“Flair Writing Industries Limited

Q1 FY27 Earnings Conference Call”

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MODERATOR: **MS. MAMTA NEHRA – MUFG INTIME**

Moderator: Ladies and gentlemen, good day, and welcome to the Flair Writing Industries Limited Q1 FY27 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this call is being recorded.

I now hand the conference over to Ms. Mamta Nehra from MUFG Intime. Thank you, and over to you, ma'am.

Mamta Nehra: Thank you. Good afternoon, everyone. Welcome to the Flair Writing Industries Limited Q1 FY27 Earnings Conference Call. Today on the call, we have Mr. Vimalchand Rathod, the Managing Director; Mr. Mohit Rathod, the Whole-Time Director; Mr. Sumit Rathod, Whole-Time Director; and Mr. Alpesh Porwal, the Chief Financial Officer.

A short disclaimer before we start this call. This call will contain some forward-looking statements, which may be based upon our beliefs, opinions and expectation of the company. As of today, these statements are not a guarantee of future performance and will involve unforeseen risks and uncertainties.

With that, I would now like to hand over the conference call to Mr. Vimalchand Rathod, the Managing Director, for his opening remarks. Thank you, and over to you, sir.

Vimalchand Rathod: Good afternoon, and welcome to everyone. Thank you for joining Q1 FY27 earnings call. I hope everyone had the opportunity to go through our investor presentation and press release that has been uploaded on the exchange. We are pleased to present our Q1 FY27 performance with 11% year-on-year revenue growth and a 23%* year-on-year increase in EBITDA.

We are seeing increase in demand of our products in the domestic market with growth across key categories despite challenging arising from the prevailing geopolitical situation, which impacted our Q-on-Q gross profit margin and affected our certain market and supply chains. Our overall business remains in resilience and continue to deliver growth.

Coming to our segment performance, our core Pen segment delivered 9% year-on-year growth with demand remaining positive during the back-to-school season. Our Creative Products and Steel Bottles and Houseware business also recorded double-digit growth. Together, those categories now contributes approximately 31% of our overall revenue, reflecting the growth -- the progress we are making towards diversifying our product portfolio. Flair Cyrosil Industries Private Limited subsidiary of Flair. Currently operates three stainless steel bottle manufacturing lines.

The order for the fourth next-generation manufacturing line has recently been placed and its commissioning is expected by Q4 '27. The new line is expected to increase our manufacturing capacity by approximately 35%, enabling us to cater the growing demand of domestic and international demand.

**Errata*: Please note that EBITDA year-over-year growth is 7.7% instead of 23%.*

Looking ahead, our focus remains on maintaining our leadership in writing instruments whilst increasing our market share in our Creative Products and Steel Bottles and Houseware business. At the same time, we are continuing to improve capacity utilization, better throughput in our distribution network and drive product capacity utilization, better throughput, innovative and strength of our presence in our own brands and international markets.

I now hand over the call to Mr. Alpesh Porwal, our CFO, to discuss in detail about our Q1 FY27 financial performance.

Alpesh Porwal: Thank you, MD sir. A warm welcome to everyone. Let me take you through our financial performance for Q1 FY27. Revenue from operations stood at INR319.2 crores, registering a 10.6% year-on-year growth. Gross profit stood at INR158.6 crores, up 10% year-on-year, with gross margin at 50%, broadly in line with historical levels with a modest 31 basis point year-on-year decline, which is driven by geopolitical uncertainties and an elevated cost environment across the industry.

We have also taken proactive measures to protect margins, including rationalizing schemes and discounts and implementing selective price increases across all our three segments of businesses: Writing Instrument, Creatives, and Steel Bottle and Houseware business. EBITDA stood at INR53.3 crores, growing 7.7% year-on-year, while EBITDA margin stood at 16.7%, a 46 bps decline year-on-year.

The moderation in margins reflects elevated and volatile raw material costs driven by geopolitical uncertainties. As capacity utilization improves and newer businesses gain scale, the company expects operating leverage benefits to support margin expansion and remains confident of progressively moving towards its EBITDA margin target of 17.5% to 18%. PAT stood at INR29.1 crores, increasing 0.5% year-on-year with PAT margin at 9.1%.

The relatively slower PAT growth was primarily due to lower other income and increased raw material costs during the quarter. Despite the prevailing geopolitical uncertainty and the challenges arising from West Asia situation, we remain confident in the underlying demand environment and reiterate our FY27 revenue growth guidance of 15%. The above comparison is on Y-o-Y basis. And if you see Q-on-Q performance, the revenue shows a decline of 1.1% with gross profit margin declining by 151 bps and EBITDA declined by 116 bps and PAT margin declining by 220 bps.

All these were primarily due to geopolitical situation in West Asia with sharp increase in raw material prices. We took prudent steps to mitigate and minimize impact through targeted price increases across key Steel Bottle and Houseware categories, rationalized trade schemes and discounts and intensified its focus on premiumization and product mix enhancement.

Coming to our segment performance. Our core Pen business grew 9% year-on-year, reaching INR220 crores compared to INR202 crores in the previous year. The segment continues to be a consistent growth driver, supported by healthy demand in the domestic market and ongoing product innovation. Importantly, growth during the quarter was largely volume driven. We launched 18 new pens across different price segments, further expanding our product offering and catering to a wider range of consumer needs.

The Creative segment witnessed a growth of 23% Y-o-Y to INR80 crores as compared to INR65 crores in Q1 FY26. However, growth could have been higher, but the impact of sharp increases in raw material costs amid geopolitical uncertainties in certain categories, where we consciously prioritize a balance between volume-led growth and protection of margins. This growth was supported by the existing portfolio as well as new product launches. During the quarter, we introduced 10 new products in the Creative range.

Going forward, we will continue to expand the portfolio through new product development while progressively building our in-house manufacturing capabilities. We will maintain prudent balance of volume-led growth and margin protection to achieve our previous guidance.

Our Steel Bottles and Houseware business grew by 54.3% year-on-year to INR19 crores compared to INR13 crores in Q1 FY26. The segment continues to see increasing traction as we expand our presence in these newer categories. It currently contributes around 6% of our overall revenue, and our focus will be on broadening the product portfolio and expanding distribution. Over time, we expect the revenue mix to progressively shift towards Creative Products, and Steel Bottles and Houseware with these businesses contributing a larger share of our overall portfolio.

During the quarter, we introduced 32 new products across categories, further expanding our - product portfolio. For FY27, we have a pipeline of launches across Pens, Creative Products, and Steel Bottles and Houseware. We will continue to deepen our pencil portfolio, introduce higher-value formats in Pens and expand our Steel Bottles and Houseware portfolio across channels.

To support the growth of our Steel Bottle and Houseware business, Flair Cyrosil Industries Limited has placed an order for a fourth state-of-the-art next-generation manufacturing line for stainless steel bottles. The new line is expected to be commissioned by Q4 FY27 and increasing our manufacturing capacity by approximately 30 to 35 percentage.

Creative products, and Steel Bottles and Houseware remain key growth engines for us. Together, these businesses contributed approximately 31% of the company's total revenue in FY26 and both continue to witness strong momentum. With the planned capacity expansion in Steel Bottles and continued scaling up of the Creative Product business, we expect the combined contribution to increase to approximately 35% to 38% of overall company revenue in FY27.

Coming to our domestic and export performance. Domestic sales grew 13% Y-o-Y to INR277 crores compared to INR245 crores in Q1 FY26, reflecting continued demand for our brands in the domestic market. Exports stood at INR43 crores and remained broadly flat year-on-year, primarily due to disruptions in the West Asia, resulting in longer transit times and higher freight costs during the quarter.

While the near-term environment in West Asian region remains challenging, we have started focusing on increasing sales in other geographies and expanding our brand presence across international markets. In the current quarter, we have started seeing a positive growth in the export in various markets.

Exports will continue to be an important area of focus and growth for the company. During Q1, the company incurred a total capital expenditure of INR43.42 crores, of which INR33.25 crores was capitalized towards the factory building in Valsad facility. This investment is aligned with our long-term strategy of strengthening manufacturing infrastructure. This also includes a capex of INR38.7 lakhs recorded at Surat facility comprising investments and molds. We are a zero debt company and all the internal accruals are for future expansion and for the shareholders.

Overall, we remain focused on building a stronger and more diversified Flair. We continue to drive premiumization across our product portfolio, strengthen our integrated manufacturing capabilities, expand our distribution and market presence and improve our working capital efficiency. We are confident in delivering consistent growth and creating long-term value for our stakeholders.

Thank you, everyone. I would now like to hand over to the moderator to open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sneha from Nuvama.

Sneha: Congratulations on good margins sustenance here. The first question is related to margins itself. We have seen your gross margins falling just about 150 bps Q-o-Q and remaining actually flattish Y-o-Y. While you said on the opening remarks that you reduced schemes and discounts there, is that a sustainable level of margins? I understand polymer prices are moving too swiftly. But can we actually look at these kind of gross margins continuing over the next 2 to 3 quarters?

Alpesh Porwal: Thank you, Sneha. Let me just give you a background of the entire calculation and the margins which you are posing,which I see. So Q4 FY26 margins remain largely protected due to lower cost inventory procured earlier. However, the impact of elevated raw material costs started flowing through from Q1 FY27, resulting in margin compression.

To mitigate this impact, the company has already implemented targeted price increases across key steel bottless and houseware categories, rationalized trade schemes and discounts and intensified its focus on premiumization and product mix enhancement.

As a result, despite the inflationary environment due to geopolitical uncertainties, the sequential gross margin decline has been limited to 150 bps, which basically demonstrates the effectiveness of these corrective actions which we undertook during the quarter. EBITDA margin declined to 16.7% from 17.9% in Q4 FY26 and 17.2% in Q1 FY26, while gross margin softened to 49.7% from 51.2% and 50% in corresponding period last year.

See, the raw material prices across key inputs have increased, Sneha, as we speak. You are aware of that, which creates significant near-term cost pressure. Management had previously also indicated a potential 100 to 200 bps impact on margins that was during the last quarter call. And the Q1 performance reflects – about 1.5% impact due to these higher input costs.

To answer your question, looking ahead, how do we see it is that as the geopolitical situation stabilizes, the management expects the cost pressures to gradually ease over the next three quarters as the full benefit of pricing intervention measures, including rationalization of schemes and discount shall flow through the P&L. And we expect to target an EBITDA margin of 17% to 18% for the year.

Sneha: Understood. That was quite helpful, sir. The second question was more on your segmental revenues. And last quarter, we gave the guidance that Pens will actually, we are looking at around 5% CAGR sort of growth, but this quarter, we actually saw 9%.

On the other hand, Creatives, which we were very positive about a 50% guidance sort of a number, we were at 23%, while Steel Bottle was largely in line with our estimate and in fact, higher. Could you actually tell us what is happening in Pens and what went wrong in Creatives on the other hand?

Mohit Rathod: Sneha, just to answer about the Creative, nothing went wrong as of in Creative. We witnessed a growth of 23% Y-o-Y, primarily impacted by the raw material prices due to West Asia crisis. There were certain categories wherein we took a conscious decision of going for balancing of volume-led growth and protection of margins. This impacts were on categories such as Geometry Boxes, Pencils and certain subcategories within coloring portfolio. So it was a very conscious call that we took to protect the margins.

Overall, if you look at the Pen category as a whole, we have seen a decent growth of 9% in Q1, which always we used to consider like whenever we had a call earlier, we would always say that it will be higher single digit. So it's mainly due to our strong brand pull for writing instruments of pens under Flair and Hauser brand in domestic market.

Sneha: That was quite helpful, Mohit. Any change in guidance on the overall revenue number?

Mohit Rathod: No, I think looking at Q1 and the way things are progressing in Q2, Q3, we are positive that we'll be sticking to our original guidance of 15% year-on-year.

Sneha: Understood. And team, thirdly, great that you announced steel bottle business expansion here. Just wanted to understand a few numbers. What will be the key utilization currently that we are operating at, potential revenues from the current line? And when is the new line expected and what sort of offerings are we bringing in and potential revenue there?

Mohit Rathod: See, currently, so if you look at Steel Bottles, currently, the capacity utilization is about 65% and going forward, historically also, whenever we cross 65%, 75%, we tend to invest in the new expansion.

And given the positivity and the signs from our buyers, mainly in general trade and e-commerce and quick commerce, we have taken a call that to increase the capacity by 35%, where we will be investing in one more state-of-the-art automatic line of Steel Bottles, where we would be investing about INR15 crores and the expected revenue generation would be around INR30 crores to INR35 crores because it all depends on the product mix, what we make on that line.

And to answer one more question about the existing line revenue, the existing line, looking at the product mix, what we have been giving in the last 2, 3 quarters to our customers, it looks like we would be doing about INR100-odd crores with the current capacity.

Sneha: That was helpful. One last one, if at all, I can ask a bookkeeping question here. What would be the split of OEM business this quarter, both domestic as well as exports?

Mohit Rathod: So when we talk about OEM business, overall OEM business witnessed a subdued demand during the period. As highlighted earlier, also, our domestic OEM business has been fully phased out with our legacy OEM relationship reduced to zero. When we talk about export OEM business, of course, because of the West Asia crisis, there was a demand issue and also because of the logistics issue. It impacted the demand and the consumer operations.

So, I would say, overall, if you look at the OEM business, it is hardly contributing to about 5% of our overall business. So, , it will be looked as a regular business. It's nothing to be we are not focusing on OEM. We are rather -- for last 2 years, we have been focusing on our own brand sales.

Moderator: The next question is from the line of Aradhana Jain from 360 ONE Capital.

Aradhana Jain: A couple of questions. First, I wanted a little more understanding on Pens business. So one is we've seen a good growth, 9% growth this quarter. Wanted a little more understanding of how are you looking at this growth? What led to it?

Was there any one-off sort of demand that we saw in this quarter? And can we expect this kind of growth to sustain over the next few quarters? Because like the previous participant also said, for the full year, we were expecting low to mid-single-digit kind of growth in Pens. But given we've already done 9% this quarter, can we expect the run rate to continue in the rest of the year as well? That's my first question.

Mohit Rathod: Yes. So when we look at the overall Pens business, we have grown by 9% year-on-year. And it was mainly driven by the volume growth. So if you look at the overall volumes, we are increasing our market share in the domestic market as well as the export market. So going forward in Q2, Q3, Q4 also, we are hoping to continue with the same guidance of high single-digit growth in Pen division. And it was also led by the new product launches, what we have done in back-to-school season.

Aradhana Jain: Okay. And any sense if you could give us as to what could be our market share today in Pens? And the reason I'm wanting to understand that is that recently, one of your competitors has also taken over Reynolds as a brand. So, wanted to get your sense also on how you're looking at the competitive intensity to change your hence course? And what is our strategy going to be? Are we changing any strategy there with respect to Pens?

Mohit Rathod: So, to answer that, Reynolds was always there in the market earlier too. And as the leaders in writing instrument industry, we have a strong brand portfolio with Flair and Hauser. And we will continue with our high-growth strategy in this segment. So I don't see any impact at all due to this takeover.

Aradhana Jain: And any sense on what would be our market share today in the Pens segment?

Mohit Rathod: So currently, the market share as per the CRISIL report, last CRISIL report, in writing instruments, we have a market share of 18%.

Aradhana Jain: 18%?

Mohit Rathod: Yes.

Aradhana Jain: Understood. And is it fair to assume that going forward also, the growth will be driven by our own brand rather than the OEM business for us?

Mohit Rathod: Absolutely. Yes, it will be our own brand growth.

Aradhana Jain: Understood. And what would be the mix of mass, mid-premium and premium? Any change in that mix for this quarter? You said it was volume-led, but still wanting to understand, was there any change in the mix or it's mostly 50-50 for us, 50% coming from mass and 50%?

Mohit Rathod: No, I would say mass and mid has increased , because of the volumes, the mass and mid has increased.

Aradhana Jain: Understood. And in the pen segment.

Moderator: Sorry to interrupt you ma'am. May we request you to join the question queue for a follow-up question?

Aradhana Jain: Sure, sure. I'll do that.

Moderator: The next question is from the line of Shubhi Gupta from Trinetra Asset Managers.

Shubhi Gupta: My first question is that the new unit that we are putting in Gujarat for Writing Instruments, Sir, how much is the total revenue potential for the maximum utilization? And my second question is on working capital. So sir, inventory, if you could just share some thoughts like how we are doing inventory-wise? Yes, that would be good.

Alpesh Porwal: So the new unit at Valsad which we are putting is basically it will suffice our growth projections for the next 1.5 years, and it is not only for Writing Instrument, it is for Writing Instrument and Creative, both.- historically, also you would have seen that our capex to revenue ratio has been around 3x. And we have projected a calculation that it is going to be 3x this time also.

Shubhi Gupta: Sure. And on the working capital?

Alpesh Porwal: So I'll share with you Working capital has, in fact, year-on-year, if you see, my working capital has gone down by 6 days, has improved. And so it has improved by 6 days year-on-year, if I would say, previous quarter 1 to quarter 1. It has broadly remained stable during –this quarter compared to the previous quarter, that's Q4 FY26, with inventory receivables and payables remaining largely in line with the previous quarter.

So we got the advantage of keeping , you would have seen in our numbers, we got the advantage of keeping higher raw material stocks, especially in the time of the uncertain geopolitical situation. But going forward, we expect to streamline inventory levels as the West Asia crisis stabilizes with an anticipated improvement of approximately 10 days in our entire working capital cycle levels.

We should be doing this by the end of this year. And also on working capital, just to add to this, that the – heightened inventory levels, one major thing which I said majorly because of the crisis where the uncertainty of supply of raw material and the pricing issues which we face.

But we also have new product launches across Creative and Steel Bottles, which requires somewhat higher inventory, particularly as these categories are still establishing distribution relationships. This is expected to normalize as –these businesses gain traction.

Given our experience in the pen business, inventory levels can be managed more effectively, while the newer categories will see a gradual optimization as demand visibility improves. So overall, we expect a continued gradual improvement in both inventory and receivable days, which will support a – healthier working capital cycle in FY27.

Moderator: The next question is from the line of Atul Mehra from Motilal Oswal.

Atul Mehra: So my question is on the revenue guidance. So basically, sir, if you have to meet our 15% guidance, we have to do 18% growth for the rest of the year. So in the current environment, what gives us the confidence of 18% growth for the rest of the year, if you can maybe break it up in business or segment-wise, what will drive the growth? And are you already seeing acceleration in top line growth now that say half the quarter has already passed by?

Mohit Rathod: Yes. So overall, if you look at the numbers and going forward in the next 3 quarters, we would like to stick to our guidance, looking at the kind of demand what we are generating in domestic market as well as export market from our customers. So based on that, we would like to stick to our guidance.

As far as category-wise is concerned, as we had always mentioned that it’s going to be high single digit in Writing Instruments for us, the growth. Creative and Steel Bottles will, of course, higher number digits, like about almost 40%. So I think we would like to stick to the guidance.

Atul Mehra: Got it. And sir, other than maybe the near-term guidance, maybe if you were to think about it from a 3-year perspective, would we be confident of similar 15% plus top line, bottom line over the next 3 years as well, given the growth plans and expansion plans?

Alpesh Porwal: Right, Atul. So all the projections which we are sharing with you, this is for the current year, but 3 years, 15% CAGR is easily achievable. I would not like to kind of give you a higher number at this point of time, but we are sure about it and confident about the plans which we have in place.

Atul Mehra: Got it. One final question, Alpesh, is on operating leverage you spoke about in the opening comments. So given obviously the current environment where cost pressures on the raw material side are on the higher side, if you can highlight a little bit more like what is the potential for operating leverage, which can unlock some of the margin loss from gross margin? If you can maybe specify.

Alpesh Porwal: Yes. So currently, – like I shared, we have taken a few measures here mitigating measures to kind of counter the increase in the raw material prices. And the way there are certain products in 1 or 2 of these segments where we have also taken a conscious decision to kind of market them in a different way to maintain a balance between margins and that.

So a combination of volume-led growth and targeted price increases – what has worked in our favor. So Q3, Q4 are always better, Atul, if you were to see Q1, obviously, is influenced a little by the ongoing crisis in the raw material price increase. And exports have been affected.(31-33)

But as we move forward, based on the measures which we have already taken in terms of reducing discounts, rationalizing discounts and schemes and also increase in prices, the combination of this should not be an issue for achieving the projected numbers.

Moderator: The next question is from the line of Nilesh Doshi from Prospero Tree AMC.

Nilesh Doshi: Congratulations for encouraging result in the light of the sharp increase in raw material price, sir. Congratulations. Sir, my question is regarding the Creative segment. Sir, Creative segment is our one of the fastest-growing segment. And you have given the guidance of 15% on an overall revenue basis. – but our presentation indicates that we have a 75% production capacity now. So is the company thinking to expand the capacity for the creative segment in the near future?

Mohit Rathod: Yes, yes. So as we mentioned earlier also, Nilesh sir, that we are expanding our production base for Creative. And whatever infrastructure we build on new buildings for the factories, it is always fungible where we will make pens as well as stationery, Creative division.

Nilesh Doshi: Will that capacity cater to the future demand also because the Creative is the fastest growing, and we are something anticipate that there will be a much more growth than the Pen segment. So our capacity must be ready for the future demand also. Is it like that?

Mohit Rathod: Yes, yes. For future demand, everything is planned accordingly to meet the future demand.

Nilesh Doshi: So when that capacity will be ready, sir?

Alpesh Porwal: By end of next quarter is when we have the entire capacity in place. The building has been capitalized so far. It is built, but the machineries and mould, etcetera, are yet to be installed. So by end of this quarter is where we see it should start commissioning. And Nilesh, you would realize that once we kind of, it's not a switch on, switch off.

So we will over the next 2 quarters is where we'll see –the optimum utilization of the capacity there where we start. And just to add to this, this new Valsad plant where we plan to kind of manufactured pens, writing instruments as well as creative products.

Simultaneously, our facility at Surat has also begun its –100% operations in the new factory, which we kind of capitalized in the previous year. So these put together – shall be, in fact, sufficient to power our growth.

Nilesh Doshi: Okay. And sir, my next question is to the earlier participant, you have mentioned that the Reynold was already in the market, so not too much worry to us. But now it is owned by some strong competitor. So we must be ready with our strategy to maintain and increase our market share. So you mentioned that 18% market share in the Pen segment.

And now the Reynold is acquired by the DOMS. So are we ready or what is our future plan to maintain our growth because pen is already a single-digit growth trajectory. So we should not lose the market share and maintain at least our growth trajectory.

Mohit Rathod: Yes, yes. So Nilesh sir, if you see in Q1 as well, we have seen a growth of 9%. So when I talk about domestic market alone, we have seen a growth of almost- in terms of revenue, it's almost about 13%.

Nilesh Doshi: Please continue.

Mohit Rathod: Domestic pen. So I would say- and it is all volume driven. So there's no way we are losing market share to anybody. And of course, we have to be over aggressive. We have been always aggressive in writing instruments to protect our leadership, and we will be aggressive in the future as well.

Nilesh Doshi: In short, we are ready to fight any competition. Is it correct?

Mohit Rathod: Yes. In fact, all the new product pipelines are already ready for next 2 years.

Moderator: The next question is from the line of Nirmam from Unique PMS.

Nirmam: Great work on the margins. So my first question is, so we were implementing an inventory management system, right? So one, is that complete? And secondly, how does that impact our working capital, especially inventory days going forward?

Alpesh Porwal: So while we speak, the implementation is underway. And within 2 or 3 months, we'll see proper optimization of the new ERP and all the benefits shall start flowing in. – To answer your specific question regarding the inventory management, the software has a very robust integrated platform for handling the materials, the goods, finished goods, raw materials, semi-finished goods. So what happens out there is the timing of the reorder quantity level, etcetera, and the utilization of the machines per machine utilization.

All these calculations will come into play once we have this fully operational ERP. And that happens, then this will bring about economies in a much larger way. So what we see at inventories also shall come down. So the production cycle shall also be calculated within the software. So we will procure inventory at the right time.

The pricing will be another factor which will show up on the software. And hence, – it will have a positive impact on maintaining the inventory. So overall, working capital cycle shall also improve in a big way.

Nirmam: Okay. So secondly, on the Steel Bottles. So can you comment on the profitability now that we're operating on a very good utilization level, what kind of margins do we make in this segment? And how do you see these going forward?

Mohit Rathod: See, when we talk about Steel Bottles, yes, the profitability is going to improve further. Currently, we are still working on the product mix. And as the product mix changes as per the season, the profitability also varies. But more or less, we are in line with our original target of having an EBITDA of 17%, 18% in that segment as well.

Nirmam: Okay. And last question on the Creative. So you mentioned we had some raw material challenges. So now that we are increasing prices in some categories, do you think we'll be able to pass on the price increases and grow as well because we'll also have to improve our growth rate sequentially, right?

Mohit Rathod: Yes. So as I mentioned earlier also, I'll reiterate the same thing that we took a conscious decision – of balancing a volume-led growth and protecting the margins as well. So there are a few categories, as I mentioned earlier, like geo-boxes, pencils and some categories of coloring where we had the issue of pricing, passing it on to the consumer. But most of the categories, we have reduced the schemes and increased the prices.

Nirmam: What kind of price hikes would we have taken across the board if a ballpark number?

Alpesh Porwal: A total of the price hike has been price increase in the raw materials have been to the tune of 10% to 15%. But our price hike here, we are talking of 10% plus/minus in household.

Moderator: The next question is from the line of Manprit Singh Aurora from Aurora Wealth Advisors.

Manprit Singh Aurora: Sir, my first question is on the Cyrosil subsidiary. Now we did INR86 crores of revenue in the last financial year on the Steel Bottles. Now does it all get booked under the Cyrosil subsidiary? The reason I'm asking is the annual report shows Cyrosil doing INR41 crores last year, but we have reported INR86 crores of Steel Bottle revenue?

Mohit Rathod: We look at Steel Bottle and Houseware as one division. So the steel-related ones are manufactured in Cyrosil.

Alpesh Porwal: And there's also a big quantity of bottles, which we are also trading. We are buying from a vendor and selling it, which we are not manufacturing. So that is also a part of it. Which we will be manufacturing in the current line, what we are setting it up, we will be doing that.

Manprit Singh Aurora: Okay. So just to understand this then, out of INR86 crores that we did last year, INR41 crores was done in-house and the rest was done using trading or is that correct?

Mohit Rathod: No, no, no. So that was- the balance was a combination of in-house plus trading.

Manprit Singh Aurora: Okay. And that revenue doesn't get booked under the Cyrosil subsidiary? Is it booked in the parent?

Alpesh Porwal: It's booked in another legal entity. Cyrosil subsidiary has only the in-house manufacturing, which we do. So the trading, etcetera, is kind of booked in the other legal entity.

Manprit Singh Aurora: I see Okay. So this INR100 crores potential of revenue that you're talking about is out of the Cyrosil subsidiary or including Cyrosil manufacturing plus trading?

Mohit Rathod: No, it is about the Cyrosil subsidiary.

Manprit Singh Aurora: Okay. Sir, just to follow up on this because I want, there's some discrepancy. So you said we have reached 65% capacity utilization here. So does that mean that Cyrosil is probably doing 65%?

Mohit Rathod: Yes. So as I mentioned, we will reach 65% in next, next couple of quarters. So if we plan to expand our capacity now in next 3 quarters, we will be able to commission the fourth line, and then we will start producing it after a subsequent quarter, yes. So the expansion takes time. So we have to plan before.

Manprit Singh Aurora: Okay. The other question was on the distribution reach. Now we had limited our Creative distribution to 68,000 outlets last year. Do we intend to increase that in the current year or still limit to 68,000?

Mohit Rathod: Current year also, we are focusing mainly - to cater to those 68,000 only and to increase the throughput and increase the sales in the existing outlets only.

Manprit Singh Aurora: Okay. The reason I'm asking, sir, is - I mean, have done a bit of going around the modern trade stores here in South India and some of East India just to look at our products. And while I see that ours are present everywhere, we have a very good presence in the Pen segment. The Creative segment, especially here in Bangalore and Chennai, it has been a mixed bag where some of these products are present but are not there. The Steel Bottles are still seen in some of the Tier 2 towns as well.

So I just want to understand which regions are you targeting? Are the metros covered? Because the Creatives, while I see that some of these products are very innovative, your Disney branded stencils, etcetera, but the availability has not,I'm not seeing the availability.

Mohit Rathod: So that's what we mentioned earlier also that we are focusing these 68,000 outlets are those which are the main stationary counters in India. And - when we look at our field assist report, when we analyze the reports and we break shop wise, we feel that there is a huge scope to cater to these existing outlets rather than increasing the number of outlets because the increase in the number of outlets can be done once we achieve a reasonable per store value, what we have targeted.

And also to answer that, - as you said that you visited a few modern trade stores and there were a few products in our Creative category. Until last year, we were seen as a Writing Instrument player in modern trade. But since last year, they have accepted our Creative categories as well, be it mechanical pencils or wooden pencils. So now slowly, slowly, we are making inroads in these stores as well.

Manprit Singh Aurora: All right. Sir, the next question is on the employee expenses. Now between '25 and '26, our employee expenses almost increased by 25%. Now where has this employee expense increase mostly gone to? Is it on the sales force side or on the manufacturing side employees? Just trying to understand what has caused this drastic increase and then also what is the sustainable run rate?

Alpesh Porwal: Where are you seeing these numbers of an increase of 25% and 30% over here. If I were to kind of share with you my employee expenses, which would include the job work and other charges, which are shown in my other expenses. This has historically been plus/minus 0.5 ,so plus/minus 21 percentage is what we see, if I were to take all the job work charges, etcetera. And if I were to talk only of employee, which you are seeing over there, which has been in the range of 16.5% to 17.5%. That's the maximum range which we see.

Manprit Singh Aurora: Okay. So what I meant was between FY25 when we had INR171 crores in employee expenses. And then in FY26, we had INR214 crores in employee benefit expense.

Alpesh Porwal: The percentage to the employee expense as a percentage to the revenue, you will get a stable number, which is going on.

Manprit Singh Aurora: Yes. But...

Alpesh Porwal: Will be always between -- yes, sorry.

Manprit Singh Aurora: Yes. What I was saying was if we have to see operating leverage play out, sir. So at some point of time, some of these expenses have to remain constant or not increase in proportion to our revenue, right? And that's where...

Alpesh Porwal: You are right. But also, if you see that over the last 2 years, we have forayed into major expansion. And the new categories which we have got into, the new segments, which is Creative and Steel Bottles also require a lot of focus there.

Manprit Singh Aurora: Yes. The question is, was it more on the sales side that we had to increase headcount? Or is it on the manufacturing side?

Mohit Rathod: So it is both. Manufacturing also, since we have increased our manufacturing capacities, we have increased the headcount in factories. And as well as sales side also, we have increased around 250 people in sales in the last 2 years.

Manprit Singh Aurora: And so this current run rate of INR55 crores, is that going to stabilize now or we are expecting more?

Alpesh Porwal: It's more or less stabilized now. So we bring about ,we are always working towards having economies of scale and which will impact our lower growth in the employee expenses. But this is all said and done that this is what we feel today. But tomorrow, if we go for another expansion or another segment which we get into, obviously, the numbers will change. And the range has always been between 16.7% to 17.5%. That's the range of the percentage of employee expenses over revenue.

Manprit Singh Aurora: Okay. And sir, on the Valsad operationalization, has there been some delays? Because we've been -- in the last 2 quarters, we've been saying it will operationalize. But now I think you mentioned that only the building has been capitalized and will probably start operational?

Alpesh Porwal: So this quarter, we will have it completelyby end of this quarter, it will be completely operationalized. So when the stage will be commissioned, 100% commissioning is what we are talking about. But as we discussed earlier also, there was a little delay, but not so much that these are normal delays which we see in having the building stuff.

Moderator: The next question is from the line of Saloni from Value Q Investment and Advisors.

Saloni: Sir, I only have one question, and that is out of the current Creative and the Steel Bottle revenue that we are generating. What would be the ratio of outsourced/traded revenue and the in-house one?

Mohit Rathod: Do you mean to say the revenue mix of traing and in-house capacity?

Saloni: Right.

Mohit Rathod: So it remains broadly similar. It's about 75%, 80% is our in-house capacity and balance 20% is what we outsource.

Moderator: Due to time constraints, that was the last question. I now hand the conference over to the management for the closing comments. Over to you, sir.

Mohit Rathod: Thank you. Thank you, everyone, for taking time out for this conference call today. If you have any queries, please feel free to contact our IR team, MUFG Intime India Private Limited. Thank you all, and have a good day.

Moderator: Thank you. On behalf of MUFG Intime, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.