



# “Stove Kraft Limited Q4 FY-21 Earnings Conference Call”

**May 26, 2021**



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**Moderator:** Ladies and gentlemen, good day and welcome to Stove Kraft Limited Q4 FY21 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 opening remarks. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajendra Gandhi – Promoter and Managing Director, Stove Kraft Limited. Thank you and over to you, Mr. Gandhi.

**Rajendra Gandhi:** Hello and good afternoon to everyone. I hope you are all keeping safe and healthy during these times.

I would like to thank the entire investor community for the tremendous support shown during our IPO in February 2021. It was a proud moment for all of us. Today on the call I am joined by Mr. Rajiv Mehta – CEO, Mr. Shashidhar – CFO and Mr. Deven Dhruva from Orient Capital who are our investor relationship partners.

We have uploaded our investor deck and results highlighted on the stock exchanges and the company's website. I hope everybody had an opportunity to go through the same.

FY21 has been an extremely challenging year for all of us. It has been a year which truly trusted the capabilities and competencies of our company. The year began with the nationwide lockdown due to COVID -19 and gradually opened up in the end of May 2020. A sharp recovery has been witnessed in the second half of the year. Despite the challenges faced during 2021, we have seen a record growth across our key financial parameters of revenue, EBITDA, and PAT. Revenues grew by 28% to Rs. 859 crores. EBITDA grew by 234% to Rs. 113 crores and PAT grew by a whopping 2758% to Rs. 81 crores. The company has been able to generate operating cash flows of over Rs. 100 crores during FY21. Our company delivered record revenues and profitability on back of a strong volume growth, operational efficiencies, better product mix and cost rationalization programs.

Our kitchen solution comprised of cookware and cooking appliances across our brands and our home solutions comprised of various household utilities including consumer lighting, which enables us to be a one stop shop for kitchen and home solution and also offer products at different price points to meet diverse consumer requirements and aspirations. Our pressure cooker category has had a volume growth of 19% and this contributes to 22% of our revenues. Our non-stick cookware category had a volume growth of 43% and this contributes 18.5% of our revenues. Our Induction cooktop category had a volume growth of 21% and it contributes 8.6% of our revenues.

During the year, the company focused on own manufacturing and creating differential value-added products for our consumers. Our trading sales reduced from 28% to 19%, in the sense, we increased our focus on manufacturing and that gave a boost to our manufacturing revenues. We have a constant focus on technology upgradation at our facilities and we believe that it would

enable us to achieve greater efficiencies in reducing time taken and for the cost of manufacturing our products, from design to commercial production and in our in-house testing and quality assurance processes resulting in higher profit margins.

Our endeavor is to keep adding new and innovative products to our portfolio, enhance our addressable market through strengthening the distribution networks across domestic and international markets and be a preferred brand for our consumers. We have a dedicated in-house R&D and have progressively increased our investment in R&D in the last few years. To further our effort in our innovation, we have also entered into tie-ups with foreign companies for technology enablement and know-how agreements. We are continually looking to improve our distribution network. We have a separate distribution network for each of our brands Pigeon, Gilma and Black & Decker. Further, there is a separate distribution network for our Pigeon LED products. We currently have 9 C&F, 151 distributors in 27 states and 5 Union territories of India and 12 distributors for our products that are exported. The C&F agents and the distributors in turn connect with the dealer network comprising of about approximately 46,000 retail outlets.

We have commercial arrangements with retail chains, such as metro cash and carry for sale of our Pigeon branded products from several of their retail outlets in India. Our Gilma brand products are sold to exclusive branded outlets, owned and operated by our franchisees. There are 65 such stores spread across the 4 southern states in 28 cities across the south. Gilma stores are designed to be experienced stores. We believe to have been able to leverage the distribution network of our Pigeon branded products and our brand recall value to enter new product segments and markets. We are continually scaling up our branding, promotional and digital activities. Our widespread presence and scale of operations allow us to increase focus on branding and promotional activities such as increased advertising in print and social media, retail branding, product branding and engagements and engaging in brand association to enhance our visibility. The digital platforms and the social media have enabled us to reach and engage with wider audience and customized product offerings. Going forward the company plans to spend between 3% to 4% of our revenues on branding and marketing.

We continuously work in improving our efficiencies. Our working capital cycle has improved from 37 days in March 2020 to 27 days as of March 2021. This was mostly due to the improvement in the collection cycle from our debtors. This has helped to improve the ROCE and ROE of the company. Return on Capital Employed is at 31.9% as on 31<sup>st</sup> March 2021 and Return on Equity is at 26.8% as on 31<sup>st</sup> March 2021. During the current financial year, the company has reduced its debt which was at Rs. 323 crores, it has brought down Rs. 90 crores through the IPO proceeds, Rs. 48 crores from internal accruals and Rs. 150 crores converted from CCDs to Equity at the time of IPO. The company plans to be a zero-debt company in the near term.

We have witnessed the second wave of COVID-19 infection. This has again resulted in disruptions in our business, as several states have announced restrictions. We are currently

working at 50% of our capacities while for the month of May, but we expect this to increase once state restrictions are lifted progressively by majority of the state governments.

With this, we now are open to the floor for any questions and answers.

**Moderator:** Thank you very much. The first question is from the line of Koundinya Nimmagadda from JM Financial Services Ltd.

**Koundinya N:** I have three questions. First one is, what is the RM cost inflation that we are seeing to our basket and what is the price side that we have taken in the last one year or currently in FY22 as well?

**Rajendra Gandhi:** See we are a company which works on cost plus model. If there is any change in our input cost, that is material that goes into the manufacture of products, we on a quarterly basis correct our prices and then pass it on to the trade and the customer. Of course, the various margins are there for the various brands, but Pigeon is our largest contributor to our revenue. And at the company level our COGS is at about 65% and close to 35% is the contributing margin.

**Koundinya N:** Can you help us to know what is the price size that you took effectively and is there any impact that is left on your books, so are inflation, or have you passed on total inflation down to your vendors?

**Rajendra Gandhi:** This is exactly what I wanted to tell you. Anyway, if you want to know the number, we have taken a price hike in the month of February for this quarter which eventually got corrected by March and that is taking care of the cost increase. The price hike ranges between 5% to 8% on various categories of products that we operate in.

**Koundinya N:** Are you planning any further price hikes, even we are seeing that inflation even in 1Q FY22 as well?

**Rajendra Gandhi:** We are seeing a very dynamic situation in this quarter. We have seen price going up and also getting corrected. I think, we will definitely take an appropriate decision by the middle of June, if there is a further price hike required to get to our desired margin. So, I think the current price increase that we have taken is good enough for the current times, but there have been some more price increases in our cost of input, as and when we are able to analyze, we will definitely want to cover the cost increase and pass it on to the consumer. Generally, the price corrections happen once in a quarter. The next correction will be in post the month of June.

**Koundinya N:** My second question is on the cost front. We are seeing a rise in employee costs and also in other expenses on your YoY basis as well. Are there any one-offs here? And also, if you can help us understand what is the sustainable cost over here and likewise if you can also guide on the EBITDA margins?

- Rajendra Gandhi:** So, currently, for the overall as a company, we are able to operate at about 34%-35% of our gross margin and retain about 14% of EBITDA, the remaining going towards our cost which is in the range of 19% to 20% this covers both our direct and indirect costs. But on a higher revenue, because majority of these costs are fixed in nature, but for inflation the cost remains there. Inflationary cost definitely, there will be an increase in the cost otherwise as the revenues grow up definitely there will be some improvement on EBITDA margins.
- Koundinya N:** How should we look at employee cost, what will be a sustainable quarterly run rate that we should look at and also if you can help us understand likewise other expenses.
- Rajendra Gandhi:** We are in the range of 9% for our manpower cost and as I told you while we definitely want to reward our employees on a yearly basis. But we are also witnessing a higher growth rate than the increase that we accord to them. So, it will be in the same range or little lower in terms of percentage it will be in the range of 9%.
- Koundinya N:** So, lastly if you can help us understand and provide us sales breakup between kitchen and home appliances for FY21 and also for the three quarters, that is 4Q 2021, 4Q 2020 and 3Q 2021.
- Rajendra Gandhi:** So, we have been witnessing very high growth rates in the existing product category itself. If you see we have grown by 19% on the pressure cooker category, we have grown by 18% on our cooktop category. We have grown by 21% in our induction cooktop category. We have seen a very high growth rate and we are also witnessing very high traction in the non-stick cookware. We have grown by 43% on the non-stick cookware category. LED though is a smaller segment for us, we have seen very high growth rate it is at 136%.
- Koundinya N:** Sir sorry for interrupting, I wanted to understand what is the absolute sales number for modeling purposes, so, it is more of a bookkeeping question I am asking you what is the absolute sales number for kitchen appliances and home appliances for FY21?
- Rajendra Gandhi:** For us it is actually three categories. We, classify these into cookware, cooktop, and appliances. I can give you the number for all the three categories separately. Give me one minute. I will just let you know. For cookware that comprise of the pressure cooker and the non-stick cookware, it is at about Rs. 380 crores, the cooktop comprises of the LPG gas stove and the induction cooktops which is Rs. 175 crores and the rest we bracket it under the appliances whether it is electrical or non-electrical.
- Koundinya N:** This is for which timeframe.
- Rajendra Gandhi:** This is for FY21.
- Koundinya N:** So, I will take the numbers from you later.

**Rajendra Gandhi:** I think we will send you a detailed quarterly, but it is also there on our website, but we will send you a detailed breakup of the three categories that we operate.

**Koundinya N:** Sorry for repeating this question, what is the sustainable EBITDA margin guidance that you want to give?

**Rajendra Gandhi:** We currently are operating at about 34%-35% of the gross margin, and at the current revenue levels at about 19%-20% we are able to take care of all our costs. So, while there will be some inflationary cost increase, but otherwise at this revenue number we are able to generate the differential at about 14%-15% as EBITDA. We also believe that as our revenue numbers go up, there will be an improvement in terms of the percentage of EBITDA.

**Koundinya N:** What have you done to your A&P spends during the quarter and also, I think you are working on your freight and forwarding expenses which you have to maintain at 2.9% of sales, so where are we on that part now?

**Rajendra Gandhi:** For us the account P, that is the promotional cost we net it off from the revenue, so it does not reflect in our expenses, all promotional spend, but advertisement spend for the current year we are planning anything between 3%-4% of our revenue.

**Koundinya N:** What about freight and forwarding. where we on that?

**Rajendra Gandhi:** For the current year that is FY22 we are planning to spend between 3%-4% on the marketing spend.

**Koundinya N:** I was asking about freight and forwarding expenses because you are working on the logistics front to reduce the freight and forwarding to 2.9% of sales? I think that is the last conversation we had.

**Rajendra Gandhi:** We already have an improvement overall in terms of percentage on freight and forwarding and we believe we will sustain this or improve on this.

**Moderator:** The next question is from the line of Devansh Nigotia from SIMPL.

**Devansh Nigotia:** Strategically I wanted to understand, currently in Pigeon we operate as a marked brand and our products are priced at significant discount to other players. So, going forward do we want to close some of the gaps on the pricing front or we want to be at the same pricing range in our kitchen appliances product?

**Rajendra Gandhi:** The company operates with three brands and Pigeon is targeted to be a high-quality right priced brand I can say. We would always want to protect this positioning for the Pigeon brand. We have Gilma and Black & Decker which are at a different level for the consumer. But Pigeon brand particularly we are in a very special position, and we would want to protect this position.

**Devansh Nigotia:** Within our product basket of four to five products, is it any specific target product that we want to focus on or largely we want to grow all the products in our basket?

**Rajendra Gandhi:** Actually, we want to dominate the kitchen space and then get into home. These three categories of products that we operate in, that is cooktop, the cookware, and the appliances, all these three are very basic needs of any kitchen, either it is a new kitchen or existing one products get replaced. So, we want to be there dominantly. We want to focus on all these three categories. Maybe sometimes some categories grow faster than the other, but currently the difference is not very large. The appliances category has a larger opportunity, but pressure cooker and the cooktop, the nonstick cooker and the pressure cooker category is contributing to about 40% and the gas cooktop category is contributing to over 20%. The remaining is appliances. We believe that, as we move forward maybe in the next few years, this will all be at the same level, the contribution of revenue will be at the same level.

**Devansh Nigotia:** And in case of our credit payables, are there any of acceptances there? Because the balance sheet is debt free, but still there is interest cost of Rs. 3 crores, just wanted to understand what is our arrangement there.

**Rajendra Gandhi:** The company has had debt and we have just brought it down in the last quarter substantially, both with IPO proceeds and with the internal accruals. As of 31<sup>st</sup> March, the serviceable debt is only Rs.15 crores. But in the finance cost we have moved to various channel financing facilities for our customers, so while they would get the reasonable credit that they want, and we have moved to a faster collection cycle. So, that will reflect in the finance cost, but it is not as high as what you are seeing in the last quarter, because we still had larger debt in that quarter and most of it actually came down in the later part of the quarter. That is why that larger cost of finance is there.

**Devansh Nigotia:** In case of our e-commerce sales, we have very well capitalized on that, so if you can throw some light on what makes it really difficult for some other players to replicate it on the e-commerce channel? What is our strength there?

**Rajendra Gandhi:** It is a combination of several things, but I will give you some insight into that. First of all, the way the brand is positioned, the e-commerce evolved in the country initially, the consumer who was looking for value, more and more customers were looking for value. We fit perfectly there, number one. Number two, we believed in this channel early. So, we were the early movers. So, we had that advantage and over the time what has happened is we have a range of products. So, all those happy customers and those customers who are actually doing their research online, they will view at the number of ratings and the quality of ratings. Both in the number of ratings and the quality of ratings for our products is relatively very-very high. This gives that higher confidence to the new consumer also. All these are contributing to giving us the position that we have on these e-commerce platforms.

**Moderator:** The next question is from the line of Deepak Poddar from Sapphire Capital Partners LLP.

**Deepak Poddar:** Just one question that I had was you mentioned that we are running at about 50% capacity utilization in the May month. So how does that impact our growth overall, how do we see growth as we kind of look forward?

**Rajendra Gandhi:** Definitely there is an impact in the month of May. We are working at 50% and only catering to the e-commerce demand and the export demand, they will definitely impact the overall revenues and overall numbers for the company for this quarter. But we believe that once things normalize there could also be those channels which could not actually operate during this time some of it will come back. There will be a definitely an impact in the numbers from what we would have otherwise without the lockdown plan

**Deepak Poddar:** So overall for the year growth so how do we look at that, like 15%- 20% plus kind of growth? Is that a possibility or it looks a distant because of this current situation?

**Rajendra Gandhi:** I can also tell you that while we wish that we did not have a lockdown this year, we also have similar kind of situation in the last year, more particularly at the fag end of the year and it is kind of a similar situation. I can also say that today the company is well equipped to handle both the lockdown, relatively better equipped to handle both lockdown situation and post lockdown situations and particularly the brand business has been growing in the range of 15% to 25% in the last 4-5 years. I can only tell you that if we are at the higher end of the growth rate, so that is where we are.

**Deepak Poddar:** My second question is related to your margins. Now you did mention that as the revenue goes up the operating leverage will kick in, so how do you see that maybe 3-4 years down the line, the EBITDA margin potential from this current 14%-15%, so what is the potential of that 18%-20% is what is a potential once this leverage kicks in or any comment on that?

**Rajendra Gandhi:** The operating leverage is already kicked in and we have been witnessing the benefits of this and definitely as the revenue number goes up, there will be an improvement on the EBITDA margin. We would want to protect our position particularly for the Pigeon brand and we are not going to push very hard on our gross margins on the realization front. But definitely we believe in terms of percentage, the cost could come down a little bit. But when these two brands, Gilma and Black & Decker start contributing more, obviously they are at a higher gross margin which will eventually result in better EBITDA margins and definitely at that revenue number that you mentioned, definitely it will be much higher than the current level of EBITDA margin.

**Moderator:** The next question is on the line of Yasmin Shah from Antique Stock Broking Ltd.

**Yasmin Shah:** I have two questions. One is if you could throw light in terms of what could be your market share across various categories where you are present? And my second question pertains to your distribution reach, what is the distribution reach now in terms of geographies or states and how do you plan to take it ahead?



**Rajendra Gandhi:** It will be very difficult to give you a market share. We have not formally evaluated this, but I can only say that we are growing in all the categories and in each of these categories particularly the cooktop category and the cookware that is the pressure cooker and the nonstick cookware, we are far ahead of the industry in terms of growth. On the distribution I can say we have primarily three channels here in the domestic market, the e-commerce channel, the general trade, and large format stores. We are there in all these channels here. We are more stronger in the South for the general trade, but e-commerce and the modern trade we are evenly spread across the country. We work with all the chains of large format stores. We are very strongly present in both the large platforms for e-commerce. If we will see the skew in the general trade, we are about 55% in the South and the rest of the country is contributing 45%. But with the mix of all these three channels, we are 45% in the South and 55% in the rest. Parallely our export business is growing at a very high pace and already it is contributing to close to 10% of our revenues.

**Yasmin Shah:** So how much would be the e-commerce in this percentage to sales and what was it last year?

**Rajendra Gandhi:** E-commerce is about 30% for us overall for the whole year.

**Yasmin Shah:** 30% of the company sales are from e-commerce for FY21?

**Rajendra Gandhi:** Yes.

**Yasmin Shah:** My last clarification is on margin so when you are saying 13% EBITDA, so that includes your ad spend?

**Rajendra Gandhi:** Come back.

**Yasmin Shah:** EBITDA margins are 13% or 14%, you netted off the ad spend from that?

**Rajendra Gandhi:** Obviously, it is after all expenses just before, of course, interest depreciation and taxes.

**Moderator:** The next question is from the line of Manish Poddar from the Nippon India AIF.

**Manish Poddar:** Just one question, if you can help me with the tax rate for FY22 and FY23?

**Shashidhar S.K.:** Basically, we have a brought forward loss in terms of where we stand at the beginning of FY22, we are standing at around 44 crores of brought forward loss and, of course, we are now transiting to a new regime where the tax rate will be 25.7%, We will be paying taxes in FY22 after absorbing the carry forward losses what just now mentioned. So, that is where we stand.

**Manish Poddar:** So, you said Rs. 45 crores roughly?

**Shashidhar S.K.:** Yes.

**Moderator:** The next question is from the line of Ayush Agarwal from Mittal Analytics Pvt. Ltd.

- Ayush Agarwal:** Just building on the e-commerce part, where do you think the e-commerce part of this industry stands like what would be a probable, I am sorry it is difficult to put a number, but where you think the market size is today and what rate do you think the industry is growing?
- Rajendra Gandhi:** For us as a company, e-commerce already contributes 30%. We still see a high growth in the e-commerce channels, while the company is also growing, but the growth rate of the e-commerce business seems to be higher than the overall business of the company. We still believe that for a year or two the growth rates on e-commerce will be higher. Generally overall, as a category I think about 10% of the businesses coming from e-commerce for the industry overall.
- Ayush Agarwal:** But we are getting 30% of our share from e-commerce which means that we have a much larger presence than other players?
- Rajendra Gandhi:** Yes.
- Moderator:** The next question is from the line of Arun Kejriwal from Kejriwal Research.
- Arun Kejriwal:** Two questions, one is, you had some CAPEX which was ongoing, so of that ongoing CAPEX what is it that we would see, what kind of CAPEX would be onstream in the current year FY22?
- Rajendra Gandhi:** Thank you for getting onto this call Kejriwal Ji. As you are aware that you had visited Stovekraft, so you know what is the kind of development that we had envisaged then. So, it is ongoing and within the three years I can say that is the last year, the year FY21, FY22 and FY23 all these three years put together, it will be in the range of Rs. 100 crores. Until you capitalize it is an ongoing thing. That is why I am giving you an average of this three years.
- Arun Kejriwal:** So, this will be Rs. 100 crores per year. Correct?
- Rajendra Gandhi:** No. I am sorry, misunderstood me. When you sum the three years together, average it will be between Rs. 30-35 crores, so it will be here and there.
- Arun Kejriwal:** How much do we see getting on stream in the current year FY22?
- Rajendra Gandhi:** I can say it will be almost evenly spread between these three years. Take here and there Rs. 5 crores it cannot be controlled to that extent, but it will be in that range.
- Arun Kejriwal:** Our asset turn would be typically what? 3.5-4:1 or what?
- Rajendra Gandhi:** Shashi, if you have this number for the asset turn, can you please explain?
- Shashidhar S K:** Asset turn in terms of what happened in FY21 we turned down our net asset...
- Moderator:** So sorry to disturb you, your voice is bit muffled.

- Shashidhar S K:** Asset turn for FY21 was 3.94 to be precise.
- Arun Kejriwal:** This would be the same even for the new CAPEX that comes on, correct?
- Rajendra Gandhi:** Yes, there is an incremental revenue, so more or less it will be in the same range.
- Arun Kejriwal:** Second question. You mentioned during questions asked by other friend, that 30% of your topline has come from e-commerce and about 20% from exports. Is this normal for you or this is more because of the pandemic that is going on that e-commerce has been much higher.
- Rajendra Gandhi:** Normally, for the last year 30% was from e-commerce and 10% was from export. Currently for the month of May I can say 90% of the revenue is coming from these two channels, because the revenue is also truncated.
- Arun Kejriwal:** But I am sure this would get back to normalcy once the lockdown is lifted.
- Rajendra Gandhi:** We are very confident it will happen. We also hope normalcy comes through.
- Moderator:** The next question is from the line of from Deepak Lalwani from Unifi Capital Pvt. Ltd.
- Deepak Lalwani:** My question is on your export business which we do for the retailer in the US. You mentioned that the contribution is about 10% to your revenues currently. Can you share the outlook there and the order book size that we have from the retailer?
- Rajendra Gandhi:** We have almost the complete order book as last year and while the company also grows, so we believe that the export contribution as a percentage will also go up a little this year.
- Deepak Lalwani:** 1.7x can you please quantify that number?
- Rajendra Gandhi:** These are from various customers and anyway last year we closed at about Rs. 80 crores and we have close to Rs. 130-135 crores of orders.
- Moderator:** The next question is from the line of Haresh from BNP Paribas.
- Haresh:** So, can you help us with what kind of margin we will make in export business?
- Rajendra Gandhi:** For our export business, we do not have other costs like freight, outward freight or marketing and the sales, it is a very-very minuscule cost. At EBITDA margin we make similar margins that we do for our brand business.
- Haresh:** One more thing I would like to ask in general. There was an article in newspaper day before yesterday in I think Business Line that in Pradhan Mantri Ujjwala Yojana they are going to distribute some 1 lakh LPG cylinders and they are going to start from next month by June. So, how much of that are we going to catch up from that. Near about 1 crore cylinders the

government is going to distribute. Would it be fair to assume that we could gain some 30% out of that?

**Rajendra Gandhi:** As a strategy last 5-6 years we have been tapering off this business and as a policy this year we almost have come out of this. Yeah, you rightly said that there is a requirement and a demand from this Ujjwala business, but as a policy of the company we have come out of this co-branding business and none of this business will be reflecting in our revenues this year.

**Haresh:** The next question is from the line of Kunal Shah from Carnelian.

**Kunal Shah:** My question is more from the long-term strategy when it comes to the distribution, so how do we see general trade other than non-south growing for us and how do we see the company shaping up in the next 2-3 years when it comes to other areas. And second part of the question was what kind new SKUs or new product lines we are thinking of introducing or we have introduced because you are building CAPEX and you have got very strong manufacturing names, so there will be obviously ancillary lines of that coping to us so, what are the thoughts on these two questions?

**Rajendra Gandhi:** First of all, on the distribution side, I would want to emphasize here that more focus is there on expanding our distribution network in markets where we are still growing and you will see that there is going to be a larger growth in terms of percentage from these markets, more particularly in the general trade from all these three East, West and North. Our endeavor is definitely over a period of time we will be equally present even in the general trade across the country. But definitely it is not going to be anytime very soon because there is a very strong base already there in the South. While we are not de-focusing from the South, we are going to put additional effort to build our network in these markets. On the product side we want to say that we have those capabilities that are required to make any of these products that are used in the kitchen and home. So, when I say the capabilities, they are whether to form metals or in plastics or when it comes to electronics, all these capabilities are in-house, whether to make motors or PCBs and all this. So, with those capabilities and the products that are lined up, I can say our focus is only to be there within those requirements for the kitchen and home. The R&D is continuously working both in the categories that we already operate. There are also some innovations that are lined up. It will be extremely difficult for me to share with you exactly what are those products, but I can tell you we have a very strong lineup, both for this current year and also for the quarters ahead of this. Every product development goes through a timeline and some products get to market very fast and some products will take longer because of the nature of those developments. I can say that there are some exciting times in the kitchen and home space from Stovekraft.

**Kunal Shah:** On the first part of the question if you can throw a little bit more light, you allude that there will be a larger growth focus on general trade, now if you could just help understand how much of each of this would be contributing and what kind of actions, we are taking on ground, we are running more sell sites, which kind of help, how should one look at 2-3 year down the line?

**Rajiv Mehta:**

Thanks, Kunal for the question. If you look at last year, despite having only 10 months, general trade bounced back and closed at the same number. So, technically on a year-to-year basis, like-to-like general trade has grown. We have seen that in the last two quarters general trade has seen a significant growth and that is largely driven by the opening of the markets and the demand that is coming from across the country. If you look at South, South, of course, we will focus on growing quality distribution. In West, North and East, because the base is small there is a huge scope in increasing numeric distribution, which is by increasing the number of distributors and to each distributor we typically map 100 to 120 outlets which are serviced by our sales executives. So, by doing that, we are very confident of growing our share of the number of retailers in West, North and East. Of the 33,000 retailers that Pigeon has 12,000 come from West and that number will grow by 20%. And North and East will have another 4000-5000 both put together. So, both North and East will practically add another 1000-1500 retailers this year, that is the target. And given that the contribution will start coming, like Mr. Gandhi said 55% comes from South, we are aiming to go closer to 50% South and 50% rest of the country in this year and then slowly start scaling up the rest, in the future the rest of India more towards 60%. We also monitor this using Bizom which is our technology, so we are able to monitor each and every outlet and each and every sales executive. This will come with increased revenue both from like-to-like as well as new distributors being added.

**Kunal Shah:**

Just one question on the advertisements spends. So, you get large portion of revenue from e-commerce and exports which in my understanding reasonably would require less kind of advertisement expense and correct me if I am wrong. Where are you spending this 3%-4% of advertisement expenditure? Then how do we see or monitor traction of the same if you increase in revenues. If you could share a little bit on your A&P strategy and how do you guys track it translating into a revenue growth, that would be helpful?

**Rajendra Gandhi:**

The marketing spend has taken a back seat only during this month of May. And we believe that near to normal situation very soon will come in and obviously we will want to be at the forefront of reaching out to our customers. So, it will not impact hugely for the overall annual spend. On the digital side, we continue to be very active even during this time, but on the print media and those other activities that we do, more to realize those outcome from the general trade has taken a back seat only in the month of May. But then there is a larger season. For us, the business is also driven by the various festivals that India celebrates. It starts with the Onam in Kerala and goes up to the middle of Diwali and Dussehra post which there is a New Year kind of a celebration. So, even if you see historically our business is skewed between the first and the last quarter generally contributes about 40% and 60% of the revenue comes from the second and third quarter. And also, generally the majority of the marketing spend also happens during these two quarters. So, I do not think there is going to be a substantial change in the marketing spend with what we are planning to do between 3% to 4% of our revenue.

On the promotion spend, actually it does not reflect in our numbers directly because all the promotion spends, we net it off from our revenues.

- Moderator:** The next question is from the line of Varship Shah from Habrok Capital Management LLP.
- Varship Shah:** Could not understand on going through your presentation, what are these reducing trading sales could you please throw some light on that?
- Rajendra Gandhi:** In the past, while we introduced new products, the strategy is to first build scale and then get into manufacturing. And of course, once there is scale, once you get into manufacturing your cost comes down and obviously then we would want to go backward integrate it so that even we manufacture the entire product. During particularly last year, we felt this has to be hastened fast and so we wanted to lessen our reliance on imports from China. Majorly some of the products we have already completely indigenized, like the Chopper, Kettle, and Induction Cooktop, so the traded revenue obviously is coming down and it is getting into the manufactured revenue. We are also seeing an advantage when we do this, our costs are coming down. The substantial portion of the cost reduction we passed it onto the consumers and when we pass it on to the consumer, we are also seeing higher growth rate there and as and when we see higher growth rate then we also backward integrate. Both these processes are resulting in better margin for us and definitely higher value for the consumer.
- Varship Shah:** These are basically outsourced manufacturing, where you used to buy, and that proportion is coming down.
- Rajendra Gandhi:** Yes, so what we were importing, we are now making in-house.
- Moderator:** The next question is from the line of Pankaj Bobade, an Individual Investor.
- Pankaj Bobade:** In an answer to an earlier question, you mentioned that you would be perfecting the brand Pigeon, do I read that in future if we have to grow on this brand, it would be at the cost of, we would look at increasing the volumes maybe at the cost of price?
- Rajendra Gandhi:** Is it that you are asking that we will be reducing our margins? Is this the question?
- Pankaj Bobade:** Yeah.
- Rajendra Gandhi:** The growth is driven by both innovation and expansion in our distribution, and it is not driven by any cost reduction. Our cost reduction is a different activity. As I mentioned to you, more and more of our trader category of products we are moving to manufacturing, as we move to manufacturing our cost comes down, we pass on the majority of this cost. It is not driven by reducing our margins.
- Pankaj Bobade:** So, how much of our sales are in-house manufactured?
- Rajendra Gandhi:** Today we have already reached a level of 81% is manufactured revenue and 19% is our traded. While we will continuously work on reducing this 19%, but it does not mean that it will go down quickly further. We want to try out with trading new products initially, once there is a scale

enough to get into manufacturing, we get into manufacturing, but you can see this continuously even at a larger revenue this in terms of percentage coming down.

**Pankaj Bobade:** My second question is this is the first time for this year we have reported double digit margins. So, how confident are we that we would be able to repeat going forward, and what are the steps we are taking for this? What gives us the confidence?

**Rajendra Gandhi:** This is based on our business that we do, the various brands that we work and the channels that we work, and the margins. And we are a purely cost-plus company, and while the gross margin levels will remain where they are, we only believe that as the revenue goes up the fixed costs remain. In absolute percentage terms, we also believe that as the numbers on the top line grow, the EBITDA percentage will also grow.

**Pankaj Bobade:** If I may ask one more, since we are looking around 10% of our sales especially to US, do you see any traction in our sales with this China +1 scene which is gaining ground in other sectors too?

**Rajendra Gandhi:** If your question is, is there a movement sourcing from China to India, yes, there is a huge surge, more and more of these retailers actually want to look at alternatives to India. We are a proven supplier, and of course we are not able to add new customers because we are already kind of full with the orders, so for this current year, we are already there. But there is a huge opportunity out there for the Indian exporters.

**Moderator:** The next question is from the line of Rahul Ranade from Goldman Sachs.

**Rahul Ranade:** I was just wondering if you could kind of break up our growth for the full year in terms of how much would be from the extra distribution led outlets that you would have added and something in the lines of sales in store sales growth, just trying to understand the whole category of this you would have got a tailwind from people staying at home, so how would that have played out for you in that case?

**Rajendra Gandhi:** You want to know the channel mix, or you want to know about the product mix?

**Rahul Ranade:** For our top-line growth of say around 28% for the full year I believe that you would have added something like a 10,000 odd outlets for the full year in terms of distribution? What would they be contributing right now to topline is what I was trying to understand?

**Rajendra Gandhi:** First of all, let me explain to you we have grown on the various channels, the number of outlets growth and the growth from that will only reflect in the general trade. The general trade we could maintain the number because almost two months of the year we were not there. Almost April and May, though we started operations in May, most of those stores were still limping back, so the actual revenues started from June, in spite of the loss of these two months we were able to remain there, the bigger growth of course has come because of our expansion in the number of

stores, and I can say while I would not be able to give you exact numbers, but we will share it with you, to give you a number which has come out of our number of stores expansion and from our existing retailers, because we can actually get this data from our software that Bizom can give us, I would not have it readily. And the bigger growth has of course come from these two, we have grown both substantially, the growth rate is higher than our company's growth rate in e-commerce, and the higher growth rate is also in the export business.

**Rahul Ranade:** I missed out on Rajiv's comment on the store additions for this year. So, what I thought was we have 12,000 retailers in the West, where we would be growing somewhere in the range of 20%, so that would be around 2,500 odd outlets in the West. And North and East put together what are we targeting?

**Rajiv Mehta:** Currently the number of retailers that are present in the West are close to 12,000, number of retailers present in the North and East are close to 2,500-3,000 each. That brings the total to about 17,000 and the rest of the 15,000 are present in the South. Expansion in the West we will add another 3,000 and in North and East we will add another 2,000 both, so 5,000 will be added in North, West, and East.

**Moderator:** The next question is from the line of Bhavik Mehta from Roots Ventures.

**Bhavik Mehta:** The question is that the revenue share for pressure cooker and other appliances is around 50% so for EBITDA is the ratio the same? And a follow-up to that is that the other appliances business has been a bit subdued as compared to our other sub-segments, so this year would it be any better?

**Rajendra Gandhi:** We have had higher growth rates in the pressure cooker and the non-stick cookware. And we had a normal growth rate in the appliances. Of course, as we add more appliances, the number of appliance itself the contribution will be growing. In terms of contributing margin, for us we are a cost plus company and each of these categories contributed the same percentage. So, it really does not matter which segment grows for us.

**Bhavik Mehta:** The second question is that 10% of exports, last call you had mentioned that previously it was more of white labeling and going forward you would like to expand more, and given how other companies are doing with various appliances to US, do you think that over a period of 3 to 4 years this number would be substantially higher?

**Rajendra Gandhi:** Yeah, at the current growth rate in the 3 to 4 years, the number will be relatively much higher, both in terms of absolute number and in terms of percentage we believe it will be higher than what it is today.

**Bhavik Mehta:** Would this be driven by the Pigeon or Gilma or it could be a mix of everything?



**Rajendra Gandhi:** No, we do not export the Gilma brand, currently we export Pigeon to wherever the Indian diaspora is, and non-stick cookware to the North American continent where we work with the retailers is white labelled. Of course, there is a strategy in the long term, it is not for the immediate as the size and scale of business that we are building in the North American market is substantial enough for us to have a distribution and brand play. We will ideally want to then license a brand and have our own brand and distribution play there.

**Bhavin Mehta:** The kitchen sinks, is it manufactured in-house or is it imported currently?

**Rajendra Gandhi:** You mean the product that we export?

**Bhavin Mehta:** Yeah, the kitchen sink part.

**Rajendra Gandhi:** 100% of that is manufactured in-house. That is our competence and that is why these large retailers want to buy from us.

**Moderator:** The next question is from the line of Hardik Jain from White Stone Financial Advisors.

**Hardik Jain:** If I am correct, we also do some contract manufacturing for the online platform companies here. So, when we say that we have 30% sales from the e-commerce, can you break it up for us, how much would it be like contract manufacturing supply and how much would it be our own brand that sells on their platform?

**Rajendra Gandhi:** All the sales that we do on the e-commerce platform are under our brands. We currently have no contract manufacturing for any of the players.

**Moderator:** The next question is from the line of Aditya Kondawar from JST Investment.

**Aditya Kondawar:** The theme of unorganized to organized played a part in it. That is my first question. Question number two is what are your thoughts on this scheme and like some color around it, how do you see the organized sector gaining market share from the unorganized sector?

**Rajendra Gandhi:** You see we are growing at a much higher rate than the industry. Obviously, we are getting some market share from whichever segment it is. Of course, lot of businesses in the recent times are also continuously moving, I think as we go forward majority of the business in this country will be from the organized players, obviously that shift is there. And being the special position that we have for our brands, particularly the brand Pigeon, it is a very attractive positioning where you get high quality products at the right price. So, it is not necessarily that we are getting traction only from the unorganized players, we see that a large portion of that is coming from there and also I am sure that we are also getting a lot of market share from players who are established and that is what you are witnessing, I mean you are able to see that in all the categories that we are currently working, most of the categories we are growing much higher than the organized industry itself.

- Moderator:** The next question is from the line of Ronak Vora from AUM Fund Advisors.
- Ronak Vora:** At the end of capacity that we currently have, I guess the gross block is around 230-240 odd crores, what kind of topline would we be able to generate from this?
- Rajendra Gandhi:** You are talking about the CAPEX that we have currently?
- Ronak Vora:** No, not the CAPEX of 100 crores that you mentioned earlier, I guess we have a gross block 230-240 odd crores on the balance sheet, right?
- Rajendra Gandhi:** That is right.
- Ronak Vora:** What kind of revenue can be generated from the current gross block?
- Rajendra Gandhi:** The existing proven revenue from the existing capacity assuming that we have utilized it fully still will have a 20% gap because we last year had revenues only for 10 months and at 850, we believe that can get through between 1,000 and 1,200 crores.
- Ronak Vora:** And with the 100 crores of CAPEX that is planned between FY21 to FY23, more 350-400 crores can be added, right?
- Rajendra Gandhi:** 3 to 4 times it can easily come.
- Ronak Vora:** So, can we say that in the next 3 to 4 years our topline can double to 1,600 crores from the current 860 crores?
- Rajendra Gandhi:** I can only tell you that in the last 5-6 years we have been growing at about between 15%-25% on the brand business. We have let gone all our other business we have, we are only focused on the brand business and the export business, and currently we are confident of growing at the higher band, so if we grow at that band, then of course we can do our math, I am not able to give you a number.
- Moderator:** The next question is from the line of Kamlesh Kotak from Asian Market Securities.
- Kamlesh Kotak:** If you can share the revenues from each of the three brands that will be helpful.
- Rajendra Gandhi:** 82% of our revenues come from the Pigeon brand, 9% is actually from the export business, of that 9% I can say 80% is white label, the rest is between these two brands, Gilma and Black & Decker.
- Kamlesh Kotak:** Would the trend be the same last year, or is it slightly different, FY20 was the trend the same?
- Rajendra Gandhi:** They are in the similar, but because of our increase in the exports, there is some few percentage points increase in exports, otherwise it is the same range.

**Kamlesh Kotak:** Secondly can you help us understand what will be the total number of SKUs you may be having across categories?

**Rajendra Gandhi:** The company currently has about 600 SKUs.

**Kamlesh Kotak:** And how many were there last year compared to this?

**Rajendra Gandhi:** We do have a process of rationalizing and what we do is while we keep on introducing new products, we also will let go of those products which forms a tail end of the range. More or less, we are in the same range but for maybe while exact number also if you want, we can share but it will be very small, the difference will be very small.

**Moderator:** The next question is from the line of Karan Agarwal from Tusk Investment Limited.

**Karan Agarwal:** Since we are seeing that because of the rise in raw material cost the company has to take price action on a regular basis, is that correct? So, considering that the prices will continue to rise of these raw materials do you think the growth of the industry is slowing down?

**Rajendra Gandhi:** I think these are kind of consumer products the category that we are in, though it is not consumable every day, but because of the replacement cycle and the continuous life cycle is shortening day by day so it is kind of a consumer product, it is a need based, it is not driven by choice, it is driven by need, and if input costs go up and the overall offering from every brand is in that same range what it is, because it is a need based, I don't think just because price go up the demand comes down. And particularly for the Pigeon brand, we continuously want to offer the best to our consumer at the right price, so we only want the differential of the cost, and it is not that we take any advantage of the price increase. Whenever we have had a price increase, we have not seen a drop in the revenue so far.

**Moderator:** Next question is from the line of Aditya Mehta from GK Capital Management.

**Aditya Mehta:** Just one question from the customer point of view, so how are we looking at expanding our service network. I was just checking your website, there are no separate options to check this availability of service centers or even for contacting your customer care representatives the numbers mentioned are not even working. So, in order to grow our kitchen appliances segment, we will have to assure that customer service centers are available throughout the country, so how are we looking at that?

**Rajendra Gandhi:** We have service executives both on our rolls and through franchisee network across the country. We have a toll-free number which actually caters to this requirement. Currently you would have witnessed some problems because this is operated by an independent call center and because of the lockdown situation there is restriction of them operating. While you have brought it out, we are also working out on a map where on the website you will be able to get the local number apart from the common number that we have for the whole country, for all those regional

operators, they will also have a direct number that will be on our website very soon, the regional service franchisee numbers will also be there. We are already working on that.

- Moderator:** The next question is from the line of Priyank Chheda from Standard Chartered Securities.
- Priyank Chheda:** I just want to know what was the utilization levels in Q4 and in last quarter if you can help me with that.
- Rajendra Gandhi:** Utilization of the manufacturing facility?
- Priyank Chheda:** Yes.
- Rajendra Gandhi:** The capacities are always built for the peak, and the second and the third quarters are the larger quarters, as I would have already mentioned these two quarters contribute to 60% and obviously in the first and the last quarter we will have relatively lower utilization, but we also take this opportunity to also, whatever maintenance and upgradation that we do, we do it in either the first quarter or the last quarter. But again, because we have different products segments in different manufacturing lines some of those lines are also skewed, and some of the lines are catering to exports. We also see that particularly in the last quarter or the first quarter we have a highest skew, we utilize these facilities for more of exports. If you want to get a number on the overall generally, we are able to use maximum of 80% in the last and the first quarter, and somehow, we are able to squeeze in and do some additional shifts in the second and third quarter to get to that 60:40 ratio.
- Priyank Chheda:** So that is on the total capacity of 41 million units, right? Considering both the plants.
- Rajendra Gandhi:** Yes, the larger facility is in Bangalore, we also of course have the Himachal facility and to improve our business mix, we are now focusing on our inner lid pressure cookers which are actually sold in the North, East and West, more in the North and the East, so it is completely dedicated to make our inner lid pressure cooker.
- Moderator:** Ladies and gentlemen, due to time constraint that will be the last question for today. I will now hand the conference over to Mr. Rajendra Gandhi for closing comments.
- Rajendra Gandhi:** Thank you everyone for joining us. I hope we have been able to answer all your queries. We look forward to such interactions in the future. Once again, I would like to thank each one of you and all the investor community for the tremendous support shown during our IPO. We hope to live up to the expectations of you all in the future. In case you require any further details, you may please contact us or Orient Capital, our investor relation partner Thank you.
- Moderator:** Thank you very much. On behalf of Stove Kraft Limited, that concludes this conference. Thank you for joining us, you may now disconnect your lines.