network and in a similar category.

Venkatesh: Thanks a lot.

Binay Sarda: Thank you. We have a next question from Varun Arora, please go ahead.

Varun Arora: My question is regarding ad spend. So, I just want to understand the channels like which are the dominant channels on which we are doing this advertisement spend?

V.M.G Mayuresan: You are asking about our advertising and promotion spends, where do we do right.

Varun Arora: Yes.

V.M.G Mayuresan: It is purely variable in our case, different channels have different variable numbers. For example, if you take a traditional retail we spend anywhere between 12-14%, in terms of E commerce we spend around 10%, in different channels have a different mix. So, depending on the sales ratio we spend with respect to that.

Varun Arora: And the discounting that is given, you said that is all part of your raw materials. So that is all incorporated in your gross margin.

V.M.G Mayuresan: Yes, in terms of product related schemes and if you buy 10 you get one free, those kinds of schemes will all be there

Varun Arora: Right. And one more point regarding your gross margin. So, you said obviously because of the commodity headwinds there will be some impact on gross margins, but you mentioned you will try to mitigate that through product mix. Can you describe on that front, like can you elaborate on that point, please?

V.M.G Mayuresan: We can mitigate it in two ways. One is price increase, which is the normal way, but up to one point you can do that after that you will not be able to do that easily. So, the other way is you try and reduce the product related schemes and discounts which we give to distributors and retailers to minimize the impact of margins.

Varun Arora: All right, thank you.

Binay Sarda: Thank you. Next question is from Nilesh Jethani from Envision Capital.

Nilesh Jethani: So my first question was on the E commerce side, so we are seeing a good traction as far as E commerce sales are concerned and I believe in FY21 E commerce contributed around 18 to 20% of our retail branded sales. So, just want to understand the growth what we are seeing in Q1 of FY22 again would be largely because of the offline channels being not available but say going forwards next two years or from five year perspective what sense do we carry as far as E commerce sales are concerned. Where we aspire E commerce sales to be?

V.M.G Mayuresan: In today's scenario we feel that it will be 30-40% of our sales and even last year during Q1 and Q2 we saw a huge ecommerce sale, towards Q3 and Q4 we saw a lot of retail sales when the market were coming back to normal. Even in the similar scenario which we are seeing this year also in Q1 there was a good number of E commerce sales, in Q2 what we are seeing in July is there is a good retail off take which is currently happening. So we estimate E commerce of today and over the next two years, it will be between 30 to 40% of our sales.

Nilesh Jethani: Understood. And one thing I also wanted to understand, so when we place our products on the E commerce website, do we maintain the warehouse or we ask the E commerce guys to do the warehousing work for us?

V.M.G Mayuresan: Once it's sold to them all inventory is taken care of by them.

Nilesh Jethani: Sorry I didn't get it.

V.M.G Mayuresan: We have two ways, once it's sold to them inventory is taken care of by them. What we do is before seasons we keep a warehouse where we try and build inventory for them and once its sold to them inventory is with them. Even the warehousing cost is taken care by them.

Nilesh Jethani: As a result, as you mentioned last time also hence the gross margins are slightly lower when we have large portion of the ecommerce sales.

V.M.G Mayuresan: Actually, gross margins have gone down because of the increases in raw material prices which happened from last November.

Nilesh Jethani: But in general, E commerce would have lower margins in normal scenario.

V.M.G Mayuresan: What we thought was retail channel will be delivering 43-44% gross margins E commerce will be 42-43%, not at the range of 40-41%. That is only because of raw material prices at EBITDA, even though there's a difference of 1-1.5% at EBITA that will be similar to retail.

Nilesh Jethani: And one more thing on the E commerce side. So generally, how as a company we aspire, our products to be, are we the value products or the price leaders in the category. So once we display our products, what's the thought process there on the E commerce platform.

V.M.G Mayuresan: We are present in mass market, not only value range but also mid and premium range.

Nilesh Jethani: And the second question was on the overall growth aspirations. So in FY21 we did around 860 crores odd revenue and we are expecting a 10-15% growth this year. Of course this implements some de-growth for the rest of the nine months period, but say from next 2-3 year perspective, if we reach a revenue of around 200 crores and our ad spends we aspire to keep it at a similar levels in absolute terms, so can we expect a EBITDA margin of in the range of 11-12% or it is too high assumption.

V.M.G Mayuresan: When we cross that 1200 core of revenue, our EBITDA on the gross margins, which we use will be passed to EBITDA, they will not be much variable cost.

Nilesh Jethani: Understood and one thought process I needed of your, when I see your presentation with regards to the branded sales and the other sales or the government orders from FY12 to FY16, so I see in FY16 lot of revenue came from the government orders. Just wanted to understand typically, what is the replacement cycle for our products, and do we expect that the products which were sold via government orders say between FY13 to FY16 that will have a replacement demand, which will drive over branded sales. Just the start thought process whether this will come back or what would be.

V.M.G Mayuresan: If you see we participated in the orders of tabletop wet grinder. The general life of wet grinder is about 6 to 7 years, for a mixer grinder which even though we didn't participate which was given us a freebie, mixer grinder life is about four to five years.

Nilesh Jethani: We can anticipate some kind of revenues from that side also.

V.M.G Mayuresan: Definitely yes.

Nilesh Jethani: Those are my questions, thank you so much.

Binay Sarda: Thank you. We have a question from Varun Arora. Please go ahead.

Varun Arora: Just one follow up regarding, the sales growth guidance that we are giving so we are kind of building for next nine months no growth. Is it because we are also taking some action on working capital side, is there any particular channel like in Q4 you spoke about not doing sales through gas dealer channel where you thought working capital is on the higher side. So, is some sort of that initiative going on, to correct the working capital which is why you are kind of being conservative on sales growth.

V.M.G Mayuresan: We want to keep gas dealer channel to about 50-55 crores of revenue. And we want to remain in that way, the growth will happen in traditional retail and new channels but gas dealer channel, we want to keep it that way. We are not limiting sales growth because of working capital reasons. We said we would grow by 10 -15%, our internal target is higher than that. Probably by Q2 we will revise that estimate, seeing how this scenario pans out in the next two months. We will definitely not lose sales because of working capital presence because we want to capture the sale and we want to make sure that we are efficient in collections also.

Varun Arora: Just on margin, in May Q4 concall we have mentioned that we are targeting 10% margins. So now we have basically lowered to similar margins level as last year. What has changed in between I mean would you call it, basically the commodity prices have escalated in between and so the price hikes that you will be taking, there will be a lag. What has changed in between.

V.M.G Mayuresan: That is solely because of gross margins and mainly because of raw material cost.

Varun Arora: Right. So my question is how is the behavior of competition, is the competition also taking price hikes in line with the commodity prices o there are some players who are kind of like the competitive intensity seems to be higher. So, can you comment a bit on that.

V.M.G Mayuresan: Most of the large brands have increased prices on a similar range of what we have done. So we don't see anyone who is going completely on the other side on a different way. Our idea is are definitely we want to grow faster than our competition, even this year. Even with what we saw in Q1 we want to make sure that we will grow faster than others, in the remaining three quarters and we capture better market share than others.

Varun Arora: Thank you.

Binay Sarda: Thank you. So we have a question from Kartikeyan from Swaesh Advisors please go ahead.

Kartikeyan: Just one question what the balance sheet would look like in terms of debt at the end of the year and some outlook on interest cost.

V.M.G Mayuresan: It's a little early to say that. Our goal is to be debt free by year end, it is slightly on the higher side in Q1. Our ideas to go into net cash scenario by end of Q4, but I think we will be able to say that by end of Q2, we will get a better idea of how the market will be.

Kartikeyan: Last year you generated substantial operating cash flow, I am assuming some of that was maybe one off in nature. So, what would be a reasonable EBITDA to operating cash flow conversion that one can think of from now on.

V.M.G Mayuresan: It's not much investments which we are doing. Last year we have about 10 crores of capital investments, this year it will be again 10-15 crores of investments. Apart from that, there is no cash outflow.

Kartikeyan: Thank you so much and best wishes.

Binay Sarda: Thank you. We have the next question from Aditya Mehta. Please go ahead.

Aditya Mehta: Thanks for the follow up. So, Mayuresan last year we had some capacity constraint in Q2 and Q3 that we were not able to produce more than a limited quantity, so our turnover was limited to 300 crores per quarter. So, for this year how are we paying for that.

V.M.G Mayuresan: See, we have already started investing, last year we did about 10 crores of investment. Wherever the bottleneck is we have started investing. What I can assure you is, will not lose sales because of capacity constraint. So, we are investing wherever is necessary and which is of the highest priority is invested first.

Aditya Mehta: And then inventory which we have increased from the normal levels. So is it because of that season nature or their is something other inventory is there.

V.M.G Mayuresan: Majorly because of one reason is we lost some sales in Q1 because of lockdown. And we have also built inventory for the upcoming season because Q2 and Q3 do huge amount of sales. So we are prepared for that.

Aditya Mehta: So this year we will not lose any sales because of the capacity constraint. Right.

V.M.G Mayuresan: Yes.

Aditya Mehta: Okay. Thank you.

Binay Sarda: Thank you. I believe that there are no further questions, I will now hand over to the management for the closing comments.

V.M.G Mayuresan: Thank you Binay. Thank you all for attending our Q1 conference call. We would invite you to come for Q2 and Q3 and other quarter also. We are very excited for this year, even though Q1 was a bit slower than what we expected. Current situation is very good. We feel that we will again do a record Q2 and we will see you soon. Thank you.