

TTK Prestige LIMITED



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June 25, 2020

National Stock Exchange "Exchange Plaza", C-1, Block G, Bandra- Kurla Complex, Bandra (E), Mumbai – 400 051, Scrip Symbol : TTKPRESTIG	BSE Limited 27th Floor, Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai - 400 001. Scrip Code : 517506
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Dear Sir,

Sub: Extracts of Board's Report – 2019-20

Kindly find enclosed the extracts of Board's Report approved by the Board of Directors for your records.

Thanking you,

Yours faithfully,
For TTK Prestige Limited,


K. Shankaran
Director & Secretary

A  Group Company

(Registered Office: Plot No.38, SIPCOT Industrial Complex, Hosur – 635 126, Tamil Nadu. INDIA)

BOARD'S REPORT
(Including Management's Discussion & Analysis report)

Your Directors have pleasure in presenting their Sixty Fourth Annual Report, together with the Audited Financials of the Company, for the year ended 31st March 2020 as follows:

FINANCIAL RESULTS (STAND ALONE)

(Rs.in crores)

		2019-20	2018-19
1	Sales (Net of discounts)	1936.79	1968.02
2	Other Income	24.61	25.60
3	Exceptional Income/(Expense)	-	-
4	EBITDA	285.54	311.48
5	PBT	248.21	283.57
6	Tax Provision	49.70	93.26
7	PAT	198.51	190.31
8	Other Comprehensive Income (Net of Tax)	(1.51)	(0.51)
9	Total Comprehensive Income	197.00	189.80
10	Transfer to General Reserve	20.00	20.00
11	Surplus carried to Balance Sheet	177.00	169.80

REVIEW OF PERFORMANCE:

- While the overall economic conditions remained sluggish throughout the year, the situation was seriously compounded by the Covid pandemic towards the end of the year that had an impact on the growth of the economy in general and your Company in particular.
- For the 9 months ended 31st December 2019, due to high base effect of FY 19 in the rural channel and modern brick & mortar trade channel, your Company registered a marginal growth in sales. The rural base was affected because of rural stress as well as non-availability of credit from micro-finance channels on account of NBFC crisis. In both these channels a large portion of sales came from a few buyers who were impacted by different sets of factors both internal and external.
- Your company developed several new buyers and broadened its customer base in these channels and started seeing double digit growth from February 2020 till mid-March 2020. All channels and all geographies exhibited strong recovery during this period. Thereafter the lockdown brought all sales to a halt till first week of May 2020. Export orders could not be delivered and had to be deferred. The estimated loss of sales on account of lockdown for the last quarter was of the order Rs.70 crores.
- Your company launched an innovative and revolutionary range of pressure cookers under the Swachh platform during the second half of FY 20. This range has received wide acceptance from all markets.

- Given the above back drop, your Company's performance for the year with a Net sales of Rs.1937 crores (a drop of 1.6% from Rs.1968 crores of the previous year) is considered commendable. Domestic sales accounted for Rs.1895 crores (PY Rs.1917 crores) while export sales accounted for Rs. 42 crores (PY Rs.51 crores).
- In spite of severe constraints, as explained above, the EBITDA remained healthy at Rs.286 Crores (PY Rs.311 Crores) and Profit before tax at Rs.248 crores (PY Rs.284 crores). On account of expansion (and introduction of Ind AS 116) the depreciation charge was higher at Rs.34.6 crores (PY Rs. 26 crores).
- The net profit after tax was higher at Rs.198.51 Crores (PY 190.31 Crores). The standalone EPS was Rs.143.21 (PY Rs.137.30) a growth of 4%. EPS for both the years has been calculated after taking into account the allotment of bonus shares made in May 2019.
- As stated in the past years, your company does not follow a stand-alone margin led policy but is focussed on growth with a fair long-term return on capital employed. Operating ROCE stood at 31.55% (PY 37.59%) on expanded asset base.
- The Company is debt-free and carried a comfortable free cash of Rs. 365 Crores (including short term Liquid investments) as on 31st March 2020.

To sum up, your Board of Directors is of the view that the current year performance is satisfactory given the tough external environment. Your Company continues to maintain its overall market share in value terms across product categories.

Considering the uncertainty caused by Covid 19, your Directors consider it prudent to recommend a lesser rate of dividend at Rs.20/-per share (PY Rs.30 per share) and consider paying an interim dividend during FY 21 based on easing of uncertainties that require preservation of cash .

A detailed analysis is provided under the section 'Management's Discussion and Analysis' forming part of this Director's Report including the impact and uncertainty caused by the Covid 19 pandemic.

AWARDS AND RECOGNITIONS

Your Company continued to be recognized by various agencies for its high-quality performance under various parameters. During the Financial Year 19-20, your Company bagged the following awards/recognitions.

- Awarded Readers Digest Most Trusted Brand Awarded in Kitchen Appliances
- National Award for marketing excellence –Brand Revitalization Award
- National Award for marketing excellence –Award for Marketing Excellence in Kitchen ware Sector
- International Brand Consulting Corporation – India's Most Trusted Companies Award 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

A. ECONOMY / INDUSTRY SCENARIO

The overall slowdown that was seen towards the end of FY 2018-19 continued to affect the growth prospects of many industries. The rural stress was further compounded by liquidity crisis due to NBFC crisis severely affecting the rural demand. Various measures taken by the Government to improve liquidity, credit expansion, infrastructure etc and the steep reduction on corporate tax rates resulted in some signs of recovery from January 2020. The bountiful monsoon also started providing impetus to the agricultural sector. Unfortunately, the Covid 19 pandemic that enveloped the globe since February 2020, spoiled the green shoots with the result that the overall GDP growth was at its lowest in the last two decades i.e. 4.3% . Agricultural performance and food grain stock are probably the only silver lining amidst dark clouds. This pandemic has thrown every economy in the world out of gear and it is very difficult to predict the return of normalcy in the near future in most of the global economies.

Your Company predominantly operates in the Kitchen Appliances segment with a wide range of product categories. The product categories broadly consist of Pressure Cookers, Cookware, Gas Stoves and Domestic Kitchen Electrical Appliances. Your Company entered the Cleaning solutions segment from FY 17-18. The market for all these segments consists of organized national brands, regional brands as well as unorganized players. Except for pressure cookers, cookware and induction cook tops, the market for the rest of the key product lines is fragmented and is shared by several players. Over the last five years or so many players both big and small have been entering as well as exiting the appliance categories and the churn is still going on.

Continued perception of uncertainty in disposable income amongst core middle-class is giving room for down-trading/bundling of products of entry level price points by some regional brands and is distorting the market for entry level products. Uncertain economic conditions have made many a consumer, especially the middle-income group, to hold on to liquidity which is impacting the demand for value added products also. Competition within the modern format and online channels has led to entry of regional brands at low price points in these channels though affecting value propositions both in terms of revenue and profits for these channels.

Even in these difficult conditions your Company maintains its leadership position in key categories like Pressure cookers, Cookware, Value added Gas Stoves, Induction Cook top, Rice cookers, kettles etc and is steadily improving its market share in the mixer grinder segment.

Going forward, proactive innovation and product differentiation coupled with innovative distribution will be the key to stay ahead in the marketplace.

B. ANALYSIS OF PERFORMANCE:

1. Kitchen & Home Appliances:

The products include Pressure Cookers, Cookware, Kitchen Electrical Appliances, Gas Stoves, and Home Appliances. The turnover of these product categories is given in the following table:

(Rs. in crores)

	2019-20			2018-19		
	Domestic	Export	Total	Domestic	Export	Total
Pressure Cookers(including Microwave Pressure Cookers)	573.78	22.41	596.19	614.56	31.16	645.72
Cookware	274.16	17.53	291.69	283.72	17.89	301.61
Gas Stoves	260.82	0.65	261.47	271.06	0.64	271.70
Mixer Grinder	232.47	0.63	233.10	224.11	0.87	224.98
Other Kitchen/ Home	446.58		446.58	425.27	0.10	425.37
Cleaning Solutions	34.00		34.00	27.79	-	27.79
Others	73.09	0.67	73.76	70.07	0.78	70.85
Total	1894.90	41.89	1936.79	1916.58	51.44	1968.02

- As mentioned earlier the growth in sales was adversely affected largely by external factors like rural stress, general economic slowdown and Covid pandemic. Your Company also tightened its trade policy with general trade as well as modern format stores in order to improve working capital efficiencies and information flow. This had a transient impact during the first 9 months of operations. Covid impact alone deprived sales of approximately Rs.70 crores, the impact on absolute EBDITA margins being in the region of Rs.20 crores. There was also an additional spend of over Rs.7 crores in Advertisement and Promotions during the last quarter but could not be leveraged to get higher sales due to lockdown.
- The new category of Cleaning Solutions is progressing satisfactorily yielding expected growths. Your Company is yet to increase its footprint on a national basis.
- Not with standing Covid impact on sales and costs, various operating ratios were maintained at healthy levels ensuring EBDITA margin at 14.7 -% as against 15.8% in the previous year.
- Operating ROCE stood at 31.55% (PY 37.59%) on expanded manufacturing asset base which are yet to be optimally utilised. Your Company continued to be debt free and carried a sizeable free cash balance at the year end.
- Your Company has over the last few years substantially reduced its dependence on imports which has a positive impact on working capital efficiencies. Gross current ratio remained steady at 2.93 times notwithstanding the Covid impact on receivables and inventories.
- During the year under report your Company introduced around 146 new SKUs covering

Pressure Cookers, Induction Cook Tops, Mixer Grinders, Rice Cookers, Gas Stoves and other small electric/non-electric appliances and cleaning solutions. All these introductions received good response.

- g. Judge brand as a tactical brand is progressing well and contributed around Rs.21crores to Sales (PY Rs.7.8 crores)
- h. Prestige Xclusive network was consolidated and rationalized where necessary and new outlets were added. The number of outlets as at 31.3.2020 was 588. (PY 569).The network now covers 26 States and 345 towns. The spread of the network is also evenly distributed between Metros, Mini-Metros, Tier 1, Tier 2 and Tier 3 cities.
 - i. Service network was significantly expanded to 391 centres (PY - 254 centres).

C. Overseas Subsidiary & Consolidated Results:

The operating subsidiary Horwood Homewares Limited (HHL) maintained its sales at £15 million against the backdrop of continued Brexit impact and Covid 19 pandemic impact. EBITDA was £0.7 million (PY £0.8 million). The subsidiary introduced new products and new category SMIDGE range and has enhanced its presence in online channels. The subsidiary has been performing better than most of its peers. During the year HHL has acquired Ecosoul life business through its new 51% subsidiary Horwood Life Limited. The consolidated financials are attached to this Annual Report separately. Your Company in the Consolidated Financials has recognized an impairment in the investments made by TTK British Holdings Ltd, our Direct Subsidiary in HHL to the extent of GBP 1.26 million, by way of prudence and abundant caution owing to the uncertainties caused in the UK market by Covid 19 pandemic. This is reflected in the consolidated financials attached to this Annual Report.

D. COVID 19'S IMPACT ON OPERATIONS, OUT LOOK & OPPORTUNITIES:

1. Current Standpoint:

- a. As outlined earlier the impact on the 4th quarter performance was severe resulting in a loss in sale to the tune of Rs.70 crores with an estimated loss in absolute EBDITA of around Rs.20crores. On the truncated sale your Company had to absorb idle overheads to the tune of Rs.5 crores caused by shut down.
- b. There was no sales in April 2020, and primary sales started from 4th May 2020 on partial lifting of lockdown. On and after 6th May 2020 manufacturing operations started in all locations in compliance with the regulations applicable to each of the units. Till the date of this report only day shift is being operated.
- c. Corporate and commercial offices are functioning with 50% strength and the remaining 50% working from home.
- d. Company's Prestige Xclusive network started retail sales in non-containment zones from May 2020 and general trade was also opened with restricted timings in non-containment zones. The retail offtake from the outlets that are open has been satisfactory and is at the levels that prevailed before lockdown started.
- e. At the start of FY 20-21 adequate inventory was available at the trade level as well as at the company level to meet the end consumer demand.
- f. Company's primary sales has also been picking up gradually and the sales during the month of June 2020 till the date of this report is better than the corresponding period of the previous year though your Company is servicing only 50% of the market. Currently your company is serving its exclusive network, general trade, company's own online and third-party online channels.

- g. During the entire lockdown period your Company paid all its employees including contract workmen without any pay cuts and discharged all its statutory obligations and payments to all vendors within due dates. Over the past several years your company has been prudent in application of its free cash and built sufficient cash reserves to meet exigencies as well as business expansion. This is helping your Company to tide over the current difficult business climate caused by Covid. As of the date of this report your company carries free cash of Rs235 crores.
- h. Using this opportunity your Company has beefed up its IT strength and continued engagement with all its stakeholders digitally and revamped its layout in all manufacturing locations to yield better productivity and at the same time conforming to social distancing in work stations'. During the lockdown period your Company conducted online people development programs for all levels of employees, including preparing for the new normal that is forced by the pandemic.
- i. Your company educated and supported the general trade channels and PXL network and oriented them to online booking of orders and home delivery so that not a single opportunity to sell is missed. In the same way, service network was also geared up to attend to all the pending service requests that accumulated in sizable numbers during the lockdown period.
- j. Sales force have been trained and provided necessary IT support to deal with the trade partners digitally without the need to undertake the risk of travelling.
- k. Export sale has also been picking up since last week of May 2020.
- l. Your Company has over the last few years been actively pursuing 'Make In India' policy for appliances portfolio by fortifying local vendors thus reducing the dependence on imports from China to just 10% of total sales and even for these SKUs local vendors are being developed to be completely "Self-Reliant" in short time.

2. Outlook and Opportunities:

- a. Given the unrelenting spread of the pandemic and large-scale loss of jobs and vocations, the near-term outlook for the global economy is uncertain and growth prospects are bleak at the global and national level.
- b. As your Company is in the home and kitchen appliance domain, the stress caused by lockdown in domestic kitchens, the need for improving kitchens and replacing appliances is likely to result in demand for such products. While demand arising out of gifting during marriage and other occasions could be minimal due to restrictions on gatherings, the replacement demand at homes is likely to increase. Further the reluctance to eat outside or order foods from outside is increasing the dependence on domestic kitchens. Working from home is going to be the order of day and this can give rise to demand for a host of home appliance. All these factors can enable sustaining business at levels that can generate decent profits after meeting all expenses.
- c. Your Company has already put in place steps for improvement of efficiencies and management of critical costs to deliver decent profits even though growth may be impaired.

- d. Your company is comparatively better placed owing to its brand salience, exclusive retail network across India besides strong presence in every other channel that reaches the end consumer. Your company is debt-free, and all its manufacturing and sourcing outfits are in operational conditions with adequate human resource and thus can increase supplies to the market at short notice.
- e. From the macroeconomic point of view, the Government is planning to kick start infrastructure projects in rural areas to give employment to migrant workmen who have returned to their native States. This can give rise to rural penetration in the foreseeable future. Your Company has already made a heads-start in rural penetration over the last couple of years.
- f. Overall private consumption cannot improve till restoration of the travel, tourism and hospitality sectors and preparedness of public at large to travel for business and pleasure. Even if the pandemic subsides in the near future, the resurgence of these sectors may take a longer time.
- g. There is an increased tendency among global brands to shift a significant portion of sourcing outside China and India is being looked upon as an alternative. Your Company's export customers are already looking for increasing their sourcing from your Company.
- h. The unsettled economic environment can lead to a churn in businesses in the form of corporate restructuring, exits and reorganizations that can lead to addition of new categories/consolidation of business in the hands of healthy players.

3. Impact on Medium & Long-Term Strategy:

- a. As mentioned in the last year report, your Company has adopted an expansive Vision – To Delight Home Makers with Innovation and To Make Company's products available at Every Home.
- b. Based on this vision your Company had developed strategies to increase its product base and customer base across India both rural and urban so as to double the turnover in about 5 years.
- c. Covid pandemic has become a speed breaker and it may take a year or two more to reach this milestone. The investment on innovation and search for inorganic opportunities are always on. The blueprint that has been prepared is still relevant and may require some tweaking in tune with the changed conditions.
- d. Shareholders are aware that your Company operates out of its core strengths of brand, innovation, design, manufacturing, distribution, sourcing, and service capabilities and more importantly 'Customer Engagement' and will continue its efforts to further fortify these strengths. For instance, your Company is already geared to launch 100 new SKUs in the market during FY20-21 and the same will be timed keeping a watch on progressive relaxation of lockdown and consumer sentiments. In order to expand high-end customer base with life-style kitchen and home appliances your Company has embarked upon creating a network of Prestige Lifestyle Stores during current FY. Two stores have already been opened in Bengaluru during June 2020.

- e. In the medium and long-term, your Company expects to maintain a healthy EBIDTA margin and Return on Capital Employed subject to Covid pandemic subsiding during FY 21 itself.

E. THREATS

While there are vast opportunities in the Domestic Market, threats can continue in the form of unorganized sector and irrational discounting by regional brands. As the entry barriers are low, any lag in innovation can impact growth. The proliferation of e-commerce companies, while helping us to grow, may also have some impact on gross margin but your Company pursues a dynamic cost management process to ensure healthy margins at EBITDA levels.

F. RISKS AND CONCERNS

The various general economic risks and concerns which can impact your Company have already been outlined in the preceding sections. The concerns largely centre around external factors.