

Creative Peripherals and Distribution Limited

CREATIVE NEWTECH LIMITED
(NSE : CREATIVE)



Date: 15th Aug, 2021
(CMP = 241)

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Snapshot

- **Total Weightage % in Micro Cap Portfolio = 6% (CMP = 241)**
- **Single Phase Buying Strategy = Buy 6% between Rs 240-270**
- **Price Target = Around Rs 500+ in next 12 months, Rs 1000+ in next 3 years**
- Creative Newtech Ltd. is a key player in supply chain of IT and related products. Provides end-to-end solutions, from market research and competition analysis for brands, to import, distribution, sales, and servicing for the brand.
- After completing two years on NSE emerge board, Creative migrated to the NSE main Board in 2019.
- With effect from 4th Aug. 2021, name of the company has been changed to Creative Newtech Ltd, earlier it was named as Creative Peripheral & Distribution Ltd.



Market Cap: INR 280 Cr.

Current Price: INR 241

52 weeks H/L: 272/83

ROE: 22.8%

Stock P/E: 22.8

Dividend Yield: 0.19%

ROCE: 22.7%

Debt to Equity: 0.81

Book Value: 45.4

Face Value: 10

Promoter Holding: 69%

Pledged Percentage: 0%

Market Cap / Sales: 0.50

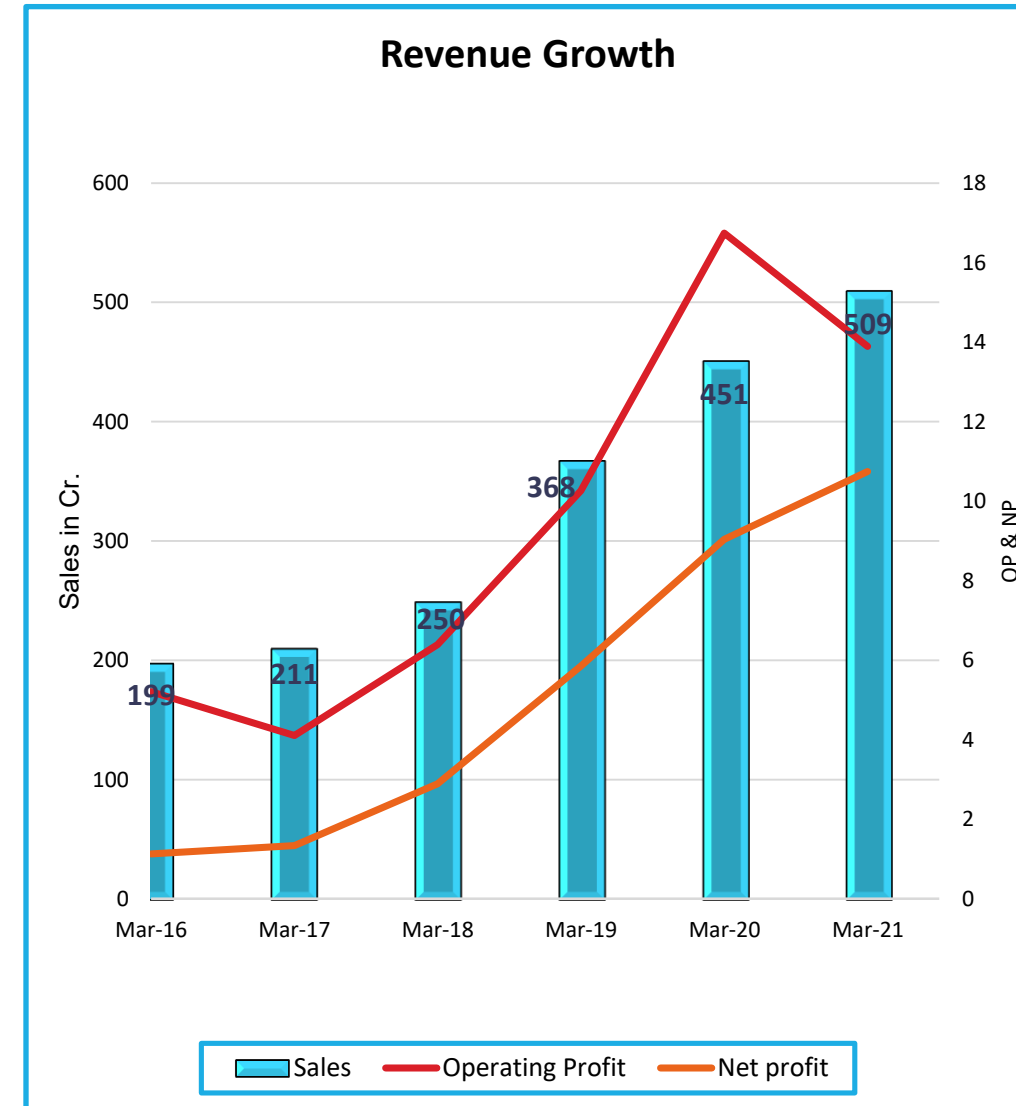
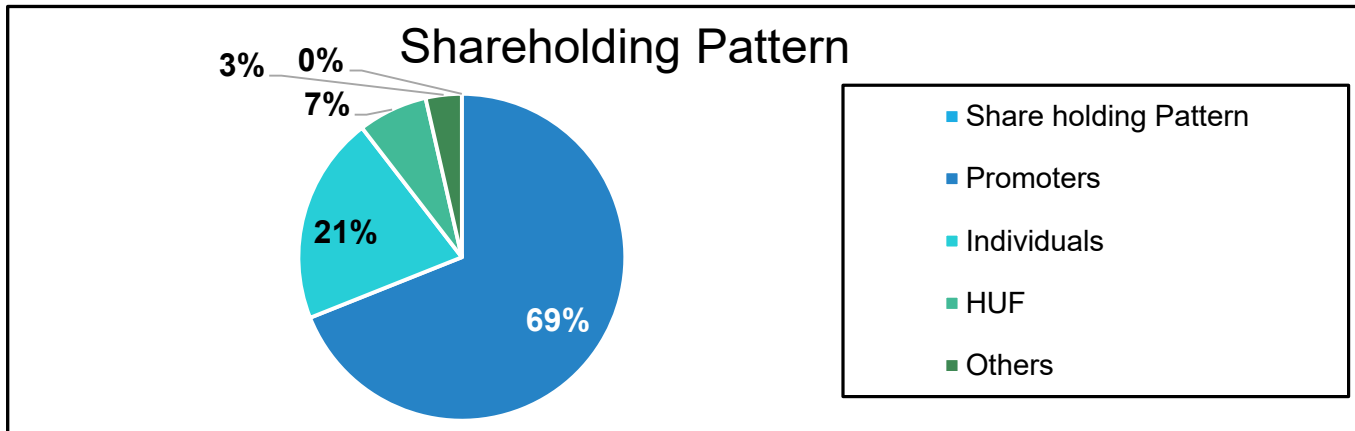
Price to Book Value: 4.8

Current Ratio: 1.35

Source: Screener.in

Business Overview

- They provide end-to-end solutions, from market research and competition analysis for brands, to import, distribution, sales, and servicing for the brand.
- **Robust Distribution Network - 3 Decades Old Company, 20+ Brands, 3,200 Products, 20+ Branches, 5,000+ Channel Partners across India, 150+ Employees.**
- Creative also specialize in market entry and penetration of Global Brands.
- Additionally, company has presence in online B2B market.
- **Creative, which was founded in 1992, has earned a reputation as a key player in supply chain of IT products and has received various accolades.**
- Company has unique and diversified business model that offers exponential future growth.



What they Do?

Brand Licensing

- Licensed by Honeywell to undertake contract manufacturing for wide range of consumer & enterprise products
- Rights on many product designs/casts, can manufacture and sell Honeywell branded products in many APAC countries, as well as govern product pricing to large extent
- Aim to expand this business line with Honeywell, and get more international brands under licensing model
- Maintain asset-light model while expanding licensed manufacturing business

3,200 Products

20+ Branches

Market Entry Specialist for Niche Brands

- Specialist for global brands to enter and penetrate Indian markets
- Well positioned to leverage established network and market reach
- Portfolio of over 20 world renowned brands including Honeywell, GoPro, Viewsonic and Samsung
- Most brands are market leaders in their respective categories and command niche value in market
- Continually enhance portfolio with high-margin, high growth-potential products
- Multi-channel network – online, retail and general trade channels

5,000+ Customers

20+ Brands

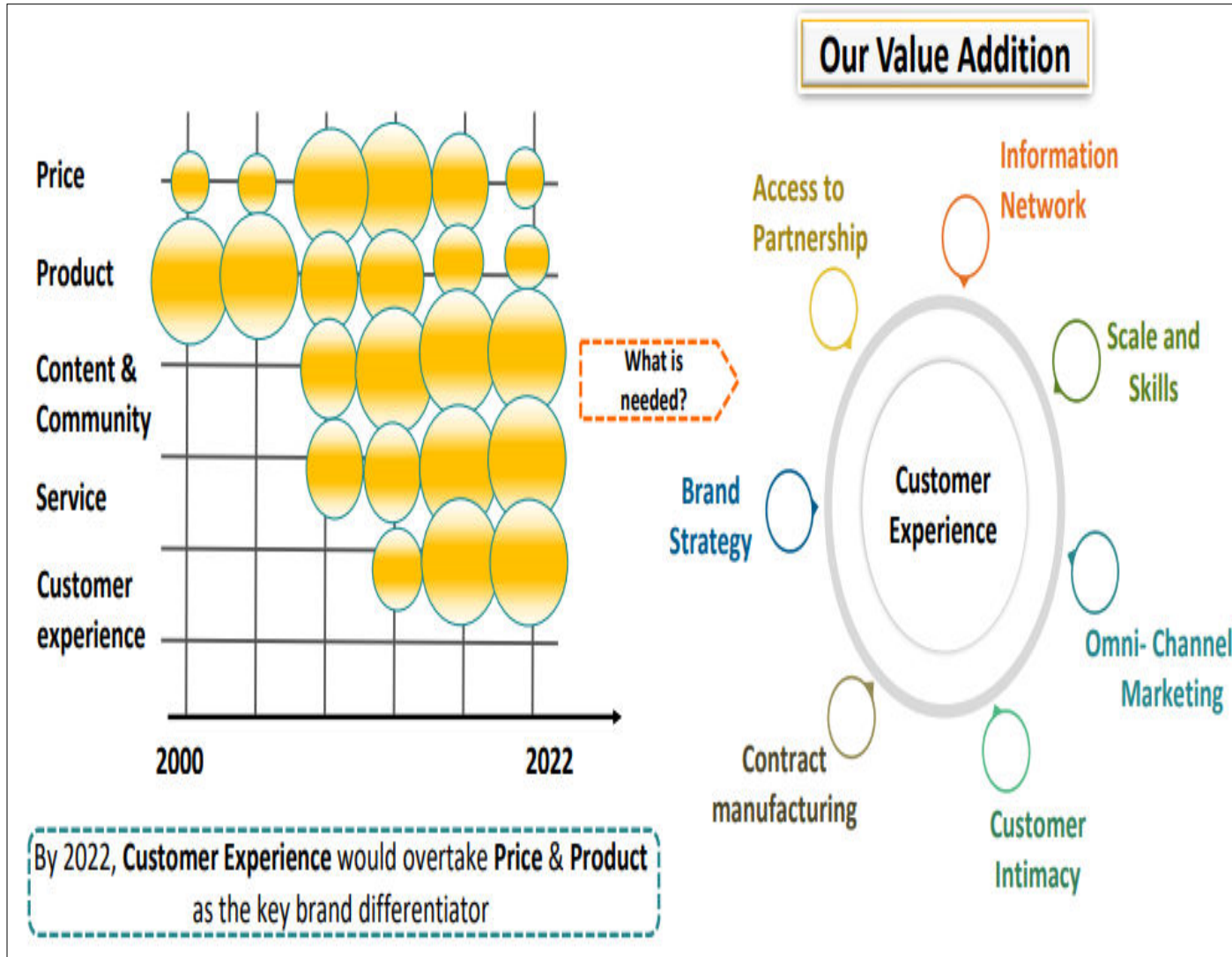
Ckart

- Online digital B2B eCommerce platform
- One-stop-shop for all customers
- Hosts all customers and enables them to view, share and transact in each other's products
- Offers various useful features like drop shipment, invoicing and facility for customer to have their own site
- Expands Company's product domain
- Will help expand customer-base without additional manpower
- With growing digitization in industry, Ckart paves way for future-ready business model

150+ Employees

Source: Company Presentation Q1FY22

From Price & Product to Customer Experience



Source: Company Presentation Q1FY22

- Company offers a range of services to global brands. Provide end-to-end solutions from market research and competitive analysis for brands, to import, distribution and sales and services for brands.
- Additionally, the Company suggests and executes marketing strategies and recommends viability in specific regions across India for their clients..
- Creative through its market research, prepare strategies for market entry of foreign brands and their target categories.
- For brand promotion, Creative organizes and participates in important trade and IT exhibition to showcase products of their clients to larger audience and increase customer experience.
- Brand Licensing - Licensed by Honeywell to undertake contract manufacturing for wide range of consumer & enterprise products.

New Trend – Boom in Electronic Market

- Initiatives such as 'Digital India' and 'Smart City' projects have raised the demand for IoT in the market and will undoubtedly **usher in a new era for electronic products**.
- The electronics market valued at \$118 bn in 2019-20 is segmented as mobile Phones (24%), Consumer Electronics (22%), Strategic Electronics (12%), Computer Hardware (7%), LEDs (2%) and Industrial Electronics (34%) comprising of Auto, Medical and other industrial electronic products.
- **Over 2.5X growth in domestic electronics production in 5 years; From \$29 bn (2014) to \$75.7 bn (2019-2020)**
- These factors are leading to huge demand for IT and electronic products & services in India, that Creative can cater to and grow multifold.
- Company is **running by well experiences and talented founder**, who has a successful track record of almost 28 years leading the company since its inception.
- Company **omni channel presence, coupled with growing demand for its product** will lead to enormous growth in future. Plus, its digital platform Ckart is gaining traction very fast, this will help in growing at a higher rate.
- **Diversified business model, scale of operation and sustainable growth outlook** in each product segment makes Creative a very attractive choice among investors.
- Ingram Micro (NY Listed MCap = 17,500 Cr) & Redington India Ltd (Listed MCap = 13,500 Cr) are focused on IT and Mobility spaces while Compuage Infocom Ltd (Listed MCap = 191 Cr) is in PCs, Components, Peripherals, Mobility etc. **Key differentiating factor between Creative peripheral & above companies are - Creative peripheral has omni channel presence through - Online, Retail, General Trade.**

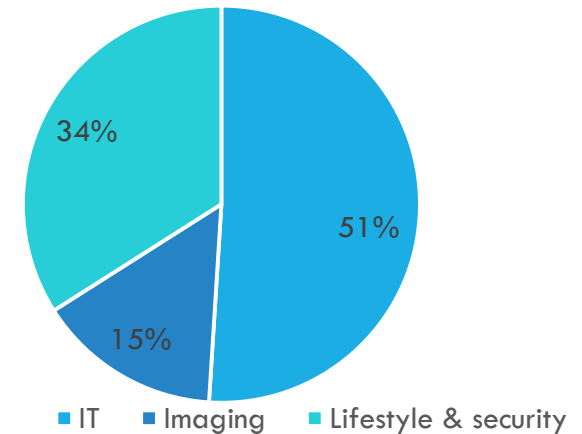


Product Segment (Global Brands)

IT	AOC	rapoo	Transcend	ViewSonic	Brand Licensee Honeywell Region: • India • APAC • Middle East Categories: • IT Peripherals • Audio Enhancement • Air Purifiers	
	SAMSUNG	PHILIPS	PRINTRONIX	EPSON		
IMAGING	GoPro	OLYMPUS	edelkrone	ZEISS		
GAMING	COOLER MASTER	PNY	thermaltake	msi		COLORFUL
LIFESTYLE	BaByliss	shemaroc	Panasonic	Disney • MARVEL FRODO BAGGINS COLLECTION		BPL
SECURITY	inVue					

- Company's products portfolio divided in three major segments:
 - IT & gaming.
 - Imaging.
 - Lifestyle & security.
- Company expects 50-55% revenue from IT, 30% from media and rest from Lifestyle segment in coming years.

FY21 Segment Revenue



Source: Company Presentation Q1FY22

Product Segment (3 focus areas)

1. IT & Gaming:

- Creative peripheral offers a range of IT hardware products including printer, cartridges, PC component (monitors, hard disks, CD writers, CD ROMs), and storage devices by multiple vendors.
- Company's wide spectrum of products offered from multiple vendors helped it achieve economies of scale and provide customer a single sourcing point. .
- The Company has many distribution agreements, such as Honeywell, Cooler Master and PNY, and innovative distribution channels.
- Honeywell: High-margin products for connectivity, which are secure and energy-efficient.

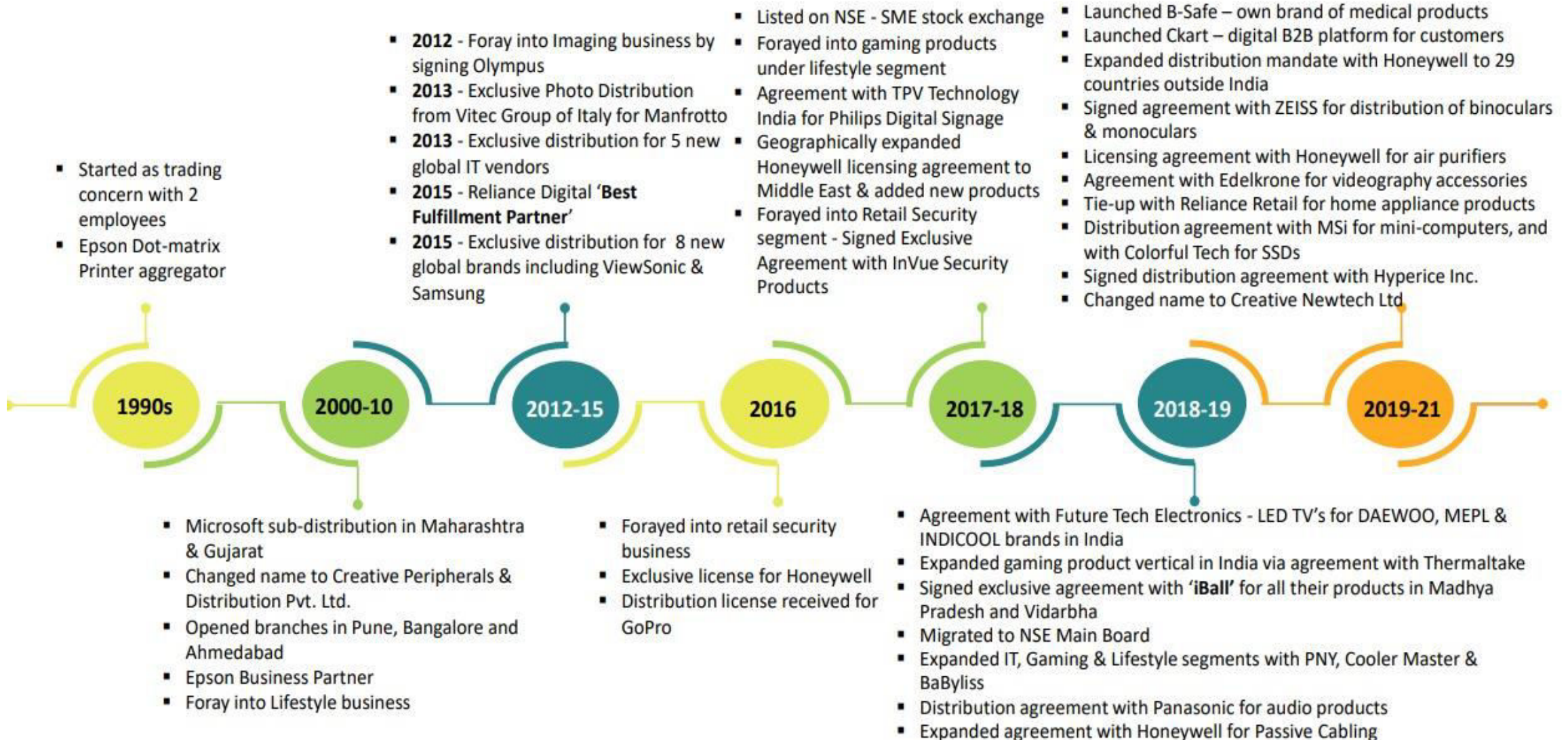
2. Imaging:

- This category encompasses a range of camera and camera component including tripod, lenses, accessories, and other imaging products.
- This category is growing aggressively as the trend in photography change rapidly. Company is actively engaged and organize various events such as exhibitions, expo. To showcase imaging products and help clients to enter/launch their products.
- Company also helps clients develop content to giving a whole package of experience to the end customer.
- GoPro Cameras: Next-gen technology, premium pricing, target high-end users

3. Lifestyle & Security:

- This category includes products such as TV's, headphone, IT accessories and grooming products.
- One of the Company's many brand associations is BaByliss, a premier personal grooming brand with global presence.
- In security it strives to cater to the growing needs and demand for retail security products and is expanding in this direction rapidly. A key brand in this segment is InVue.
- Recent additions in brands portfolio include agreements with Hyperice Inc., a US-based specialist in muscle recovery and massage products.

3 Decades of Journey



Source: Company Presentation Q1FY22

Sustainable Competitive Advantage

- Creative has almost 3 decades of experience in distribution and sales of IT and electronic products.
- Company has a robust distribution network, with presence all over India plus has tie ups with reputed logistic service providers
- After the launch of Ckart - B2B digital platform company now has presence in all channel, online, retail and general trade.
- Creative has long term relationships with renowned brand in contract licensing and distribution business.
- Creative offers wide range of products of global brands through its network, which allows to grow fast and offers diversification benefit.
- Creative has experience in market entry of global brands, i.e. with Honeywell. And company has the resources and talent serve other global brands in this field.
- In comparison to other companies, such as Compauge Infocom Ltd and Redington, that are also in similar business. None has their own B2B digital platform like Ckart owned by Creative.



Robust Distribution Network



Domestic

- Pan India presence
- 20 branches across India
- Over 150-strong highly skilled workforce across India – mix of young and experienced talent

International

- Strong distribution tie-up in Middle East
- Expanding network across SAARC & Southeast Asia countries

Source: Company Presentation Q1FY22

Robust Distribution Network (Contd.)

Central Warehouse @ Bhiwandi, Maharashtra

Dispatch all over India from Central warehouse

- Warehousing and Transportation services
- 40,000 Sq. ft. area
- Semi-automatic warehousing
- Advanced systems for inward & outward, packing and stock keeping (Bar Code system for outward)
- Technology enabled supply chain
- Transactions handled: 3,500 tonnes per annum

Key features

- State-of-art inventory management and warehousing equipment
- Fast and on-time delivery
- Can arrange dispatch from single unit to container
- Tie-ups with reputed logistics service providers
- Trained and experienced staff



Source: Q1FY21 Company Presentation

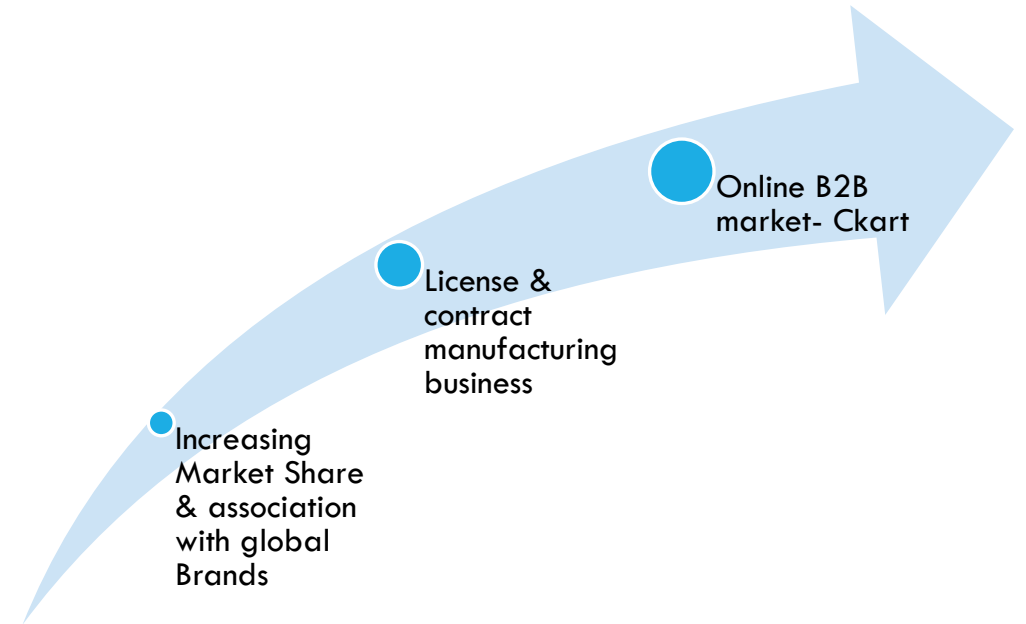
Robust Distribution Network (Contd.)



- Company has proven track record of almost 3 decades.
- Its huge network comprises of:
 - **5000+ channel partners all over India.**
 - **20 branches and 150+ skilled and talented workers.**
 - **3200+ products.**
 - **25+ Global brands**
- Tie-ups with logistic services.
- Technology enabled supply chain.
- Company has omni channel presence through- Online, Retail, General Trade.
- Offers wide range of products from PC to networking and security, to grooming and lifestyle products.

3 Strategic Developments / Growth Drivers

- 1) Increasing Market Share & association with global Brands** - Creative Newtech is a distribution company that sells Samsung / GoPro / PNY and other products. They categorize them into Imaging (Zeiss, GoPro), IT (Samsung, Cooler Master) and Lifestyle (Fitness brands // Health, etc.). Since FY 2018-19, Company has forayed into two new business segments.
- 2) License & contract manufacturing business** - They entered into an agreement with Honeywell under which they license manufacture the products for Honeywell and then sell them in the markets assigned to them. Currently, they have the license to sell Honeywell Air Purifier and audio products in around 30 countries (India, SEA and Middle East).
- 3) Online Platform business** - Ckart 5 is a B2B platform like Udaan where buyers & sellers can sell to each other. The “sell” functionality was activated in 2021. Right now, most of the partners that have onboarded onto ckart are Creative’s own distribution partners. It is essentially the distribution business getting conducted through ckart.



Source: Company Annual Report FY20

Future growth plan & improving cash position

- **Clear guidelines for some of its brands in next year FY22:**
 - Samsung 95 Cr.
 - Cooler master 60 Cr.
 - Reliance Retail 70-80 Cr.
 - Honeywell 80-100 Cr.
- **To increase visibility and sales of GoPro Brands** company is tying up with travel bloggers and other stakeholders.
- **Some recent additions in brands portfolio include:**
 - a. MSi, a globally renowned name in computers;
 - b. Hyperice Inc., a US-based specialist in muscle recovery and massage products;
 - c. Colorful Tech, a global brand specializing in SSDs.
- **Increasing the share of licensing business as it offers higher margin.**
- Company launched Ckart in Aug'20, since then till Mar'21, has added 180 Cr through Ckart. **Their cash conversion cycle is high but going ahead this will improve with credit sales come to Ckart, where selling will be in cash only.**

Ketan Patel:

Yes, Honeywell is the very important pillar in our strategy as it delivers close to 40% gross margin to our business and higher in international markets and look, there is product cycle right. So, when you say that last year Honeywell business was close to 16 crores and by this year it will become 100 crores. That is because of two reasons. One is we have extended geographies and currently we have almost now 250 products in Honeywell, in mobility, in power conditioning, in air purifiers and now audio. With air purifier and audio, they are very consumer-oriented products and their CAGR is growing very high. Air purifier in India was a seasonal product mainly for the Northern part of the country. But because of COVID now everybody wants a far better quality of air and that's why air purifier has become a like the basic necessity as you wanted a refrigerator, washing machine, air conditioner, TV. Now everybody wants an air purifier. So, currently also if you see this year's strategy, we are only aiming to open the Middle East, Saudi Arabia market. And then next year we want to go to the other market. Any product to become popular also for the retailer to sell also requires a 3-to-4-month cycle before he understands the product himself. So, currently we are on the right run way. For example, if our last month's figure if you also we see Honeywell should be around 3.5 to 4 crores already. By the end of the year, we should be between 80 to 100 crores. As we open territories like Singapore, Malaysia, Thailand which falls as a license to us; we definitely think that next year 200-250 crores is an achievable target. We just signed up a couple of days back with Al-Banali Group the leading

Source: Earnings conf call Q1FY22

Focus on high growth licensing business

- Creative **expanded its licensing agreement with Honeywell** to include air purifier for 10 countries across India.
- **Plus, company renewed its licensing agreement with Honeywell for another five years**, expanded distribution reach to 29 countries across APAC and the Middle East.
- Through this renewed agreement with Honeywell, **company expects 80 Cr. to 100 Cr. from Honeywell for FY22, which was 26 Cr. in FY21**. This shows the importance of association with Honeywell in driving future growth.
- Licensing business is high margin business, and **Honeywell offers 40% gross margin**. And for the next couple of year company **has planed to have 30%-35% of business from Licensing business**.
- Creative peripheral tied up with **Reliance Retail**, this agreement is for one year and renewable too, and beside what reliance sell in their store across India creative will be able to offer these products to everybody.

Ketan Patel:

→ Ayush, Honeywell because we got the licensee for 30 countries, and we also got the licensee for air purifier and air purifier is now coming to like basic. So, every household wants to have an air purifier because of COVID the quality of air has become very-very important. So, we have refreshed the complete range and the new range of Honeywell air purifiers we will be launching from July not only in India but in India, Middle East and Egypt and Saudi Arabia. Honeywell Inc, that Honeywell Inc USA and Honeywell India both have also signed up a contract with us to buy Honeywell air purifiers and hotel chains are now deploying air purifiers in every lobbies and every room and I am glad to share that Marriott Hotels worldwide has chosen our product of Honeywell air purifiers to be kept in their lobbies and rooms. So, we are very gung-ho about the whole Honeywell business. And the most pessimistic of the view also, we think that in this current financial year, **Honeywell we should close between Rs. 80 crores to Rs. 100 crores plus and minus** and Honeywell

→ In this case with the help of Reliance we will build up the whole electronics and domestic appliance category and **Reliance plans** are huge on this, but we are expecting that **between 70 crores to 100 crores** we will be able to do in this **coming financial year** on this product.

Source: Earnings call Q4FY21

Focus on strategic associations

Honeywell : Fortune 50 multinational conglomerate offers various commercial and consumer products, engineering services and aerospace systems. Active across **aerospace, automation & control systems** and **performance materials & technologies**.

Our Involvement: Started association in September 2016 to capitalize opportunities seen in Indian market. Creative has been crucial support and channel for Honeywell to expand their product distribution in India, and eventually across other Asian markets, and recreate **“Power of Connect”** among consumers



Source: Company Presentation Q1FY22

Launched Digital B2B market place Ckart

Salient Features



Key Benefits

- Ckart hosts all existing and new customers and is integrated with Company's ERP system
- Platform enables customers to **discover, share and transact** their products amongst each other
- Value added services include **drop-shipment** and **invoicing** capabilities and seller module
- Customers can also choose to have their own micro-site hosted
- Developed in-house by dynamic and dedicated team
- Swift navigation and flow, and offers user-friendly experience

- Ckart is a **one-stop-shop** for all customers' requirements
- It will **grow customer-base** without additional manpower or cost
- Platform will increase ease of doing business and **enhance customer experience**
- Expected to expand product domain and enhance working capital cycle

Source: Company Presentation Q1FY22

Quarterly Update (Expect Q2FY22 ~180-200Cr)

Rs. Cr	Standalone			Consolidated		
	Q1 FY22	Q1 FY21	YoY%	Q1 FY22	Q1 FY21	YoY%
Revenue from Operations	131.76	63.30		133.89	64.45	
Other Income	1.99	0.08		1.99	0.08	
Total Income	133.75	63.37	111.04%	135.88	64.53	110.57%
Raw material	119.68	56.69		121.82	57.69	
Employee Cost	2.93	1.63		2.93	1.63	
Operating Expenses	5.24	3.22		7.02	3.31	
Total Expenditure	127.86	61.54		131.77	62.63	
EBITDA	5.89	1.83	221.23%	4.11	1.90	116.91%
EBITDA Margin (%)	4.41%	2.89%	152 bps	3.03%	2.94%	9 bps
Interest	1.32	0.92		1.34	0.93	
Depreciation	0.30	0.20		0.30	0.20	
Exceptional Items	0.18	0.00		0.18	0.00	
Profit Before Tax	4.09	0.71		2.30	0.77	
Tax	1.07	0.19		1.07	0.19	
PAT	3.02	0.52	481.09%	1.23	0.58	113.43%
Other Comprehensive Income	0.00	0.00		0.00	0.00	
Net Profit	3.02	0.52	481.09%	1.23	0.58	113.43%
Net Profit Margin (%)	2.26%	0.82%	144 bps	0.90%	0.89%	1 bps
Basic EPS in Rs.	2.60	0.45	477.78%	1.44	0.45	220.00%

- June 2021 reported one of the highest ever monthly sales, followed by strong performance in July
- Continued recovery from COVID lockdown supported by demand for brands like Samsung, Cooler Master & PNY
- Higher revenues and relatively lower other expenses boosted EBITDA margins

- Sales in Q1FY22 was 132 Cr which **represented barely 2 months of operations** for the Company due to partial lockdowns.
- As per the management, June'21 (69.73 Cr Sales) reported one of our highest ever monthly sales, followed by a strong July'21 (70.15 Cr Sales) month.
- With the above run-rate, **we expect Q2FY22 revenue around 180-200Cr** which is in-line with annual revenue projections of 750-800 Cr in FY22 (FY21 Sales was 509 Cr).
- Honeywell will add approx. 80-100 Cr in FY22, licensing business is high margin business which will improve operating profit margin. Ckart will help in reducing the credit cycle.

Source: Company Presentation Q1FY22

Annual Update (~100% Sales growth in 2Y)

Rs. Cr.	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	FY-22 [P]	FY-23 [P]
Sales	210.87	249.82	367.62	450.79	509.30	750.00	1,012.50
Y-on-Y growth Rate	6%	18%	47%	23%	13%	47%	35%
EBITDA	4.11	6.39	10.26	16.74	13.89	52.50	91.13
EBITDA Margin	2%	3%	3%	4%	3%	7%	9%
Net profit	1.34	2.89	5.85	9.04	10.75	31.98	59.96
NP Margin	1%	1%	1.6%	2.0%	2.1%	4.3%	5.9%
EPS	1.68	2.49	5.04	7.79	9.27	27.10	50.81
Inventory Turnover Ratio	12.05	9.53	11.98	9.95	7.86	12.30	16.67
Inventories	21	28	28	59	60	62	64

- On Y-on-Y basis, sales in FY21 was up by 13% and PAT was up by 19.%, although sales of imaging segment (GoPro Brand) have been impacted, as it is an outdoor product and demand was subdued due to travelling restriction around the globe.
- **As per the mgmt., during FY21 (Covid year) they effectively worked only for 10 months and delivered 509 Cr, they can do a run-rate of ~ 50-60Cr per month.**
- Company through its strategic and timely launch of B2B digital platform (Ckart), supported its sales in lockdown impacted year.
- Company launched Ckart in Aug. 20, since then till Mar. 21, has added 180 Cr. through Ckart.
- Company has grown constantly while keeping its margin intact over the years. Company has a 10 years CAGR of 17%. Company is quite optimistic about a 8-10% operating growth in the coming years.
- In terms of efficiency, it has inventory turnover ratio of 7.8 and current asset turnover ratio of 6.8.
- **Sales may DOUBLE in next 2 years : Expected Sales in FY22 ~ 750-800 Cr & FY23 ~ 1000 Cr Vs FY21 Sales was 509 Cr.**

Balance Sheet (IPO @75/-, Pref @110/-)

Balance Sheet					
(all Fig. in Cr.)	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Equity Capital	4	5.8	5.8	11.6	11.6
Reserves	8	22	28	31	41
Borrowings	23	25	36	32	43
Other Liabilities -	27	48	49	79	92
Total Liabilities	62	102	119	153	188
Fixed Assets +	0	8	9	9	10
Other Assets -	62	93	108	143	177
Inventories	21	28	28	59	60
Trade receivables	28	43	44	39	54
Cash Equivalents	2	2	4	4	4
Other asset items	10	19	33	41	60
Total Assets	62	102	119	153	188

- **IPO came in Apr 2017 @75/- per share**, listed at NSE SME Platform. Migrated to main board in 2019. During last 2 months stock surged more than 100% after the new developments happening in this company started showing results.
- This fund help in meeting increased operating cost. As company expanded their brands and product portfolio, inventory and other operating expenditure increased.
- Company raised equity in FY20 through bonus issue of 1:1
- **In July 2021, preferential allotment/fully convertible warrants of 10 Lac shares @ Rs 110/- to Abhinav Capital Services Ltd and Shree Sumna Trade LLP.**
- Cost of raw material was up by 21% and other expenses were up by 77% in FY 20, on Y-o-Y basis. Raw material cost increased due to change in product mix.
- Plus, company bought inventories in advance in response to concerns over supply chain disruption in FY20. Good reserve with debt-to-equity ratio of 0.81.
- With current working capital and current margins in business, company don't expects any increase in borrowing from here.

Source: Company Annual Report FY20

Cash Flow (Ckart will improve cash flow)

Cash Flows <small>Fig. in Cr.</small>	Mar-19	Mar-20	Mar-21
Cash from Operating Activity -	-4	-2	-4
Profit from operations	12.3	15.58	17.39
Receivables	-1.2	5.47	-17.38
Inventory	0.13	-32.5	1.34
Payables	1.4	21.54	15.15
Other WC items	-14.84	-9.25	-17.56
Working capital changes	-14.5	-14.74	-18.45
Direct taxes	-1.79	-3.23	-2.9
Cash from Investing Activity +	-2	-1	-2
Cash from Financing Activity -	7	3	7
Proceeds from borrowings	10.67	0	12.43
Repayment of borrowings	0	-4.03	-1.38
Interest paid fin	-3.72	-3.84	-3.41
Dividends paid	-0.11	-0.22	-0.18
Share application money	0	10.6	0
Net Cash Flow	1	-1	2

- Receivables in FY21 has increased as sales improved year on year.
- Company bought some inventory in advance in last year, thus it invested less amount on inventory in FY21.
- Expenditure on other working capital item increased this year because expanded its product portfolio with Honeywell and associated with new brands. This led increased working capital requirement.
- Proceeds from borrower amounts to 12.43 Cr. in in FY21.
- Net Cash in FY21 stood at 2 Cr. Company's cash from operation is expected to improve with Ckart gains traction in the coming years. This will lead to improvement is net cash flow.**

Peer Comparison (Creative has EDGE)

	Parameter	Creative	Compauge Infocom Ltd	Redington
Qualitative Factor	Key link in the supply chain of distribution of IT & computer peripheral market.	Yes	Yes	Yes
	Segments	1 IT/ Gaming. 2 Imaging. 3 Lifestyle & Security.	1. PCs, Components, and Peripherals 2 Mobility. 3 Physical safety & security Equip. 4 Enterprise solution. 5 Cloud Computing.	1 IT 2 Mobility. 3 Services.
	Presence in digital B2B Market	Yes	No	No
	Established in	1992	1987	1993
	Channel Partners	5000+	12,500+	38,350+
Quantitative Factors	Operating Margin	2.73%	2.07%	2.36%
	ROCE	22.4%	12.2%	20.4%
	ROE	22.7%	12.2%	16.5%
	Profit Growth over 3 years	55	0.64	16.61
	Market Cap.	253 Cr.	203 Cr.	12,737 Cr.
	Debt to Equity	0.81	2.60	0.12
	Stock P/E	23.5	9.8	16.8
	Cash Cycle	53.2	62.5	15.4
	Debtor Days	39	54	44
	Inventory Turnover Ratio	7.87	10.88	16.37
	Current Ratio	1.35	1.30	1.52
	EV/EBITDA	14.5	7.5	6.8

- Creative in comparison to its peers has a major competitive advantage is it has presence in digital B2B market. **None of the other two players has their own digital platform.**
- Creative has less no. of network partners if we compare this with Compauge. But **Creative is not just in distribution it is also in license manufacturing, Market entry, and penetration of Global brands.**
- Through this diversification benefit, **Creative is growing at higher ROCE as compared to Compauge and Redington, even with less no. partners.** Creative also has higher operating margin.
- Apart from its operating efficiency its business model also offer tremendous growth opportunity.
- Creative has cash conversion cycle of 53 days which is very long as compared to Redington with 15 days cash conversion cycle. This is because majority of sales of Creative are in credit.
- But going ahead this cash conversion days will improve with credit sales come to Ckart, where selling will be in cash only.
- Ckart also offers an added benefit for the company as it will increase the customer base of the company without additional cost.

Experienced Management



Mr. Ketan Patel
Chairman & Managing Director

- IIM - B Alumnus with Engineering in Computer Technology from Mumbai University
- Over three decades of experience - has built expertise in business strategy, planning, product marketing and people management
- Responsible for maintaining vendor relations & new product development



Mrs. Purvi Patel
Whole Time Director

- Holds Diploma in Pharmacy with rich experience in Computer Programming
- Responsible for execution of business strategies and planning
- In-charge of all key business functions



Vijay Advani
Whole Time Director

- Bachelor of Commerce from Mumbai University, with over 32 years of experience
- Expertise lies in business planning, execution and key account management
- Over three decades' experience in Value Added Distributors Industry, including companies like General Electronics



Abhijit Kanvinde
Chief Financial Officer

- Chartered Accountant with over 25 years of strong and multi-industry experience
- Worked in companies like Garnier India, Novartis Consumer Health, Shringar Cinemas, etc
- Was CFO of listed company for over 8 years, also successfully completed IPO 2x in his career



Upendra Singh
National Sales Head

- Bachelor of Commerce from Ranchi University, with nearly 30 years experience in Sales & Marketing
- Expertise lies in vendor management, sales generation & market penetration With over 11 years' experience in IT hardware industry, he drives national channel & corporate sales



Amol Patil
National Product Head

- MBA in Marketing with Engineering in Electronics and Telecom, with over 20 years' experience in IT industry
- Expertise lies in identifying latest market opportunities with excellent team management and execution skills. He is responsible for profitable management of products portfolio

Source: Company Presentation Q1FY22

SWOT Analysis

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- ✓ Presence in all three channel.
- ✓ Technology enable supply chain.
- ✓ Successful long term association with global brands.
- ✓ Tie up with reputed logistic service providers.
- ✓ Trained and experienced staff.

- ✓ Over-dependence on few brands which account for majority of revenue.

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- ✓ Renewed agreement with Honeywell helps attracting global brands.
- ✓ Fast growing e-commerce market.

- ✓ Threat of technology obsolescence and substitute and cheaper products in which company deals is threat for the company's business.

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Risk & Concerns



- **Execution Risk** – If company does not execute well and Honeywell sales do not pick up, then it will miss its guidance. In that case, profitability will get hurt and future prospects of more licensing deals will hurt too.
- **Distribution Business Risk** - 3rd wave COVID could impact their imaging segment, which was the biggest contributor until a year-ago and where they had good numbers under the Go-Pro product.
- **Product Portfolio Growth Risk** - Inability to extend product portfolio and add more high margin / fast moving brands. For e.g. Creative is currently absent in the mobile phone (mobility) category, which restricts its market size.
- **Private placement at substantial discount** - In July 2021, company did preferential allotment/fully convertible warrants of 10 Lac shares @ Rs 110/- to Abhinav Capital Services Ltd and Shree Sumna Trade LLP. Company could have raised funds at higher price point but as per mgmt. they were in talk with these investors for last 1/2 years, once they found satisfactory growth they invested.
- **Risk of Ckart Failure** – Ckart is the key for future rerating and to even justify its name change. In case ckart venture fails, the company is back to distribution & licensing business, which have relatively lower market / opportunity size as compared to ckart.

Future Outlook

- Creative Newtech Limited is not just a distribution company, it is now into 3 businesses - distribution, contract manufacturing & B2B market place thru Ckart. **Future is very bright for this company which can generate handsome returns in next 2-3 years.**
- Company has delivered excellent Q1 FY22 results, although impacted by lockdown, Q1 represents around 2 months of sales. They did 69crs and 70crs of biz in June and July 21 - best performing months in the history of company. **With this run-rate they can easily do 180-200 Cr in Q2FY22.**
- Consolidated margins are depressed because Honeywell expenses have started flowing but revenue is yet to kick in. The management has guided for a launch in middle of September for Honeywell products and are sticking to 80 to 100cr revenue guidance for FY22. That makes INR 17cr EBITDA just from the Honeywell licensing business. Rest of the INR 600-650crs (conservative number) business could contribute another 4-5% EBITDA margin so another 25-30crs. **So a total of 45-50crs EBITDA expected in FY22.**
- Ckart appointed Independent director on board from IIM who teaches platforms and social networks. They're seeking guidance from the board in terms of the skillset, direction and how to play this business. **Tentative plans would be revealed in the next 2 months. Could include a demerger of Ckart too.**
- **Guidance for Honeywell business - INR 200/250 crores by FY23.** The agreement is till FY25 and they're in very early stage talks with other brands as well for licensing business.
- **The stock is currently trading at INR 241 (~280cr M Cap), which is approximately 5/6x FY22 EBITDA of 45-50 Cr and 4/5x FY23 EBITDA of 85-90 Cr.** Profitability in future will mainly be driven by the two new age businesses and it remains to be seen how well they can execute. If they are able to execute it well, it can deliver multi-fold returns.

Statutory Disclosure

SEBI Research Analyst Registration No. : INH200006451

1. At the time of writing this article, the analyst have no position in the stock covered by this report.
2. The analyst has not traded in the recommended stock in the last 30 days.
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