Flair Writing Industries Limited
(An ISO 9001:2015; ISO 14001 : 2015 & SA 8000 : 2014 Certified Company)
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Ref- FWIL/SEC/2024-25/26

June 01, 2024

BSE Limited Phiroze Jeejeebhoy Towers Dalal Street Mumbai - 400 001. Scrip Code : **544030**	**National Stock Exchange of India Limited** Exchange Plaza, C/1, G Block, Bandra - Kurla Complex Bandra (East), Mumbai - 400 051. Symbol : **FLAIR**

Sub: Transcript of Investor Call held on May 28, 2024

Dear Sir(s)/ Madam(s),

Pursuant to Regulation 30 of the Listing Regulations, copy of transcript of the Investor call held on May 28, 2024 at 04:30 p.m. (Indian Standard Time) on the Audited financial results for the quarter and year ended March 31, 2024, is enclosed.

You are requested to take the same on record.

Thanking you,

Yours faithfully,
For **Flair Writing Industries Limited**

VISHAL KISHOR CHANDA

Digitally signed by VISHAL KISHOR CHANDA
DN: cn=VISHAL KISHOR CHANDA, c=IN, st=Maharashtra, o=Personal, serialNumber=fe43602d22614319358501763f7956f77680222fc2571bc8f531e5cf3e9f4dbf
Date: 2024.06.01 15:04:04 +05'30'

Vishal Kishor Chanda
Company Secretary and Compliance Officer

Encl: As above

"Flair Writing Industries Limited
Q4 FY '24 Earnings Conference Call"
May 28, 2024

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

MODERATOR: **MR. DEVANSH DEDHIA – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to Flair Writing Industries Limited conference call hosted by Orient Capital. 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Devansh Dedhia from Orient Capital. Thank you and over to you, Mr. Dedhia.

Devansh Dedhia: Thank you. Good evening, everyone. Today on the call, we have Mr. Vimalchand Rathod, Managing Director, Mr. Mohit Rathod, Whole Time Director, Mr. Sumit Rathod, Whole Time Director and Mr. Mayur Gala, Chief Financial Officer.

A short disclaimer before we start this call, this call will contain some of the forward-looking statements which are completely based upon our beliefs, opinions and expectations as of today. These statements are not a guarantee of future performance and will involve unforeseen risks and uncertainties.

With this, I will now hand over the conference to Mr. Vimalchand Rathod, the Managing Director for his opening remarks. Over to you, sir.

Vimalchand Rathod: Good afternoon, everyone. I want to express my gratitude to all the participants who have joined the call today. I hope everyone had the opportunity to go through our Investor Presentation and Press Release that we have uploaded on the exchanges.

We continue to maintain our position as the number one pen brand in India and also the largest exporter from India. The company experienced many positives during the year and is setting the foundation to catapult its growth for the future. Investments in enhancing our distribution network, ground sales team and expanding products. Offering across categories will further strengthen our operations.

Pen division continues to grow, and we expect it to grow at a faster rate in the time to come. Creative segment remains a high-growth business and we will leverage our past experience to scale it up rapidly.

Steel bottles and houseware segments have started to find traction and the introduction of BIS certified Flair steel bottles in the domestic market will prove to be a key trigger for the higher trajectory of growth.

I will now hand over the call to Mr. Mohit Rathod to provide insight into each segment. Mr. Mohit Rathod.

Mohit Rathod: Good afternoon, everyone. I would like to go in-depth on the performance of each division. First of all, pen segments. Our total revenue for the year was INR979 crores, out of which pen contribution was INR795 crores for the financial year '23-'24, which is growing consistently, despite of a high base and facing subdued demand from our OEM partners.

A key development in this segment is our decision to develop and introduce 20 new models from INR10 to INR50 price points to consolidate our leadership position in mid-premium segments. Also, we would be introducing 16 new products in premium category above INR100 to INR500 MRP. This will help us further strengthen our position in both premium, as well as mid-premium categories.

Furthermore, we are refocusing on INR5 MRP price points through a comprehensive portfolio of pens. We will be launching 10 new models in INR5 MRP and company owns necessary moulds in this regard. Thus, we do not foresee any meaningful capex in this price point. Pens have been the core of our company's operation and going forward this pillar will be further strengthened by expanding our capacity at our new manufacturing unit at Valsad, Gujarat for which we recently commenced construction. This new block will increase our capacity by 10% to 2.4 billion pieces and is expected to be functional by FY26.

Coming to Creative segment, being a relatively young segment, just in its third year of operation, Creative has continued its high growth in FY23-'24 at 28% with revenue clocking in at INR145 crores. We expect this growth to continue going forward as we have done a licensee agreement with Disney, recently.

We plan to introduce new models in pencil range, including wooden pencils, polymer and mechanical pencils at various price points. Furthermore, we would be expanding our coloring range offerings by introducing watercolor case, poster colors, watercolor pens and plastic crayons.

We are increasing our penetration in our distribution network across India and abroad. All these efforts are aimed at improving the margin with a gradual shift towards in-house manufacturing across a wide range of products in our design and product innovativeness.

Our recent tie-up with Disney for a range of exciting creative products comprising of Disney movies and characters which are iconic, forming a big part in the childhood of the younger generation. Leveraging their popularity combined with our experience in manufacturing and distribution will help us create a fascinating line of products in the stationery and art segment. When we talk about steel bottle segment, steel bottle presents an exciting avenue of growth for the company in the future.

We are happy to announce the grant of BIS certification, a key factor to make a major inroads in import substitute markets. We have launched our single wall and vacuum insulated bottles in modern trade and general trade. During the year, we would be launching 17 new models in both single wall and vacuum insulated bottles to increase our presence in this category. Household portfolio will continue to help in improving the penetration of steel bottles as our basket of offerings to the distribution network will expand.

We are confident of achieving a significant contribution from this segment in the coming financial year. Overall, we are happy to announce that our company is being awarded the highest exporter award by PLEXCONCIL, a government recognized body for the year FY'21-FY'22 and for the year FY'22-FY'23. When we talk about our own brand sales, which continue to drive the business forward across all the segments in both domestic and export market. Own brand sales grew by 12% in domestic market, 8% in export and overall tally is at 11% overall. Export OEM has shown signs of recovery, and we are hopeful that it continues to be on this path going forward.

I will now hand it over to Mr. Mayur Gala, our CFO, to discuss the financial performance.

Mayur Gala: Good afternoon, everybody. Moving to the consolidated performance of the company for quarter four FY'24, revenue from operations for quarter four FY'24 was at INR250.1 crores, an increase of 11.2% quarter-on-quarter, EBIT marginally down by 3.9% on year-on-year basis. Gross profit for the quarter was INR124.9 crores, an increase of 5.2% on Y-o-Y basis, which is led by gross profit margin expansion of 436 bps on yearly basis to 49.9% points. Improvement in gross profit can be attributed to the rationalization of input cost.

On quarter-on-quarter basis, the gross profit increased by 6.5%. EBITDA for quarter four FY'24 was INR50.5 crores, a decrease of 5.4% on Y-o-Y basis. EBITDA margin was at 20.2 percentage points in line with the previous year margin. When compared to the previous quarter, EBITDA increased by 46.2% resulting in margin expansion of 484 bps, the delta being higher advertisement spend and elevated freight cost in the previous quarter.

Profit after tax for the quarter was at INR34.2 crores, an increase of 3.4% on Y-o-Y basis and approximately 80% on a quarter-to-quarter basis. Profit after tax margin for quarter four FY'24 was at 13.7%, which is highest quarterly margin for the current year. Margin improved by 97 bps and 522 bps year-on-year basis and quarter-on-quarter basis respectively.

Now coming to the full FY'24 performance, revenue from operating was at INR978.7 crores, registering an increase of 3.8% points Y-o-Y basis, including overall export of INR186 crores, which got affected due to slower offtake by our OEM customers and headwinds in last four-five months due to geopolitical issues in the Middle East and other areas.

Gross profit was INR493 crores, up 13.6 percentage points on a year-on-year basis with a margin of 50.4 percentage. The company saw a margin expansion of 435 bps, EBITDA grew by 4.2% year-on-year basis, which was at INR191.2 crores with an EBITDA margin of 19.5% which was stable Y-o-Y basis. Profit after tax increased by 1.2% on Y-o-Y basis to INR118.5 crores with a PAT margin of 12.1%.

The ROE, return on equity, was for the year at 13.2% and return on capital employed was at 17.5%. Our equity base which has more than doubled on account of the proceeds from the issue, we already have plans for the deployment of the major balance of the proceeds over the coming next two years and we are confident that we will see benefits of the same flowing to us in the near future.

As discussed in the previous earnings calls, we fulfilled one of our objectives of the issue namely prepayment or repayment in part or in full of certain borrowings availed by the company and its subsidiaries. As a result, the company saw debt repayment to the tune of INR72.5 crores for current and non-current borrowings combined. This has not only led to deleveraging the balance sheet from 0.28 debt equity ratio in FY'23 to 0.08 debt equity ratio in FY'24. But in fact, when we net off cash, we are now a net debt negative company.

Now, I request the moderator to open the floor for question-and-answer session.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Shraddha Kapadia with Share India. Please go ahead.

Shraddha Kapadia: Yes, sure. Congratulations on the good set of numbers. Actually, I wanted to understand whether you could provide any margin guidance?

Mayur Gala: In current year in FY'24, the gross profit margin is at 50%, EBITDA is in the range of 19.5%. And in further in next coming years, we plan to maintain the similar range of margin in future.

Shraddha Kapadia: Okay. Also, would it be possible to provide the volume as well as revenue data for your brand?

Mayur Gala: Yes. In our own brands, our volume has grown by 14%. However, OEM volume went down by 36% which resulted into a marginal growth in the overall volume. However, this was actually being offset by better realization from INR5.39 per piece to INR5.63 per piece.

Mohit Rathod: And also, to add here, our branded sales, our own brand sales has increased by 11% on year-on-year basis.

Shraddha Kapadia: Yes. But I just wanted if you could give for Flair and Pierre Cardin and Hauser and all that way, would it be possible?

Management: Slightly competition sensitive information, especially to give breakup of this in different categories. But overall, we have presented that the creatives have grown at 28%. The steel bottle is a new business which has taken off now with INR5 crores of sales coming in the last quarter of the financial year. And in the pen segment, our growth, we've just explained, has been at 11%.

Shraddha Kapadia: Okay. Thank you. I will come in the queue.

Moderator: Thank you. Next question comes from the line of Prathamesh Dahake with Motilal Oswal. Please go ahead.

Prathamesh Dahake: I had questions regarding two areas. One is with respect to revenue. So first is in our latest investor presentation, you quoted pens revenue at INR754 crores, while in DRHP, it was quoted at INR726 crores. Can you help me bridge the gap as to why the numbers are different?

Mayur Gala: Yes. See, the numbers between INR726 crores and INR754 cores is the refills part, which we are now classified as a part of the writing instrument business.

Prathamesh Dahake: Okay. And if we were to see INR795 crores, how much of it would be pens and how much of it would be refills?

Mayur Gala: Refill will be in the range of roughly INR17 crores.

Prathamesh Dahake: INR17 crores. Okay. And the rest will be pens?

Mayur Gala: Yes.

Prathamesh Dahake: Okay. Similar question, let's say FY'24, you've given CAGR growth for the next three years. So, if I were to break INR979 crores, again, my pens is INR795 crores, creatives is INR145 crores, steel bottle and houseware is INR18 crores. What is the remaining INR21 crores accountable to?

Mayur Gala: Remaining INR21 crores is the calculator part and other POP material and pen parts.

Prathamesh Dahake: Okay, calculator. Okay. And sir, going forward then, if I backtrack, is it fair to assume that steel bottle and houseware will only be a INR100 crores business by FY'27 then?

Sumit Rathod: So, steel bottle business will have, because the trajectory towards the sale has just started, so we are looking at a high growth percentage in that particular category. And going forward, if you look, this can be a big scope of sales in the overall sales of Flair. And as you know, the market size for this particular category is increasing in India. And even the overseas market is opening. So, we are expecting big numbers in the coming years from this category.

Management: And just to add that to what you said, by FY '27 about INR100 crores, we have a capacity which can go about INR120 crores. So hopefully we should be there by that time.

Prathamesh Dahake: So, we have a capacity of INR160 odd crores, right, from a last con-call. So, I just wanted to understand, I mean, if I were to back calculate using the CAGR numbers which you have given, doesn't INR100 crores seem too less, is what I want to understand?

Sumit Rathod: So as per current capacity, when we add another line, we have the provision to add another line. And as the market grows and our sales increases, we have the space created to incorporate and add the fourth line. And that will take us forward to the additional sales volume that we are looking in the near future.

Prathamesh Dahake: Okay. My next question was around capex. Can you help us understand what would be the INR100 crore capex in FY '25 be used for? And post full expansion, how much of creatives capacity will we have and how much of it will be in-house? Versus outsourced?

Mayur Gala: Yes. Coming on the capex part in Financial Year '24-'25, we are roughly running INR100 crore capex. It will include roughly INR30 crores of capex towards the tips manufacturing machine that we will be adding. Plus, around INR40-odd crores will be used for the manufacturing construction of the manufacturing building. And balance will be utilized towards the purchase of additional machines and mold required for expansion.

Prathamesh Dahake: Okay. And post completion, how much percentage of our creatives will be in-house versus outsourced?

Mohit Rathod: Almost 70% to 75% of the production would be in-house and only 25% would be outsourced.

Prathamesh Dahake: Okay. And the additional 10% capacity includes addition to FLAIR Creative as well?

Management: Yes.

Prathamesh Dahake: Okay. Understood. That's all from myself for now. I'll join the queue.

Moderator: Thank you. Next question comes from the line of Resha Mehta with Green Edge Wealth. Please go ahead.

Resha Mehta: Yes. Thank you. It's Resha. So, my first question is on pens. So, you know, the presentation talks about focus on both the INR5 pens and also premium and mid-premium pens. So, one, if you could break up in terms of how your existing portfolio of pens is structured, how much of revenue comes from INR5 versus, mid-premium, premium?

And how do you basically classify the introductory INR5 at what price points and at what price point do you call a pen premium, mid-premium? And how do you see this shaping up, you know, as we go forward? That's number one. And number two, what is the margin for both these segments? One is the INR5 price point, and the other is the mid-premium, premium pen?

Mohit Rathod: Right. So, answering your first question about the product mix of mass versus mid-premium and premium category. So, currently, if you look at our total sales, 48% of the turnover comes -- the revenue comes from premium and mid-premium category and 52% comes from mass category. So, and if you look at our historic data also, we were in the same range.

Even when we were focusing on INR5 also, we were in the same range. So, we have a good product mix of mass versus medium and premium category. So, going forward also, even if we increase our focus on INR5 category and INR10 category, we would like to maintain our, the ratio in a similar fashion going ahead.

Resha Mehta: And the margin in both these segments?

Mohit Rathod: Margin, of course, if you look at overall EBITDA level, as Mayurji also mentioned earlier that, you know, we would be maintaining at 19.5% going forward. Of course, as you pointed out, INR5 will have a lesser margin. But, we have done a lot of value engineering in our existing pens, which would fetch good numbers.

Resha Mehta: So, in the INR5 price point, the margin would be lowered by how many basis points versus the company average?

Mohit Rathod: So, around, say, 3% approximate. But it would be set off by launching in the similar way, medium and premium category range of products.

Resha Mehta: Got it. And the second one is on the exports business, the OEM business. So, that had seen a sharp decline in the last financial year, FY '24. So, in FY '25, as you mentioned about, it recovering in Q4. So, in FY '25, do you see this business crossing the old levels of INR188 crores that we did in FY '23?

Management : So, we saw, you know, the recovery in the export OEM in the Q4. And we are confident of achieving a double-digit growth as far as the export OEM is concerned.

Resha Mehta: And overall, at an OEM level, do you see we crossing the INR188 crores revenue mark that we hit in FY '23?

Management: So, there we have an issue yet with the domestic OEM, where we are not able to give guidance. Even if we are able to maintain the same level of turnover, which we did last year, is what we are proposing to do and working with the OEM customer there.

Resha Mehta: So, just to follow up here. So, what would be the breakup of this OEM business between domestic and export broadly?

Mayur Gala: It's in the range of 50-50.

Resha Mehta: And who exactly would be the OEM customers here?

Management: In the last year, it was 50-50, but it has come down. In the earlier year, we used to be about, say, INR180 crores was the total OEM sales of INR90 crores was domestic and INR90 crores was export. Now, of course, in FY '23-'24, it has come down. Domestic has come down to INR48 crores and the export OEM is about INR80 crores. However, what we have made up with the own brand sales, we saw a total increase in value terms at 11% growth.

Our own brand sales have increased, both in the domestic and the export market. Our composition earlier, used to be 80-20 between domestic and export. Now, it's come to 86. Overall, it is an 86% own brand and 14% OEM. Marginally, I mean, we are shifting towards consolidating our position in own brand sales internationally as well.

Moderator: Thank you. Ms. Mehta, we request you to please rejoin the queue for more questions. Next question comes from the line of Megh Shah from ProsperoTree Financial Services.

Megh Shah: Good evening, sir. Congratulations for a great set of numbers. My first question is the GP margin improvement Y-o-Y. So around 400 bps. So, is that entirely due to rationalization of the costs or some part of it would be due to the change in the product mix as well?

Mayur Gala: See, it includes both. Even the rationalization of product cost also and increase in the premiumization also. As you must have read the average selling price has increased from INR5.39 to INR5.62. It is a combination of both.

Megh Shah: And second question at the subsidiary level do we sell all the products through like are they third party sales or their own brand sales?

Mayur Gala: Basically, they are own brand sales only from subsidiary companies.

Management : Just to give a little clarity, we have two subsidiaries. One is Flair Writing Equipments Private Limited, and one is Flair Cyrosil. Flair Cryosil is focused on steel business. It is different. In the writing instrument this particular subsidiary was incorporated in 2019 to take advantage of the corporate tax regime, new corporate tax regime. And it has a similar sales pattern and everything is on the same as the main company.

Megh Shah: And for the stainless-steel business what margins are we expecting?

Sumit Rathod : From a long-term perspective the margins are on the similar level as pens. Of course, in this particular year we are looking at having an evening out with the sales increase. As you know, only last quarter we started the sales and already we are finding good traction from the domestic market for this particular category. So, going forward we are looking at maintaining the margin at the corporate level.

Megh Shah: Okay, got it. Thank you.

Moderator: Thank you. Next question comes from the line of Naitik with NV Alpha. Please go ahead.

Naitik: Hi, sir. Thanks for taking the question. My first question is what sort of margins do we make in our creative segment?

Mohit Rathod: Sorry can you come again.

Naitik: What sort of margins do we make in our creative segment?

Mohit Rathod: So, margin in creative segment is more or less similar to in line with the writing instruments. Of course, 1% or 2% less, but that also we will improve once we start our in-house manufacturing of art material and the polymer pencils and other mechanical pencils.

Naitik: But it's largely going to be similar to the writing instrument segment. It's not going to be more than that?

Management: So, just to add here with the increased share of manufacturing in-house of the majority of the products over the next 2 years to 3 years as we graduate the margins are likely to increase further and are expected to be identical to the corporate margins.

Naitik: Okay. My second question is, if I remember correct we had some sort of confirmed export orders in terms of the steel bottles that we have entered in the segment. So, what would exactly has went wrong here?

Sumit Rathod: So, more or less like we explained earlier, more or less the orders were postponed, and we have already seen the traction of orders in Q4. Now, we have already received all the confirmation in terms of quality and testing from our OEM partner. And going forward we are looking at a better movement in terms of export orders.

Also, in the same time to control this we launched products in the domestic market in Q4 and in the beginning of this particular quarter and we are seeing a very good traction even in the domestic market for stainless steel single wall and vacuum bottles.

Naitik: So, this entire INR18 crores would be domestic market sales. There is no amount of export for the full year 2024?

Sumit Rathod: No. So, there is a part of sales which is from the export market which is around INR5 crores.

Naitik: INR 5 crores is export. And what sort of the total in the next year we expect or the export orders if you could give the numbers?

Sumit Rathod: So, we are expecting it to go back to the similar understanding that we had about the orders that were postponed. So, currently, we are already in the momentum of sending shipments on a regular basis for the export market. So, their buying pattern has already started, and we are looking at better numbers in the coming months.

Naitik: Would it be possible to give a number for the same month now?

Sumit Rathod: It will be difficult to give an accurate definite number, but it's going to be on the similar lines of what we were expecting last year.

Naitik: Okay. Sure. That's all from my side.

Moderator: Thank you. Next question comes from the line of Nilesh Doshi with ProsperoTree. Please go ahead.

Nilesh Doshi: Thanks for the opportunity. Sir my question is related to once again related to GP margin. In quarter 4 GP margin is improved and it is said that it is mainly because of the rationalization of the cost, but the cost is not in the control of the company. Then how we can maintain such a high level of GP margin?

Will it be by introducing more product in the premium category or is there a further scope of the rationalization of the cost? Can you give us some guidelines on the GP margin?

Management : Primarily, it should come from the continuous premiumization what we have. While whatever rationalization process is an ongoing process. So, we have seen some advantage coming from the rationalization last year and specially in the last quarter. And we continue to work on both aspects of this to maintain the margin.

Nilesh Doshi: But, sir, if we are continuously introducing more and more premium products. But our average selling price is improved by only 4.4%. It was INR5.39 paisa and now it is INR5.63 paisa. And we are introducing the pen within the range of INR10 to INR50. Which we classified under the premium category. Then it must be improved more. Because 4.4% is I think it is related – it is less than the inflation rate. So, whether our products are not acceptable or how? Because our GP margin if the cost is in control, the GP margin must have improved further.

Management: Primarily, the volume of the mass which is 52% is actually playing upon the ASP realization. Otherwise, the product acceptance is extremely high. Because, as you are aware, we are number one in the pen segment. And continue to lead our position there.

Nilesh Doshi: But can we expect in the next year that it will be more than 4.4%?

Management: Yes.

Nilesh Doshi: Okay. And, sir, my next question is related to the subsidiaries contribution. In quarter 4 particularly, the subsidiaries have contributed meaningfully. And the EBITDA margin is around 30 plus percentage. So, can we expect the same performance for the next year and in the next few quarters?

Mayur Gala: See, as mentioned, there are two subsidiaries. One is for the steel bottles and second is for the writing instrument that we have created. Writing instrument business for the parent company and the subsidiary company will be fetching almost similar margins.

Nilesh Doshi: But can we expect the same performance for the next few quarters?

Mayur Gala: On the writing instrument basis, the guidance at the corporate level will be on a similar same basis.

Nilesh Doshi: And what about the steel bottles?

Mayur Gala: Steel bottles also, once we get a full optimization capacity utilization, it will be in the range of corporate only. Annually, we will be maintaining the same level of margins at corporate levels and subsidiary level also.

Nilesh Doshi: Okay. And I think we have started some tips producing plant or something like that. Does it help in improving the GP margin?

Sumit Rathod: We have been manufacturing tips for a couple of years now. And one of the prime reasons for having the manufacturing setup for tips is to control the quality and the availability of the tips from the market. And because we always have been involved in introducing innovative products and having this backward integration gives us, you know, few advantages of introducing a right product with a new twist in the market at regular intervals. So that is one of the prime reasons why we have the, you know, tip manufacturing setup announced.

Management: And it helps our improvement in the margins also. The cost of the tips will be 3% to 4% lower than the competitors who are outsourcing from third parties.

Nilesh Doshi: And do we have any policy to introduce the product on offline and online? Do we have some product portfolio which are available only on the online platform? Is it the policy?

Mohit Rathod: Whenever we launch a product, we launch it in both offline and online together.

Nilesh Doshi: Okay. Thanks. Thank you, sir.

Mohit Rathod: Thank you.

Moderator: Thank you. Next question comes from the line of Viral Shah with Enam Holdings. Please go ahead.

Viral Shah: Yes, hello. Thank you for the opportunity. So just a clarification first. Did I hear it correct that you said the steel bottle houseware business will be a INR100 to INR120 crore business by FY '27?

Management: Steel bottles is in a high-growth trajectory. And with the kind of new introduction of products that we are planning, you know, achieving that number because the market size, as you know, is very big.

Viral Shah: Where I was coming from is that should that number not possibly come in FY '26 or '25 itself and FY '27 is a bit far-fetched.

Management: So as the OEM business takes off as per the commitment, to our earlier years otherwise you know we are targeting at this now.

Viral Shah: Secondly sir, my question was on working capital. It seems there is some deterioration in this year especially in the trade receivable side. So, can you just share your thoughts here and should we then again expect a normalized level of working capital from next year onwards?

Mayur Gala: Yes, we expect normalization in terms of the working capital, especially in terms of the debtors. And yes, for FY '24 it is on the higher side, and we are actually working to lower it in FY '25.

Viral Shah: It was on the higher side this year?

Management: Yes, by 8 to 10 days.

Viral Shah: Sorry, I missed that.

Management: It was higher by 7 days. It will be streamlined back to normal. It was maybe a temporary phenomenon towards the last quarter sales.

Moderator: Thank you. Next question comes from the line of Naveen Jain an individual investor. Please go ahead.

Naveen Jain: Hi sir, thank you for the opportunity. My question is on the creative business. Can you help us with the breakdown in terms of domestic and export revenue for FY '24 for the creative business and also the breakdown under what are the major product categories under this business?

Mayur Gala: See, the revenue in terms of the breakdown in terms of export is INR16 crores export and the balance INR129 crores is the local market.

Naveen Jain: Okay and major product categories under creative business?

Mohit Rathod: Major category would be, the number one is pencils and then the coloring range followed by geometry boxes.

Naveen Jain: And so, what is the breakdown under these three categories?

Mohit Rathod: Yes, so it's about say, around 58% is coming from these three categories and balance is coming from the other categories considering erasers, sharpeners, the markers, highlighters and all and art markers.

Naveen Jain: Okay, thank you very much. And on the gross margin improvement do you, I mean, is it possible to have a breakdown as to how much of this 4% improvement is attributable to raw material prices cooling down and how much is attributable to premiumization of product categories?

Mayur Gala: It's a combination of both the things like a reduction in the raw material prices and increase in the premiumization as such.

Moderator: The next line is Resha Mehta from Green Edge Wealth. Please go ahead.

Resha Mehta: Yes, thanks for the follow up. So just the OEM business, if you could just elaborate on the nature of this business, both in the domestic and the export market, who exactly are our customers here? And in terms of the pricing, how does the pass-through happen? How is the working capital here? And what exactly led to this kind of degrowth in the domestic OEM business?

Management: You're asking a question relating to OEM business?

Resha Mehta: Yes, that's right.

Management: Yes, so we cannot disclose the names of the OEM customers, but the principal OEM customer has been with us for 16 years on the writing instrument segment and we have been manufacturing certain products for them on the writing instrument as well as mechanical pencils exporting them to them for quite some time. And the same company also has a local brand in India for whom we started in 2017 with both manufacturing as well as distribution. And from 2020 onwards we are only doing manufacturing for them.

Both this segment saw a subdued demand in the last year because of the reorganization that was happening primarily at their end in the corporate office and also the India office. So, we saw some improvement in the Q4 in the exports OEM and we are confident that it will go back to the normal range of growth what we used to have with them. On the local side, we are yet not able to give guidance.

It will remain subdued even if we are able to maintain the same level of turnover what we did last year with the local. We should be fine because our own brand sales is increasing substantially to offset that part.

Resha Mehta: And the working capital and the price pass-through mechanism in the OEM side?

Management: It is in similar line.

Resha Mehta: Sorry?

Management: It is in similar line to our other business.

Resha Mehta: Okay. And how often does the price pass-through happen?

Management: Sorry?

Resha Mehta: How often or how quickly does the price pass-through happen? Let's say if we see a sharp jump in the raw material prices, then how quickly are we able to pass on the prices to our OEM customers?

Sumit Rathod: We have a longstanding relationship with them. So as soon as we get a guidance that the raw material prices are increasing at a certain percentage, we have the opportunity to pass it on because as a lot of the raw material prices are more of global prices. So, we have been able to pass on as per historically and even in the near future, it is the same methodology that we plan to adopt.

Management: But if there are minor fluctuations, then they are absorbed as part of the process. It is a mutual process that is there.

Resha Mehta: And this principal OEM customer that you spoke about, how much revenue does it contribute as a percentage of our total OEM business?

Mohit Rathod: It's about 13%.

Resha Mehta: 13% of the OEM business? Sorry, or is it of the total revenues?

Mohit Rathod: 13% of the overall revenues.

Resha Mehta: Okay, so that's almost like 70%-80% of the OEM business, right?

Mohit Rathod: Yes.

Resha Mehta: Okay. All right. That's it from my side. Thank you.

Moderator: Thank you. Next question comes from the line of Prathamesh Dahake with Motilal Oswal. Please go ahead.

Prathamesh Dahake: Hi. So, my first question is, so creatives is expected to become, let's say, INR300-odd crores category by FY ’27. How would the product contribution basis category look like in FY ’27? And how would the export versus domestic look like in FY ’27?

Management: In the creative segment, we are announcing our overall product offering. So, we are introducing the complete range of pencils, including wooden pencils, polymer pencils, and Mechanical pencils, where we are already an industry leader. On the coloring range, we are introducing watercolors, watercolor pens, poster colors, plastic crayons, and so on. So, it will be a continuous exercise to add more-and-more products in the vast field of the creative segment.

Prathamesh Dahake: But, we were given some color on FY ’24. Similar, the top three categories would be 60%, 70%. If you could help us understand which would be the major contributors, if you could help us give some color on that?

Mohit Rathod: I think going forward also we would be consolidating on the similar range, which would be pencils, the coloring part, and the second, third would be the geometry boxes and markers, highlighters. So, these five categories we would be focusing on going forward.

Prathamesh Dahake: Okay. And how much would be domestic versus exports that you are planning?

Mohit Rathod: So domestic versus exports is going to be in the similar ratio of pens, which is going to be 80% domestic, 20% exports. And we already mentioned that it's always going to be, at least because the base is smaller, it's going to be higher double-digit growth, at least for the next four years to five years.

Prathamesh Dahake: Understood. And on steel bottles, the OEM takeoff has been a bit slow. So how do you see the export versus domestic breakup of steel bottles? And how would the working capital cycle of steel bottle business look like?

Sumit Rathod: So, going forward, as you know that the export from the OEM customer was a little postponed. So, we have already introduced this particular category in the domestic market. And we have got a very good momentum from the domestic market. So going forward, we are going to concentrate just like pens on our own brands, in this particular area for domestic as well as the export market. And from the working capital perspective...

Mayur Gala: It is almost identical to the corporate levels only, in terms of the both debtors and inventory levels.

Prathamesh Dahake: And payments? Is it better or something?

Management: Just to add what Sumit said, we have made recently a major breakthrough with the modern retail chain. And our products are available in most of the stores.

Prathamesh Dahake: Okay. One last question. Our inventory days went up in FY ’24, what was the reason? And can we expect normalization in the coming year itself, in FY25?

Mayur Gala: Yes, we can actually expect a normalization in the coming years.

Prathamesh Dahake: And what was the reason it went up?

Mayur Gala: Basically, actually since we are having multiple locations and multiple brands, we took the advantage of the lower prices, which were actually seeing our gross profit margin expansion.

Prathamesh Dahake: Okay. So, we have loaded RM. And is it also with respect to steel bottles that we have bought, steel coils or something like that? Is it fair to assume?

Sumit Rathod: Yes, it is a combination of all raw materials.

Prathamesh Dahake: Okay. That's all from my side. I'll join the queue.

Moderator: Thank you. Next question comes from the line of Sneha Talreja with Nuvama. Please go ahead.

Sneha Talreja: Hi. Good evening, sir. And thanks a lot for the opportunity. And congratulations for the margin improvement. A couple of questions from my end. Firstly, on your Disney tie-up, what is the kind of an arrangement that we have?

What's the kind of royalty payment here? And you have showcased a strong growth trajectory here, going at about 28%-30%. But will it lead to any margin expansion here? That's my first question.

Mohit Rathod: So, you're talking about Disney, right? So the deal, what we have with Disney, is difficult to disclose on this platform. But yes, the tenure is for 2 years. And the sales generating through Disney licensees have been factored in our projection of 28%-30%.

Sneha Talreja: Understood. And secondly, on how the trajectory in Q1, can we see any seasonality going ahead with respect to your business or will it be a steady growth that we can expect from Q1 itself with respect to your projections?

Management: So while we have no major seasonality factor, the top line, last year we saw a little bit of the growth coming from the OEM sales, but our own brand sales, as we just explained, compared to Q4 of FY '23 to Q4 FY '24 has increased. Even on Y-on-Y basis, branded sales have increased 11% in value terms. And as far as the outlook is concerned, for quarter 1 FY '25, we definitely expect to have a double-digit growth in the creative and the steel bottle segment.

And in writing instruments in domestic market, we had a slight slower offtake due to the general elections going on in the country. But with back-to-school season in June month, it looks to be very promising. Also in exports, we are expecting a double-digit growth in Q1.

Sneha Talreja: Understood. So that was helpful. Thanks a lot, and all the best to you.

Management: Thank you. Are there any further questions or you would like to have a closing remarks?

Devansh Dedhia: I think we can hand over to the management for the closing remarks.

Mohit Rathod: So, we are optimistic of our consistent growth in writing instruments and to be on a higher trajectory of growth in both creative and steel bottle business through deepening distribution in domestic and export markets, innovative products and meaningful advertisement and efficiency in manufacturing. Thank you everyone for taking some time out to participate in this 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 soon. Thank you so much.

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