"Flair Writing Industries Limited Q2 & H1 FY24 Earnings Conference Call"

December 21, 2023

MANAGEMENT: **MR. VIMALCHAND RATHOD – MANAGING DIRECTOR**
MR. SUMIT RATHOD – WHOLE-TIME DIRECTOR
MR. MOHIT RATHOD – WHOLE-TIME DIRECTOR
MR. MAYUR GALA – CHIEF FINANCIAL OFFICER

MODERATOR: **MR. IRFAN RAEEN – ORIENT CAPITAL.**

Moderator: Ladies and gentlemen, good day and welcome to Q2 and H1 FY24 Earnings Conference Call of Flair Writing Industries Limited.

As a reminder, all participants' 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 "*" and then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Irfan Raeen from Orient Capital. Over to you.

Irfan Raeen: Good afternoon everyone. Myself Irfan Raeen from Orient Capital. We are the investor relations advisor to the Company.

On behalf of Flair Writing Industries Limited, I extend a very warm welcome to all participants on Q2 and H1 FY24 Financial Results Discussion Call.

Today on our call, we have Mr. Vimalchand Rathodji – Managing Director, Mr. Sumit Rathod – Whole-time Director, Mr. Mohit Rathod – Whole-time Director, Mr. Mayur Galaji – Chief Financial Officer.

I would like to give a short disclaimer before we begin the call:

This call may contain some of the forward-looking statements which are completely based upon our belief, opinion, and expectation as of today. These statements are not guarantees of our future performance and involve unforeseen risks and uncertainties.

With this, I would like to hand over the call to MD. Over to you, sir.

Vimalchand Rathod: Good afternoon everyone. I hope everyone had an opportunity to go through our "Investor Presentation and Press Release" that we have uploaded on the Exchanges and on the Company's website.

I want to express my gratitude to the entire capital market fraternity with a special mention to our shareholders for their enthusiastic reception of our IPO. Our IPO was subscribed 49 times. We appreciate the strong faith in our Company's business. We are dedicated and focused on growing substantially in the upcoming years and we remain steadfast in our mission to consistently generate value for all our stakeholders over the long term.

Given this is the maiden call subsequently to our IPO, it is valuable to spend some time delving into our Company's story and provide a concise overview of the products we manufacture, our famous brands, and our immense strength in the distribution network. I trust this will be helpful to all the participants to dive into the aspect of our business and to present a clear picture for everyone interested in the growth story of our Company. Ours has been a journey of 49 years in the making starting with the Flair brand products. Since then, we have continued to grow from strength-to-strength and now are amongst the Top 3 organized players in the writing instruments segment in the domestic market as per the CRISIL's report and largest manufacturer of pens in India. This is all thanks to our brand focus and on our ever-expanding product portfolio which is ably supported by an extensive distribution network and state-of-the-art manufacturing capabilities offering quality products. I will now discuss each of those in more detail.

The Company being primarily a writing instruments player, we recognized that there are varying customer profiles and needs across different price points and thus instead of creating one-size-fits-all brands, we had taken the decision to build multiple brands, each consciously created to address the market throughout the segment's trend. As a flagship brand, Flair has enjoyed a market presence of over 45 years and caters to the mass and mid-premium market. The other principal brand Hauser has presence across mass, mid-premium, and premium categories with Pierre Cardin being solely focused on the premium end of the market. Our recently introduced brand, Zoox, will focus on the mid-premium segment, and so as one may appreciate, we have managed to cater to all presence while ensuring coverage in brand level. All brands are owned by the Company.

In FY21, we also launched a range of products under Flair Creative beyond our traditional offering of writing instruments. Under the Flair Creative brands, we sell watercolors, crayons, sketch pens, erasers, wooden pencils, geometric boxes, fine liners, sharpeners, and scales. In fact, Flair Creative contributed Rs. 112 crores in top line in just the second year of its operation in 2022, reflecting the strength of the Flair brand and its depth in the distribution network.

Our product offerings include pen products like ball pens, fountain pens, gel pens, roller pens, and metal pens which is our largest category in terms of number of products offered. We have expanded our product portfolio beyond pens and into stationery products and mechanical pens like mechanical pencil, wooden pencils, highlighters, correction pens, markers, gray crayons, kid stationery kits, calculators, etc. We have achieved industry leading growth in the writing instruments segment. In fact, we continue to consolidate a better product mix of mass, mid-premium, and premium products as compared to the industry peers, and this is reflected in our financial performance too, with industry leading material margins, EBITDA, and PAT margins.

As per our strategy to move beyond writing instruments, we have forayed into manufacturing of steel bottles and houseware products through our subsidiaries FCIPL and FWEPL, respectively. As for steel bottles, we have received a letter of intent from one of our key OEM customers with whom our Company has a relationship of more than 15 years. Our regular outsourcing as part of China-plus-one strategy and for us Make-in-India strategy as is highly unorganized and over 80% of the import dependent market in India. We foresee that this segment will contribute meaningfully to the next leg of our growth. Houseware products including casseroles, bottles, storage containers, serving solutions, cleaning solutions, and baskets & paper bins have been introduced to support the setting of a strong distribution network of water bottles which will be our core focus. The rationale behind the diversification beyond pens is to leverage our strong brand visibility, distribution network, and manufacturing facilities. This will help us provide across a wide customer base and a step forward diversifying our product portfolio.

Our manufacturing setup includes 11 manufacturing plants in India including 3 plants in Valsad, Gujarat; 1 plant in Naigaon, Maharashtra; 5 plants in Daman; and 2 plants in Dehradun, Uttarakhand. The current annual capacity stands at over 2 billion pens with the capacity utilization at 74.49% in 2023. We intend to use a portion of net proceeds towards funding capital expenditure of our Company to set up a new manufacturing facility of writing instruments and Flair Creative products in Valsad district. We will also incur capex to increase our in-house manufacturing of tips capacity to supplement our present tips manufacturing which caters to over 70% of our captive requirements and gives a clear edge against competitors on the ability to give a wide variety of products apart from contribution to higher margins. For the manufacturing of steel bottles and manufacturing - one line we have commissioned in the month of March 2023. We are in the process of commissioning 2 more manufacturing lines during the third quarter of financial year 2024 at our manufacturing plant in Valsad, Gujarat.

We have the largest distribution network amongst the key peers in the industry. It is a very extensive and multi-tiered network covering pan-India. The distribution network consists of super-stockists, distributors, direct dealers, wholesalers, and retailers. As of the financial year 2023, our market reach is (+3,15,000) wholesalers and retailers and 7,700 domestic dealer distributors supported by 145 super-stockists. Our retail distribution presently spans to more than 2,400 cities, towns, and villages. Besides traditional distribution channels, our products are also sold through modern retail outlets as well as e-commerce platforms. Our multi-tiered nationwide domestic sales and distribution network enables our products to reach a wide range of customers and helps us ensure effective market preparations across geographies monitored by sales app as part of ERP. Flair pioneered export of writing instruments in India in 1980 and has been the largest exporter of major parts for 40 years and has been an award winner. We export to over 85 countries and our top 5 markets are USA, Japan, UAE, Yemen, and Brazil. We are a two-star export house and have 20% of our sales coming from exports. We are emulating our Indian distribution strength - we have appointed 54 international distributors, which has reflected in our own brand exports increasing from 49% pre-COVID to 58% compared to our export in OEM customers, which is now at 42%. Our focus will be to increase our own brand sales consistently compared to OEM.

We will focus on growing our existing product portfolio and diversifying our product range emphasizing on mid-premium segments and premium segments to increase margins and increase production capacity as per plan and enhance capacity utilization, strategically expand exports, generate more sales at our outlets from our deep sales and distribution network and further strengthen our brand.

I will now hand over to Mr. Mayur Gala – our CFO, to discuss the "Financial Performance."

Mayur Gala: Good afternoon everyone.

Moving to the consolidated performance of the Company for Quarter 2 FY24 :

Revenue from operations for the quarter was Rs. 257 crores, up by 4.2% on quarter-on-quarter basis. EBITDA for Quarter 2 FY24 was Rs. 53.8 crores, a growth of 2.9% on quarter-on-quarter basis. EBITDA margin was 20.9%. PAT for the quarter was Rs. 33.2 crores, an increase of 3.2% on quarter-on-quarter basis. PAT margin for Quarter 2 was 12.9%.

For the half year ended 30th September 2023:

Revenue from operations was Rs. 503.7 crores, EBITDA was 106.2 crores with an EBITDA margin of 21.1%, and profit after tax was Rs. 65.3 crores with a PAT margin of 12.9%.

We have spent around Rs. 48 crores during the first half of the fiscal year towards our capex requirement. Our debt to equity remains comfortable at 0.33. Current ratio remains greater than 2 at 2.05 signaling strength in the Company's liquidity position.

Now, I request the moderator to open the floor for a question & answer session.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

We have our first question from the line of Amit Mantri from 2Point2 Capital. Please go ahead.

Amit Mantri: Firstly, congratulations on the IPO and the listing for the team. My question is on the seasonality in the business. Is there any kind of seasonality in the business that the first half is stronger because of back to college or back to school kind of trends? Or in some products at least, do you see such kind of seasonality?

Sumit Rathod: There is no major seasonality in the business. With the diverse range of schools and offices and colleges, majorly the first half is around in the range of 46% to 47% and the remaining is in the range of 52% to 53%. So, you can say from an overall perspective, it is more or less evenly shared between the first half and the second half but of course a few percentages higher in the second half. And majorly even in the second half, the last quarter plays a major role in terms of sales as compared to the overall other quarters.

Amit Mantri: What kind of seasonality or the event that is playing a role for the Q4 being strong?

Sumit Rathod: One of the reasons for Q4 being strong is even the export market opens during Q4 a little stronger and also because of exams of certain colleges and schools. That gives a little small percentage boost in the last quarter.

Moderator: We have our next question from the line of Ankit Kedia from Phillip Capital. Please go ahead.

Ankit Kedia: Can you please share the Y-o-Y growth for the quarter or for the first half? And what has been the volume growth or realization in the pens category for the quarter?

Mayur Gala: If you take the corresponding previous figure for the half year ended 30th September 2022, revenue from operations was in the range of Rs. 450 crores. These are all based on the unaudited numbers. EBITDA was in the range of Rs. 78 crores which in the percentage terms is 17.3% and the profit after tax at Rs. 48.3 crores. If you translate the growth vis-a-vis the H1 of FY22 vis-a-vis the FY of '23, turnover will be showing a growth of 13 percentage points, 34% of EBITDA and 35% growth in the PAT. And in terms of the volume growth for half year 1, it is in the range of 3% for the volume growth and 13% * is for the revenue growth.

*The value growth was inadvertently called out as 13% instead of 10%, later confirmed by the management (Page 17 of 20)

Ankit Kedia: This is for the overall business or this is only for the pens category and not for non-pens like Creative, calculators, and household items as well?

Mayur Gala: This is overall for the Company as such. It includes Creative business also, it includes pen business also, and it includes non-writing instrument business also.

Ankit Kedia: Sir, can you share separately for pens how has been the realization growth for the pens category and the volume growth if possible?

Mayur Gala: The overall pen growth has been in the similar range of Creative range also. And if you take the others in terms of the revenue per piece, it has increased from Rs. 5 to Rs. 5.33 and Rs. 5.52 in the half year.

Ankit Kedia: Sir, going forward, are we looking at further price increases? Now this 13% kind of growth, so 10% realization of mixed change which we have has broadly been captured in the business?

Mayur Gala: Historically also, we have been growing in the range of 14% to 15%. If I take the CAGR from FY17 to FY23, we have grown in the range of 14% as against the industry average growth of 5.5%.

Moderator: We have our next question from the line of Jaspreet Arora from Equentis PMS. Please go ahead.

Jaspreet Arora: Sir, you mentioned the growth in the first half, revenue was 13% and EBITDA was 34%. Did I hear that right?

Mayur Gala: Yes.

Jaspreet Arora: So, in terms of the full year, would the aspiration be something similar in terms of the growth numbers?

Mayur Gala: The aspiration is definitely higher and we will be maintaining a similar type of growth, yes.

Jaspreet Arora: The other question was what's the share currently from the steel bottles and houseware products – the revenue share?

Sumit Rathod: Steel bottle is something that we have commenced first line, but we will be starting the sales majorly in Q4 of this fiscal. And houseware currently is a very insignificant role in the overall business. Currently, it contributes only Rs. 7 crores of the total sales.

Jaspreet Arora: Rs. 7 crores out of Rs. 244 crores done last quarter?

Sumit Rathod: 2022-23 number was Rs. 7 crores.

Jaspreet Arora: Rs. 7 crores is from last year?

Sumit Rathod: Yes.

Jaspreet Arora: And how much was the first half?

Sumit Rathod: Currently in the first half, it is Rs. 6.85 crores to be precise.

Jaspreet Arora: Are there more such products that are in the pipeline which will help us diversify our product basket?

Sumit Rathod: We are in the process of generating a range of, of course, stainless steel products for the domestic market as well other than the products that we have almost in commencement for the export market. And also, definitely we will be increasing a certain range of the household product for the domestic market as well.

Jaspreet Arora: Within stationery, are there products that offer opportunities that we are currently not present in?

Sumit Rathod: If you talk about the Creative on the stationery range, that itself is a very big portfolio. So yes, going forward, we will be adding more and more products to our overall catalog.

Jaspreet Arora: How do you break this space? Is it primarily Creative and writing instruments? Is that how you break it?

Sumit Rathod: Yes, it is a part of the entire writing instrument industry. So, Creative is a part of that category.

Jaspreet Arora: What's the share of Creative and the core stationery? What is the share currently?

Sumit Rathod: For our business?

Jaspreet Arora: For us, revenue share, yes.

Mayur Gala: It is 13% of the total revenue in the first half of FY24.

Jaspreet Arora: That's Creative. And the other is the core stationery products. Right?

Mayur Gala: Yes.

Moderator: We have our next question from the line of Aditya Sharma from Aditya Birla AMC. Please go ahead.

Aditya Sharma: In your remarks, you highlighted that the growth rates for both the writing and the Creative have been in the similar range. We on the other hand were expecting that the Creative as a range would go significantly faster, almost around 2x the growth rate of pens. If you could just highlight on that part?

Sumit Rathod: Currently for the Creative category per se in particular, we are in the scope of adding capacity in terms of increasing the kind of products that we want to add in the product portfolio. So, in the coming times, once the set up and the facility is ready, we will be adding more significant growth to this particular category.

Aditya Sharma: Any timelines for that? Before also, we were just doing 20% around in-house manufacturing, the rest was outsourced. Are we seeing some challenges there? If you could just help us if the supply is basically a challenge or the in-house manufacturing? When are we looking to address? When will the debottlenecking be?

Sumit Rathod: Definitely, there is no challenge in terms of adding the capacity. We are already in the process. There already have been certain products that we have added for which in the coming quarters you will see it being a part of the Creative sales as a product line. And even going further beyond that, we will be adding more and more products which are almost in the pipeline and it will be a significant play in quarter 4 and in the next year as well.

Aditya Sharma: Also, I wanted to understand the steel bottles. We talked about that we have added lines. I just wanted to understand when would be all the 3 lines becoming operational and will start kicking in. What is the timeline there?

Sumit Rathod: First line we have just commenced and we have done a trial order to one of our OEM customers. In the quarter 4 and going forward, the first line will start the business. And for the lines 2 & 3, that will happen almost in the first quarter of '24.

Moderator: We have our next question from the line of Vikas Jain from Reliance Securities. Please go ahead.

Vikas Jain: I think the question has been answered for the steel bottles, which I wanted. If you can throw some light in terms of the revenue potential? You said that it started from Q4 FY23, but if you can throw back ahead of something what could be the revenue potential for the next year?

Sumit Rathod: I cannot give the potential, but looking at it that we already have a whole project and idea in place and that's the reason we have put in already 3 lines in process, so we are quite confident that in the coming quarter and the next year, we will have a significant contribution from this particular category.

Vikas Jain: But if you can throw some light in terms of by what time all the 3 lines would be ready?

Sumit Rathod: I will say line 1 we have just started the trial production and we have already sent a trial order to one of our OEM customers. So, Q4 is something that we will see the revenue from line 1. And for lines 2 & 3, 2024 first quarter is where we are looking at having the commencement of those 2 lines.

Vikas Jain: What would be the line 1 capacity?

Sumit Rathod: Line 1 capacity gets around in the range of 70,000 to 80,000 bottles, but that also depends on the kind of design and the product that we are trying to manufacture in that line because these lines and the kind of setup that we have put are kind of something that gives us the flexibility to create new product every now and then.

Vikas Jain: All these things are for export, nothing for the domestic?

Sumit Rathod: We will be doing domestic market as well which will be significantly more in 2024 because, as you know, the domestic market itself is a very big and diverse and a growing market for this particular category, especially since the trend from plastic bottles is shifting to the stainless-steel bottles.

Moderator: We'll take our next question from the line of Grishma Shah from Envision Capital. Please go ahead.

Grishma Shah: If you could highlight over the years, what has been the contribution of new products towards sales? And what has been the key reason for the growth in EBITDA which is much higher than the sales growth?

Mayur Gala: If you look at the new products as such, the top 10 new products roughly contribute to around 20% to 25% of the revenue. And in terms of the gross margin of the mass and the mid-premium and the premium segment, we are almost having a good LD ratio in terms of the mid-premium and the premium products. And that is the reason why our gross margins are higher.

Grishma Shah: That's the change between this year and last year?

Mayur Gala: Yes.

Moderator: We have our next question from the line of Manav Vijay from Deep Financial Consultants. Please go ahead.

Manav Vijay: Sir, first of all, if you can just explain to us regarding the overall environment that you are witnessing regarding the demand, both on the domestic side as well as on the export side? Because one of your competitors when they declared their Quarter 2 results, on the export side specifically they faced some challenges. You guys also had those challenges? If yes, if you can explain something of that sort both on domestic and on exports?

Sumit Rathod: We have very good relations with our OEM and as well as like we mentioned that we have a very strong distribution network in the export market. In around 54 areas, we have distributors which primarily focus on selling our brands which are Flair, Hauser & Flair Creative in the export market. That gives us a little edge and little advantage of pushing our own brands rather than depending completely on the OEM customers. Of course, overall when you say even in recent times, our own brand sales have increased as compared to previous year. Earlier, the contribution was around 49% from our own brands, which has gone up to around 58% in the export market.

Manav Vijay: On the domestic side, how is the environment shaping up?

Sumit Rathod: Domestic, as you know, the entire industry is having a growth pattern in the coming years. And we being one of the industry leaders in the pen category, we have shown historically a stronger growth as compared to the market expectations. Even if you see our current results, like Mr. Mayur mentioned, we are in the similar range of track record of what we have done during our previous years.

Manav Vijay: Regarding the steel bottle 3 lines out of which first has become operational, two will become operational in quarter 1. These 3 lines can generate what kind of scales in FY25?

Sumit Rathod: Giving you a revenue number is restricted, but I would say volume-wise we are expecting to manufacture a minimum range of 60,000 to 80,000 bottles per line. That is the kind of focus and we think the market grab will be from our own brands which we are trying to leverage on Flair in the domestic market and also for the export market like we said, we have a very strong OEM relationship, and also because we have 54 distributors in various countries, that also will give us an edge to push those steel bottle product line in the export market as well.

Manav Vijay: When you say 80,000 bottles per line, this is basically per annum?

Sumit Rathod: No, this is kind of a monthly capacity. Because, as you see, even for the export market and for the India market, especially for India, a lot of import was happening from China. Even for the export market for a lot of countries, it's more like the China-plus-one strategy. Almost 80% to 85% material in India was getting imported from China. And now with the new restrictions coming up with the BIS certification, this will give us an edge having a Made-in-India product, especially for the domestic market.

Manav Vijay: My next question is, if I just look at the numbers that you provided for H1 FY23, in H1, you had 17.3% margin, and in H2, the margins were 21.4%. So, the margins were almost up by 20%. Now, here in H1, we have done around 21% kind of a margin. So you believe that the H1 margins are sustainable in H2 as well?

Mayur Gala: The margin and the product mix that we are trying to do for the premiumization strategy, normally the same type of margins we can continue in the H2 also.

Manav Vijay: Mayur, if you can just also help us to understand last year, H1 was 17% and H2 was 21%. The 4% margin I believe is a substantially higher margin. That higher margin came because of what? Raw material advantage, premium products, or anything else if you could explain?

Mayur Gala: It was a mix of everything. Certain amount of margin, maybe 60% to 70%, came from the raw material also and the balance came from the economies of scales also and premiumization strategy also.

Manav Vijay: Maybe one last question from my side. I think you are supposed to pay out Rs. 44 crores or Rs. 45 crores of loan from the IPO proceeds. Has that been done?

Mayur Gala: Yes, we have repaid Rs. 43 crores of the term loan. We have also increased our working capital repayment by Rs. 44 crores. Yes, it has been done.

Manav Vijay: So, around Rs. 90 crores of loan has been repaid?

Sumit Rathod: Yes, already been paid.

Manav Vijay: Because your Quarter 2 balance sheet shows a total debt of around Rs. 160 crores out of which you are saying Rs. 90 crores has been paid. So, what is left is only Rs. 70 crores?

Mayur Gala: No, Quarter 2 balance sheet the debt is in the range of Rs. 135 crores out of which Rs. 90 crores has already been paid and the total debt as on the current date we are speaking is roughly in the range of Rs. 46 crores to Rs. 47 crores.

Manav Vijay: What is the Capex commitment for H2 and FY25?

Mayur Gala: If you look at the total Capex requirement, in FY24, we are roughly planning to have a Capex of Rs. 27 crores, and in FY25, we are planning to have a Capex of Rs. 60 crores. This is towards the greenfield expansion and brownfield expansion, both.

Manav Vijay: But Mayur, you have already spent Rs. 48 crores in H1 apart from Rs. 27 crores for FY24?

Mayur Gala: No, this Rs. 48 crores was not the part of the IPO capacity. It was a normal capacity expansion that we do. And basically, this Rs. 48 crores of the capacity addition was towards the brownfield expansion for the other units. There was no major capacity addition in terms of this Rs. 48 crores as such. Going forward, whatever we do, there will be a pure capacity addition.

Manav Vijay: That means roughly Rs. 90 crores between now and FY25, eighteen months?

Mayur Gala: Yes. Plus, we are also planning to construct one new manufacturing building in Valsad. Roughly, the building cost and other machinery cost for that building will be in the range of Rs. 60 crores or so.

Manav Vijay: That forms part of the Rs. 60 crores for FY25 or that is over and above?

Mayur Gala: That is for FY25 and FY26.

Manav Vijay: What is that you intend to have over there? Bottles or pens?

Mayur Gala: It will be only for pure writing instruments with a little bit of Creative also and household also, yes.

Manav Vijay: So, it will be a mix of all the products that you have currently?

Sumit Rathod: Yes, it will be a mix of all the product lines that we have which will contribute to each and every product category that we are into. And also, of course, like we mentioned, that there will be a real focus on creating the manufacturing base for the Creative range.

Moderator: We have our next question from the line of Tirth Gosar from Svan Investment. Please go ahead.

Tirth Gosar: I just have a question regarding the steel bottles. I just wanted to understand that why did you directly move ahead with putting in a manufacturing line instead of getting it manufactured from someone else or outsourcing the manufacturing? Why did you put in a line?

Sumit Rathod: One of the reasons that we started manufacturing is, a part of it is because we have a very strong OEM customer who had a requirement for this particular product line. And also if you see overall from the global market perspective, other than China, there are not many countries that are in this particular category in terms of manufacturing. And especially for this particular product, like I mentioned earlier, there was a major import happening in the domestic market from China. Going forward, the BIS certification and also the limitation of importing steel products from China gives us the advantage of having a manufacturing base in India. Because this category itself is almost around Rs. 4,000 crore category which is expected to become Rs. 8,000 crore category in the coming years, this gives us a good advantage of having a manufacturing base and leveraging on a brand for the domestic market and also for the export market. Because we had such a strong relationship with that OEM customer for more than 15 years and as their China-plus-one strategy, they gave us the opportunity to manufacture this particular product. And when we did our analysis, it was a complete win-win for not only exploring the export market but also penetrating ourselves into the domestic market.

Tirth Gosar: So, you intend to be a part of the B2B market of this segment? And not the B2C?

Sumit Rathod: Yes. We will be targeting penetrating our brands in the domestic market for sure. And for that, having a manufacturing base was almost mandatory.

Tirth Gosar: Will you need to expand your distribution channel for this new product or will the existing distribution channel will suffice?

Sumit Rathod: No, a part of it will be going through our current distribution channel because if you see, a lot of these A-category distribution or retail stores do keep steel bottles and steel lunch boxes as part of their overall stationery category for the kids. And also, there's a lot of sale of this particular product on the online and the modern trade platform. But yes, going forward, like we said, we are developing the household range and we are creating a kind of a network – when we are ready with our steel bottles – which will help us penetrate in the domestic market with that particular network. So, it's a combination of something that we will be developing – a new network that we will be developing – and also we will be using our existing network in connection in terms of modern trade, e-commerce and those big stationery retailers.

Tirth Gosar: My last question regarding this would be, how do you plan to compete in this market which is filled with a lot of unorganized players?

Sumit Rathod: One of the key advantages that we will be having is the manufacturing base in India. And like I said, almost 80% to 90% of the market is covered with China imports today. And with the restriction of China imports and having a manufacturing base will give us a huge advantage in having a product range that we need for the domestic market. But at the same time, because of our strong presence and recollection of our brand, we will have that advantage of penetrating and making a shelf space into the domestic market.

Tirth Gosar: I had a different understanding. I thought that Milton, Cello, and a lot of other players are into this space. You are saying 90% of the bottles currently being sold are imports?

Sumit Rathod: Right. Around 80% to 90% are imports, double vacuum bottles.

Moderator: We have a question from the line of Drisha Poddar from Carnelian Capital. Please go ahead.

Drisha Poddar: I wanted to understand, referring to also the previous participant asked that, what kind of growth have we seen in the Creative segment in the first half and what kind of growth rates are we expecting in the Creative segment, say in the next 2 to 3 years?

Mayur Gala: In the first half of FY24 in the Creative range, we are seeing a growth of 20%, and going forward also, we see a similar line of growth in the coming years.

Moderator: We have our next question from the line of Rajesh Bora from Jainmay Ventures. Please go ahead.

Rajesh Bora: Congrats gentlemen for a good set of numbers. Sumit, you mentioned about steel bottles; 3 lines are going to be installed. Each of these lines will have the same capacity? 60,000 to 70,000 bottles per month?

Sumit Rathod: These particular lines are very versatile and it definitely depends on the model. But going from the average understanding of the product range, yes, all 3 lines will be giving a similar kind of capacity unless and until there is a very different kind of a product or a different size of a product. That differs maybe in the range of 5% to 10% in terms of capacity.

Rajesh Bora: What is the average selling price for these bottles, roughly? I am trying to understand the revenue potential of this.

Sumit Rathod: We are not present in the domestic market. Our first line category is more towards the export market. But overall if you see from the investment perspective, it gives us an asset turnover of almost 3.5x to 3.75x. That's the kind of category or that's the kind of a product line we have stepped into.

Rajesh Bora: How much are we planning to invest in these 3 lines, roughly?

Sumit Rathod: For this particular line, we have already invested in Capex for the 3 lines. And for the future growth, as this business grows, that will be from the self-accrual of this particular business and the future growth will happen from that.

Rajesh Bora: For these 3 lines, how much we have already invested?

Sumit Rathod: In these 3 particular lines, we have almost invested around Rs. 40 crores.

Rajesh Bora: How are the margins in this business? OEM, I would imagine, would be a bit lower margins than B2C as and when you get into it. But are these 3 lines only for the OEM customer or only the first line is for the OEM customer?

Sumit Rathod: All the 3 lines' setup is like a combination for the export and the domestic market, but in particular, the line 1 which we have already commenced trial manufacturing, that is dedicated towards the OEM customer. And going forward, line 2 and line 3 will be a combination of export as well as the domestic market because the domestic market itself is a very huge consumer of this particular product range. And when you talk about the overall margins, the margins are more or less on the similar lines for export and domestic market currently. And it is, again in our overall theory, of around 21% from the overall perspective as a business.

Rajesh Bora: How much percent of revenue can this steel bottle category be over the next 3 years as you see today?

Sumit Rathod: Like I said, we cannot actually give a forward-looking number. But going forward, as a business, we do see this particular category to become a significant share of our overall top line.

Moderator: We have our next question from the line of Aiswarrya Dave from ithought. Please go ahead.

Aiswarrya Dave: I had 2 questions. One question was the earlier question which someone asked about the average selling price. If you could not give us the actual price, could you give us a tentative price in comparison with the rivals in the current market? The second question would be, since you are starting off with steel bottles, are there any other segments – any other steel – like the tiffin box or anything else are you guys planning to enter as well?

Sumit Rathod: From the price point perspective, we will be very competitive. Since we have our own manufacturing base, we will be very competitive when you talk and when you compared to the other players in the market; and analyzing that is the reason why we entered into this category. And the second part, when you said about the additional range of products which are similar to this particular category; yes, of course, this avenue does have an opportunity to open up other steel-related products which are similar in the stationery or the lunch boxes category. Going forward, as the opportunity arises, we will look into exploring these particular categories as well.

Moderator: We have our next question from the line of Pushpendu Chand, an individual investor. Please go ahead.

Pushpendu Chand: My first question is, if I understood correctly or heard correctly the CEO sir, he said that in FY23 in the first half, we made a profit of around Rs. 48 crores. Is that number correct? In H1 FY23, we made a profit of around Rs. 48 crores?

Mayur Gala: Yes. These are the unaudited numbers of FY23 first half.

Pushpendu Chand: If I see the total profit of FY23, that is coming at around Rs. 118 odd crores, which gives that in H2 of FY23, you made a profit of around Rs. 70 crores. So, Rs. 48 crores in H1 and Rs. 70

crores in H2. If I break this as a proportion, 40% comes from H1 and 60% comes from H2. Would you continue the same ratio for FY24 as well?

Mayur Gala: As I explained previously also, from 2017 to 2023, we normally grew at the CAGR of 14% to 15% and similar growth rate we actually plan to have in the future years also. In terms of the EBITDA margin, as I have mentioned, we plan to have it in the range of 20% to 21%.

Pushpendu Chand: Correct. Because when I compare the H1 figures of '23 and '24, the profit grows at 35% in H1 versus H1. Are we likely to continue the same strike rate of 35% profit growth for FY24 as a whole?

Mayur Gala: This being a forward-looking statement, I cannot comment on that part. But as I mentioned, we will be growing at what we have grown in previous years.

Pushpendu Chand: The proportion of 40 to 60, would that continue also or there will be certain changes also like 45 and 55 is something, I think, what you were referring to in your initial comments.

Mayur Gala: Yes.

Pushpendu Chand: The second question is on interest cost saving. I think you have already said around Rs. 90 odd crores you have paid back towards loan. How would that impact on your overall interest saving for the full year going forward?

Mayur Gala: By repayment of this actually for the full year of FY25, we plan to reduce the interest by Rs. 10 crores to Rs. 12 crores.

Pushpendu Chand: And the third question is, I think you were referring to the bottle line that you have already set up, the line 1, and for that, you have already tied up with your OEMs. I wanted to understand what percent of that capacity has been already booked by the OEM so that whenever you start manufacturing or selling rather once the approval is done so the capacity would be completely then full-on stream. What percentage of capacity will be utilized by these OEMs or rather already booked by them?

Sumit Rathod: If I talk about the overall 3 lines, the overall capacity that we have already put our Capex into, out of that, 1.5 lines to almost 2 lines is booked by the OEM customer. Why I'm saying half is because it depends on the product mix that we manufacture. The remaining 1.5 lines will give us an opportunity for the domestic market and also to explore other OEM or other export markets that we plan to enter into.

Pushpendu Chand: The line 1 which is primarily made for OEMs means that it is 100% fully booked by OEMs the moment you start manufacturing bottles for them once you have a sales order from them, right?

Sumit Rathod: Right.

Pushpendu Chand: And this line 1 revenue contribution would start to flow in on your P&L from Q4 FY24 or from Q1 FY25?

Sumit Rathod: In Q4, the revenue will start coming in. And of course, the major part of revenue will start from 2024-25.

Moderator: We have our next question from the line of Deepak Lalwani from Unifi Capital. Please go ahead.

Deepak Lalwani: I just wanted to clarify that our growth rate in the pen segment was 13% split between volume growth of 3% and realization of 10%. Right?

Mayur Gala: Yes.

Deepak Lalwani: If you can just give some thoughts on how the pen category has grown domestically and how has the export pens grown at?

Mayur Gala: Export basically if you take our brands as such, our brands are growing in the export market also. In terms of if you look at the Hauser player and the Pierre Cardin and the Creative brand, we have grown roughly by 20% in the export market also in terms of our volume share.

Deepak Lalwani: That means our domestic growth would be in the single digit number, right?

Mayur Gala: No.

Sumit Rathod: Domestic share has also increased in double digits. And when we mentioned about the export markets, our own OEM business compared to our own brand business has significantly taken an upward scale in terms of the export market. The percentage of overall export business which was contributing to 49% of our own brand has risen to 58% currently of our own brands in the export market. And from the overall perspective, the current mix of our overall revenue is 80:20. The 80% is domestic and 20% is export contribution.

Deepak Lalwani: Sir, if I would ask you for a sense on the volume growth in the core segment of pens, should we assume a low single digit like a 3% to 5% in pens given the industry dynamics or is there something which would probably be work in progress from your side on the distribution side or on the product side, which can push this number up?

Sumit Rathod: From the pens perspective, yes, it will be in the range of 4% to 5%. But also going forward, when we increase the Creative range of products into the domestic market, that will have a significant share as well in the overall revenue of volume and value, both.

Deepak Lalwani: This 4% to 5% would be the domestic growth, right? The export pens growth I'm assuming should be higher given the low base and our branded sales.

Sumit Rathod: A few percentage higher, yes.

Moderator: We have our next question from the line of Dhavan Shah from Alfaccurate Advisors. Please go ahead.

Dhavan Shah: Sir, my question is on the pen segment. Can you share the revenue breakup between the mass segment, mid-premium, and then premium? What is the revenue mix?

Mayur Gala: As previously mentioned, we have a healthy mix of the mid-premium and the premium segments. But this data is actually competitive and sensitive; so we are not able to share the data.

Dhavan Shah: In the export business, is it fair to assume that the majority of the revenue like the 20 percentage which you have shared is mainly from the mid-premium and premium sides of the business?

Sumit Rathod: Again, even in the export market, it's a combination and we always try to keep that product mix not only in the domestic segment but also in the export segment. We always try to maintain a healthy mix of mass as compared to mid-premium and premium as a category. That is our strategy as a Company, which we try to do it for domestic as well as for the export market.

Dhavan Shah: But going forward, what is our strategy? In terms of the internal target, what kind of revenue mix do you foresee? Don't share the numbers, but is it fair to assume that the premium side of the business can grow at around 20-30 odd percent? Is there any internal benchmark?

Sumit Rathod: Internal benchmark is always to keep a healthy balance between the mass and the mid-premium and premium, but also going forward, we do always concentrate on premiumization and we will be looking towards increasing and maintaining the product portfolio more towards premiumization, not only in the pen category but also in the stationery category.

Mayur Gala: In FY23, out of the total of 151 products launched, 77 were in the premium category.

Dhavan Shah: And what is the market acceptance for those products?

Sumit Rathod: Market acceptance is good as you see the overall growth of the industry has happened and overall growth of our particular revenue has also increased. The mix has always been our strength, and going forward, we will definitely continue with that strategy in our minds.

Dhavan Shah: This 10% growth which you have shared in terms of realization, how much of that is because of the changes in the product mix?

Mayur Gala: That also being a competitive data, we would not like to share in the open forum as such.

Dhavan Shah: But is it fair to assume that around more than 50 percentage is because of the product mix changes?

Mayur Gala: Yes, definitely. Because ultimately the Company's strategy is to have premium product launches also.

Dhavan Shah: And this Flair Creative which you have launched in the first half of this year, this is for the export market or domestic business?

Sumit Rathod: Flair Creative was launched at the end of 2021. To be precise, almost in the month of November of 2021. Since then, it has been launched. And last year, the revenue was Rs. 112 crores from this particular brand.

Dhavan Shah: How has been the growth for the first half?

Sumit Rathod: 20% is the growth currently.

Dhavan Shah: And the margins in this segment?

Sumit Rathod: The margins are on the similar lines. And one of the reasons to get into the manufacturing base is to strengthen that bottom line also in the Creative range.

Dhavan Shah: The steel business can give us Rs. 150 crores kind of the top line from all the 3 lines based on your asset turn which you have shared.

Mayur Gala: You can calculate.

Moderator: We have our next question from the line of Sanjay Nandi from VT Capital Market. Please go ahead.

Sanjay Nandi: Sir, currently our per capita consumption of the stationery products within India is insignificant compared to the world per capita consumption. Going forward, if we presume that the world will shift from the Chinese products to importing Indian products, what kind of export shift can we expect in the next 4 to 5 years down the line on a long perspective?

Sumit Rathod: Rightfully so, the trend in domestic also is changing. People are preferring more and more homegrown or Made-in-India kind of a product range. As the China-plus-one strategy for a lot of other export markets as well, we are one of the other bases from the global market perspective who are getting into manufacturing of the Creative range. Going forward, not only for the export but also for the domestic market, this particular category will grow. And like you rightfully said that as compared to the global market, India is still a very small consumer of these products, but looking along the year, this category is increasing drastically in the domestic market as well.

Moderator: Ladies and gentlemen, in the interest of time, we'll take that as the last question. I now hand over the call to Mr. Vimalchand for closing comments. Over to you, sir.

Vimalchand Rathod: Thank you everyone for taking some time out of your day to participate in the call. In case of any queries, reach out to our investor relation advisors, Orient Capital. We wish you all the best and hope to interact with you in the coming quarters.

Management: Wishing you Merry Christmas and Happy New Year.

Moderator: Thank you members of the management team. On behalf of Flair Writing Industries Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.