“Stove Kraft Limited
Q2 & H1 FY2022 Earnings Conference Call”

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<u>Management:</u>

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Mr. SK Shashidhar – Chief Financial Officer, Stove Kraft Limited

Mr. Deven Dhruva, Orient Capital, IR

Moderator: Ladies and gentlemen, good day and welcome to the Stovekraft Limited Q2 & H1 FY2022 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rajendra Gandhi –Managing Director and Promoter. Thank you and over to you Sir!

Rajendra Gandhi: Hello and good afternoon, everyone. I hope you are all keeping safe and healthy during these times. Today on the call I am joined by Mr. Rajiv Mehta our CEO, Mr. Shashidhar SK, CFO, and Mr. Deven Dhruva from Orient Capital, our investor relations partner. We have uploaded our investor deck and results highlights on the stock exchanges and the company's website. I hope everybody had an opportunity to go through the same.

Post the relaxation of the lockdown restrictions from early June 2021, the company has been doing well and has delivered a strong performance in the second quarter of the year. Revenues in the quarter have grown by 53%. Our company delivered a strong performance on the back of stellar volume growth and better product mix. We have grown through all channels, general trade, modern retail and of course the dominating e-commerce. For the quarter our pressure cooker category had a volume growth of 53% and this contributed to 26% of our revenues. Our nonstick cookware category had a volume growth of 14% and this contributes to 17% of our revenues. Our cook-top business, the gas and induction cook-top category, had a volume growth of 31% and 53% respectively that is the gas cook-top business grew by 31% and the induction cook-top business grew by 53%, which contributes to 13% and 8% of our revenues respectively. Collectively they contribute 21%.

Our new segment, the LED, had volume growth of 70% and this contributes up to 7% of our revenues. Small appliances like mixer grinder and others had a volume growth of 34% and this contributed to 30% of our revenues. The company focused on our own manufacturing. Our trading sales have also reduced considerably during the last few quarters, now the products we are manufacturing and so they contribute from the manufacturing sales. During the last quarter, the quality of raw material has increased substantially which has led to reduction in gross margins and therefore EBITDA margins too. We have missed out on passing on this increased input cost completely to our customers. We have taken some measures and also increased the price of our product across all categories, and we expect some more price increases in the coming quarters. The company is continuously investing in improving the facilities and investing in backward integration and building better infrastructure to create a differentiated value-added product for our consumers. We are backward integrated to now make all the parts of pressure cookers that include the rubber gasket and the weight valve, we already have started the handles. The production of our rubber gasket has already commenced and is catering to 100% of our requirement. We have also installed a state-of-art manufacturing facility for the weight valve which will very soon commence production. Along with this we have a glass lid line with an installed capacity of 32000 per day which will cater to the requirements of our nonstick cookware. All these days we were importing these glass lids. We have also had the ability to manufacture components, molded parts and others in house for the manufacture of our products. We believe the backward integration of our manufacturing facility has reduced our dependence on third party suppliers and OEMs. Such components reduced cost which has resulted in mitigating the unprecedented price increase. During the quarter our cost and branding and marketing increased due to lockdown in Q1 of this year some of this cost spilled over to this quarter. We believe that continuing to develop awareness of our brands and focus on consistent branding and marketing initiative will be important for our ability to increase our face values and our revenues through our existing marketing share and expand into new markets and new product categories. The digital platform and social media has enabled us to reach and engage with a wider audience and customize products for them. The company plans to spend between 3 to 4% of our revenue in branding and marketing on an annual basis. In the second quarter, the company's plan to launch a range of plastic storage containers, we call this the modular storage range. Also we have now a complete full range of LED bulbs starting from 0.5 watts to 50 watts which are now moved within the company's manufacturing facilities.

Our focus is on increasing distribution, increasing network across the country, customizing on board to increase our number of outlets. Over the first half of this year, the company has added over 11400 new retail outlets, which is an addition of 20% of the existing outlets as of March 2021. During the quarter, the company introduced and completed a 100% successful distribution management system. The tool helps to improve operational efficiency and provides effective safety and inventory management related only to Pigeon products. This provides information on the right stocking pattern and enhances efficiency due to loss of transaction. It also helps the organization to track secondary and tertiary gain and maintain inventory levels at the distributor's end. It gives us visibility to the secondary billing happening from the distributors to retailers. Despite increased raw material cost and increased branding and marketing we have maintained our EBITDA margins of 11.9%. We have been constantly giving guidance on achieving EBITDA margins between 13 to 14% on an annual basis and we look forward to achieving the same. In the current quarter, profit after tax is lower by 9.2 Crores as the company had to provide for hidden taxes, income tax and after setting the accumulated losses brought forward from the previous year.

Coming to financials, our ROCE stood at 33.6%, our ROE stood at 21.6%, gross debt stood at 53.4 Crores and our working capital days stood at 23 days. With all this we will now open the floor for question and answers. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Koundinya Nimmagadda from JM Financial. Please go ahead.

Koundinya N: Thanks for the opportunity, great growth numbers. Sir just trying to understand what you did again mention that our EBITDA margin is going to be 13 to 14%. So, do you think there is any risk to these numbers as far as FY2022 is concerned and would you like to revise that guidance lower for FY2022 for gross margins and EBITDA margins?

Rajendra Gandhi: We believe that the cost increase and input cost has actually plateaued now and we are also based on the current cost passing on the cost increase. There has been a slippage in the second quarter particularly and we have taken steps for correcting this. Post which I think we will be back to normal business and the differential of 2 and odd percent that is there will be covered and maybe a little more so that we get back between the 13 and 14%. We are confident of getting this.

Koundinya N: Got it. What are the price hikes that you took in the first half of FY2022? Also, can you help us understand when you took those price hikes?

Rajendra Gandhi: At the beginning of the year most of the categories we have taken a price increase of 5% and we thought that could be good enough but there was a sustained increase of input cost which I think again we have recalibrated our cost and we at the beginning of the third quarter have taken a price correction again across the various categories that we deal with. I think with this new price correction we will be back to our normal margins.

Koundinya N: Sir, can you also help us understand what is the tax rate going to be like from here onwards because we thought we had to carry forward losses and then mostly it will be in the second half of the year or so when tax rate would increase or just trying to understand what would be tax rate for the coming quarter and FY2022 and FY2023?

Rajendra Gandhi: So, the current year we will continue to have the benefit of carry forward losses of 40 Crores but prudent accounting practice we have provided in the ratio of the whole year. It is not that we have observed all that in the first or second quarter. So we based on our EOP the ratio of that we have only observed that much of it and provided for the tax rate and also the company wanted to be prudent enough to pay advance taxes so that it does not at the end of the year we end up paying only for those two quarters the company has also paid this taxes and we continue to have the benefit for this year whatever the number we end up with 40 Crores of this will be non tax, only profit beyond the 40 Crores will be taxed at the normal rate of 25%

Shahsidar: Just to clarify this year the average rate of tax will be 14% in terms of absorbing brought forward losses so next year onwards the normal corporate tax of around 25.17% depending on the profits which we record.

Koundinya N: Understood sir. Sir just again coming back to the business just trying to understand if there is any channel stock that has happened for the upcoming festive season in 2Q so just trying to understand from that perspective how would the 3Q numbers what is the current dimension as always like?

Rajendra Gandhi: Particularly for us both as I already mentioned in the call that we have implemented DMS this helps us to track the inventory both at the distributor and retailer and there has been a very good what you call tertiary sales and so there is no and in fact from the day one itself from October 1st we have had the same kind of sale numbers that we are experienced in the previous months and the demand continues to say that there is any stock lying in the journal I think I can only said that it is very healthy stock?

Koundinya N: If I understood correctly that channel inventory is at normal inventory levels.

Rajendra Gandhi: Yes, normal inventory levels.

Koundinya N: Sir just one more question if I may sir, you entered into plastic storage containers like so just trying to understand what the market topper is should not you hear like and what is the growth that you are foreseeing here if you can help us speak little bit about that.

Rajendra Gandhi: We are to launch these storage containers. Of course initially it is plastics, but they will be of different materials. So gradually we want to build a range for this storage, we believe this is an important item that is used in the kitchen so initially we are launching one range that is we call this modular range in the plastics but going forward we will have other metals and some other materials also, but the category will be storage, We believe that the same channel which actually also where we have an opportunity to sell this, whether it is general trade, modern retail and e-commerce and we have got very good feedback from the initial results, we are yet to launch the product.

Koundinya N: Sir what is the estimated market size and how is the current structure because it is mostly unorganized right?

Rajendra Gandhi: Honestly there is no proper data to give you that kind of numbers, but we believe that a lot of this unorganized business is shifting to organized and with the network that we operate there is a huge opportunity, it is only about placing these products and ensuring the right quality and right price. There is enough opportunity there.

Koundinya N: Sure sir, just two more questions from my end that are bookkeeping questions. So, what is the A&P spend in the current quarter and the e-commerce mix of total revenue if you can provide that?

Rajendra Gandhi: Current quarter you are talking about the third quarter or the second quarter?

Koundinya N: Second quarter sir.

Rajendra Gandhi: We are well within the 3% of that revenue.

Koundinya N: 3% sir okay.

Rajendra Gandhi: Within the 3%

Koundinya N: On the e-commerce mixture. What is the current contribution from the e-commerce channel?

Rajendra Gandhi: So far for the first half of the total revenue, 257 Crores was e-commerce.

Koundinya N: And export sir?

Rajendra Gandhi: Next quarter?

Koundinya N: Exports.

Rajendra Gandhi: Exports we are at about 70 Crores and that is the OEM, so we have a combination of OEM and brand exports so the combine of these is at 70 Crores.

Koundinya N: Sir just trying to understand if I look at the nonstick cookware numbers, I get a feeling that on exports we have not done much in the current quarter vis-à-vis the first quarter just trying to understand what the current order book is like and what is the outlook on the exports front.

Rajendra Gandhi: There has been a steep price input cost escalation in the nonstick cookware. particularly in nonstick cookware, the majority of the input are cost comprises of aluminum and so we have been little more stringent without customers to correct the prices. The work is in progress, so we are still growing over the last year, but we have curtailed some of the orders to protect our margins.

Koundinya N: Understood sir. I will come back for more questions.

Moderator: Thank you. The next question is from the line of Andrey from Cogito Advisors. Please go ahead.

Andrey Sir, congratulations for a good set of numbers, I hope it will continue going forward. I really want to understand a little bit more about the distribution strategy and you mentioned in the presentation that you have completely separate distribution structures for each of your three brands. Now I just wanted to understand if you could breakup your value sales by Pigeon, Gilma, and Black & Decker and tell us as to which of your distributing retail outlets belong to each of these brands. Also, if you have ever at any point of time considered some commonality in terms of having common structure for may be Pigeon and Gilma and if you have decided against that what is the reason and rationale behind the distribution sir?

Rajendra Gandhi: Let me clarify to you. First of all, they are at different levels, catering to different segments of the consumer. The measures are different. In Gilma we sell it only through our exclusive outlets which are currently only in the southern states. Pigeon is a national brand, and we sell it through multiple channels that includes general trade, e-commerce, modern retail and institutional sales. Gilma is exclusively sold only through our own exclusive outlets for Gilma. Black & Decker of course has a different channel because this is placed at points where it is catering to a different segment of the consumer, the premium end and today Black & Decker range is stronger in the north and they still have to build a strong network in the south, we are there but it is a totally different outlet. Most of the outlets are not common, they are different outlets so both the distributor and channel overall and the dealer are mostly different for these two and we wish to keep this segregated separate because we are catering to different segments altogether.

Andrey: What is the value between these two brands.

Rajendra Gandhi: Today it is very small between these two brands it contributes 6% of our revenue, otherwise this is all the Pigeon brands.

Andrey: So out of the 6%, how much is Gilma and how much is Black & Decker?

Rajendra Gandhi: More or less they are equal.

Andrey: There is no potential for creating any commonality in distributions even at the distributor level?

Rajendra Gandhi: No so again I want to repeat these are different strategies of reaching the consumer in a different way. The product mix is also little different and wherever the product becomes a mass consumption then we bring it under the Pigeon brand and then the moment it is under the Pigeon brand then we are catering to the all the channels it is available across which is catering to a larger segment of the population. Gilma is strategically placed to cater to a different segment and the product also are such that they require very special display and understanding of the product, initially they are new and so we believe that the Gilma strategy is totally different, the idea is not to have overlapping brand just for the sake of it, to target different business segments I think this are two different approaches. I do not think even in the near future you see these two merging today.

Andrey: Thank you very much.

Moderator: Thank you. The next question is from the line of Prithvi from Unifi Capital. Please go ahead.

Prithvi: Sir, on the volume side had there been any spill over from Q1 which we have seen in this quarter and then as you said the inventory levels have become normalized now so what kind of volume growth are we looking for coming quarters?

Rajendra Gandhi: Of course, we have in our presentation we have given you details of our volume growth of the various products, and we believe that the growth remains it is a continuous thing so while the third quarter last year it was relatively normal and good but still over that we believe that at the rate we are growing we will continue to grow the same levels. If you want me to repeat, I can say on the pressure cooker front in the first half we have grown by 81%. I can tell you it is far above the industry and far above any other peer group. The gasket business we have grown by 35%, induction cook top we have grown by 84%, nonstick cookware we have grown by 33%, our LED is also grown at about 67 to 70%. In the small appliances category as a whole we are growing it is a whopping 70% but some of the categories we have become leaders like kettle and choppers we are leaders in this industry now which I can tell is relatively new category in the large contribution so overall I can tell you these are all very high growth numbers but the third quarter is the real comparable one because it were normal times over the last year also but over the last year numbers also we have seen good demand so we believe that we will grow again.

Prithvi: So, you know if I have to quantify these numbers going forward given it is a normal base then we expect 20 to 25% volume growth?

Rajendra Gandhi: I think that is quite achievable.

Prithvi: Second one the gross margin front as you mentioned you have taken a price hike so can we expect gross margins to go back to 35% from next quarter onwards?

Rajendra Gandhi: Yes, we believe that we will get back to between the 33 and 35%

Prithvi: Could you quantify the price hike that you have taken in this month?

Rajendra Gandhi: Yes around 5%, that is the beginning of this quarter we have corrected prices across the categories around that 5%.

Prithvi: Just a book keeping question: what is the current export order book for you?

Rajendra Gandhi: I said that we have a very strong BMS system for the general trade and both exports and modern retail we have a longer visibility of the orders. I can now say that it is very robust, the demand side is also strong, and the order book is also good.

Prithvi: Is it possible for you to share the number, the order book number for exports?

Rajendra Gandhi: I do not think I have it ready. I do not think I can share it both.

Prithvi: Sir one final question again on the income tax rate, so over and above 40 Crores accumulated loss you will start paying tax, right?

Rajendra Gandhi: No in terms of percentage I think just to clarify if we go on an annualized basis, we will end up paying 14% as tax and for the coming future it will be as normal 25% once we let off the 40 Crores carry forward this year then all will be normal. Currently we have not absorbed all the 40 Crores; we only absorbed to the extent of the profit that we had made for this half and the remaining we have provided for.

Prithvi: Okay, that's all from my side.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much sir for the opportunity. Sir just wanted to understand just now you mentioned about 20 to 25% volume growth and plus price hike so 25 to 30% revenue growth is what one can envisage like over maybe next one to two years.

Rajendra Gandhi: I think if we go volume growth by 25% in the increase around that.

Deepak Poddar: 25 to 30% for the next two years CAGR, right? .

Rajendra Gandhi: I think that is a very longtime performance but you can definitely say in the next one or two quarters we are definitely on this growth trajectory.

Deepak Poddar: Fair enough and we have spoken earlier in terms of normalized margin level of 15% when may be the scale also comes up and the scenario becomes normal. Now how far are we away from the 15% EBITDA margin level that we have been talking about?

Rajendra Gandhi: I think the very disruptive price increase was the reason for this correction on the margin, otherwise the business plan and the way we have structured out business we should be there immediately starting from this quarter between the 13 to 15% levels we should expect.

Deepak Poddar: Understood. All the best. That's it from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.

Binoy Jariwala: Thank you for the opportunity. Sir, I would like to understand a bit on the distribution front. So, we reach about 65 thousand outlets and what is the potential distribution universe for us which we can tap?

Rajendra Gandhi: The broad outline looks like 2 lakhs outlets, but I think we are growing at 20% rate. We are able to add almost 20% on the base of last year.

Binoy Jariwala: So internally also when you are planning on an annualized basis you look to add roughly about 20% to the distribution reach every year?

Rajendra Gandhi: With 20% has happened over the last six months so it is not annualized and if not to multiply that, but we believe that we can grow at about 30% year-on-year on the number of outlets.

Binoy Jariwala: Understood okay. Second question is on the cost plus model which we follow for the Pigeon brand just to understand a bit here when we say cost plus margin do we base it on a certain level of gross margin or a certain level of EBITDA margin?

Rajendra Gandhi: No, the business is working on gross margin and of course because generally our costs are also then based on that so while we price our products based on the gross margin eventually close to

EBITDA. More or less, I can tell you we are working between 33 and 35% on the gross margin and our cost now well in control within the 30% so if we reach the 35%, we will definitely get a 15% EBITDA and if we get 33%, we will definitely get a 13% EBITDA the kind of it. On the cost side we are in total control within the 20%

Binoy Jariwala: I understand sir just wanted to understand from the angle let us say if you are working on a cost plus gross margin model then you are essentially looking to hold gross margin in a particular range and thereafter any operational efficiencies that you extract flows on to the EBITDA margin so essentially what I am coming to is that your EIBTDA margin may or may not be at 14 to 15%

Rajendra Gandhi: There is a possibility of improvement, but I think for the current quarters the upcoming quarters that target is to ensure that we get our gross margin and retain d our EBITDA margin at aspired number but as we grow obviously in terms of percentage across may come down by 0.51% and obviously that is slow to EBITDA, we will want to retain our gross margins as aspired between 33 to 35%. In the normal time we want it to be at 35 there would be sometime slippages like what has happened in the last quarter, so we want to keep that range between 33 and 35%

Binoy Jariwala: You would not look to pass on the extra benefits cost benefits cost savings to the consumer in terms of lower prices or something like that right that’s what I just wanted to know?

Rajendra Gandhi: We are already very competitive for the combination of the quality and network and the service that we provide to the consumer we are in the lowest range for the kind of the brand that we are the consumer does not expect us to be cheaper than this we have a good demand at this level itself as it is because our overall cost of the product itself is far better to the peer group and with this lower drop margin that we have over the peer groups as it is we are very attractive we don’t have to go below this. I can say this is a sweet spot for us. We would not want to maximize our gross margin to remain there and garner as much as market share as possible rather than increased cost, but I do not think we need to go below this.

Binoy Jariwala: Understood. That’s very helpful sir. In the earlier calls you have given a guidance of growing about 25% revenue this year now in the first half itself you have grown by some 75% so would you like to increase your guidance or something like that?

Rajendra Gandhi: I believe there is a healthy guideline to grow at 25% and it also should be digested by the investing world that includes you and you should know better than this I think there is nobody is let down of course the current opportunity are little different because last year was little more challenging than the current year. I do not say there was no challenges in this first quarter there were but compared to the last year it is much better but if it is normal time, I can say that we can grow better because the nature of our business we are investing more and more on our backward integration our costs are coming down we are able to control quality better than anybody else. Supply chain and destructive nature of the current time in spite of that we have not challenges in the supply chain. All these will lead to a growth rate which will be larger than the industry so if it is normal time you can grow better but I think for the current I can say whatever we achieved growth in the first half we will still grow at the rate that we have promised you in the second half so maybe there will be annualized to be a little higher growth than normal what it was bigger.

Binoy Jariwala: So, 25% growth is on a normalized basis for a slightly longer term is that what you are saying.

Rajendra Gandhi: Yes, we believe it can be for a longer term because we are continuously adding more products, we are increasing our distribution reach, we are increasing our geographical presence. When I say that we are there everywhere but there are several geographies there we can send them our presence. With this and as and when we add some more channels when there is a need for a combination of all this can allow the company to grow at about 25% for a longer term.

Binoy Jariwala: Thank you sir. That's very helpful and very detailed. Sir only two book keeping questions. Now on the capex front we had guided for 65 Crores capex in FY2022 we have already done roughly about 60 odd Crores in the first half so is there any revision to this capex and second question is on the supplier's credit that we have roughly about 15 Crores been this interest bearing or non-interest bearing?

Rajendra Gandhi: So, supply credit is not interest bearing in our books so this is either given some LCs to our suppliers and they will whatever if at all they are going for financing of this receivables that is to their cost it is not to our cost?

Binoy Jariwala: Sir on the capex.

Rajendra Gandhi: This year the normal capex that we planned was between 50 to 60 Crores and the manufacturing activity and then we are seeing a little more free cash flows and we wanted to enhance the return quantities so we have additionally invested in the hybrid I can see renewable energy which work is in progress, majority of that is already done some more is happening and almost close to 30 Crores is being invested on this. While the majority of this is already done there could be another 10 to 15 Crores of capex in the current year itself that includes this 30 Crores of investment in solar power. The company's energy consumption, to the extent of 70 to 75% will be met by internal generation in the coming fourth quarter.

Binoy Jariwala: Essentially you are saying about 50 to 60 Crores for the manufacturing plus 30 Crores for the solar plant that's right.

Rajendra Gandhi: Yes.

Binoy Jariwala: Thank you so much sir.

Moderator: Thank you. The next question is from the line of Mayank Bhandari from Nirmal Bang. Please go ahead.

Mayank Bhandari: Thanks for the opportunity. On the distribution side, you said there are almost 10000 touch points increased, so can you give me a break down of which geographies it has increased?

Rajiv Mehta: So, the increase has happened in both Pigeon LED and Pigeon; the total increase has been 11400. Of that, about 7000 have been in Pigeon and the remaining 4400 have been in Pigeon LED. In Pigeon about 7000, 40% has been in the region west, for us it includes Rajasthan, Maharashtra, Gujarat, Madhya Pradesh, Chhattisgarh. These are the areas which are in the west, in the south it has been 15% because the base is already high, and the rest is in the north east and when it comes to Pigeon LED. Pigeon LED has increased largely in the south. We have about a 50% increase in the south followed by the west which is Rajasthan and Gujarat. These are the two new areas which we have opened and lastly West Bengal and Uttar Pradesh so that is the split of the 7000 for pigeon and 4400 for LED.

Mayank Bhandari: Okay, that's great sir. Second question is on the export side. We have seen lot of players commenting on the increase in the freight cost particularly pertaining to the export so are we also experiencing the similar headwind there and what would have been our freight cost in this quarter maybe you can give some idea also with a distribution expansion in northern and western Europe now is our freight cost slated to increase for the full year. You can provide anything on that.

Rajendra Gandhi: For us all over export prices are FOB, of course there has been crazy freight prices for this export business it does not affect us but the input cost itself for this product that we import there has been a very steep price increase we are able to get this price increase from our customers but there has been a destruction during this period because generally the nature of any buyers when there is a such a steep price increase we always want to negotiate so there has been that but otherwise we have passed on all the price increase as far as cost of input is there and freight does not affect us. It is only free on board.

Rajiv Mehta: Mayank for the rest of the country while we have increased distribution we have been rocking hard to ensure that freight cost is under control and today freight plus P&S commission put together is 3% which was much higher and we have worked on bringing it down by almost a percentage so for most distributors you can take direct we bill directly to them and not through P&S we only do part truck so we constantly working on making sure the freight cost does not go up.

Mayank Bhandari: Thanks. My last question is on how is the festive demand panning out now particularly in the last one month if you can throw some light on that?

Rajendra Gandhi: The festive demand has been good. It has been the same as what it was in September. we have not seen any stopping of the demand. Pigeon being a great product has a great price I think we have had a good run so far touch food and we continue to see the demand in October and November.

Mayank Bhandari: Lastly sir one question that there is varying commentary from other competition that people are now shifting back towards the offline channels, but your number does not seem to be showing that so any comment on that what is the kind of trend you are seeing or people continuing to shopping on e-commerce platform particularly in the last one month also.

Rajendra Gandhi: For us offline it includes modern retail and general trade both have shown good growth of course e-commerce has been growing but both general trade and modern retail has shown growth better than expected and after the lockdown in the month of May, beginning June we have seen good robust growth coming back in both these. Yes, people are going offline, and we are seeing that demand coming back.

Mayank Bhandari: Thanks a lot.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Thank you for the opportunity. Sir, and congratulations for the great sales performance. Now my first question is with respect to the sales: is it possible to get some color in terms of the contribution from the new category let us say last year FY2021 or in the first of FY2022 what the revenue mix from these categories would be which we have expanded in the last three years.

Rajendra Gandhi: In the investor presentation the exact number, the contribution of each of these categories and the growth we have both these numbers.

Achal Lohade: Well, I think you are talking about the revenue mix, and I am inclined for the new categories where you know something like LED or the small categories which we obviously would not know in the presentation, so I am more curious to know that mix sir?

Rajendra Gandhi: So, LED you know we are 6.6% in contribution and growth is almost 70% so these two combinations will be exact numbers. I can say in the appliances of course the combination of all these and not separately shown in the investor presentation but otherwise electric kettle we have already a contribution for the current year at 41.3 Crores only from the kettle which is actually in terms of growth is the highest growth after the mixer grinder we are at 147% growth on that over the last year same period. Mixer grinder is contributing 32 Crores and this growth is 168% over the corresponding period last year of course choppers continue to grow for us. The contribution is 26 Crores for the period that we reported but it has grown to 65.24% so that is all in the appliances otherwise we have separately given you special requests separately.

Achal Lohade: You think the kettle was…

Rajendra Gandhi: These numbers separately there is no problem.

Achal Lohade: Sure. The second question I had was with respect to the concentration is it possible to quantify what is the concentration for some of the key raw material like aluminum, steel, cooper what is the impact for us and when you say that we have taken another 5 to 7% will be the covered fully or you think there is one more round which is required to cover fully for the concentration what we already have seen till now.

Rajendra Gandhi: I think overall there is impact of 2.4% these all due to the raw material cost and so we have overall level wherever it was needed we have taken a price increase of 5% but as they are contributing level it will nullify the 2.4% it will be a little better than that so we will be back to the normal margin.

Achal Lohade: Okay just to clarify if you see the competition, the competition in the appliances has taken a price increase between 10 to 20% in the last few months. Does this mean that the price cap between us and them has presently widened?

Rajendra Gandhi: Increasing, yes right, while I would not be able to comment on competition but the gap at the consumer will further increase. We believe that we will want to protect our position again so we of course slipped on the gross margin for the last quarter but we are working on that and will definitely be back at the gross margin level that we are. With this 5% increase it is covering all the impact that has happened because of the raw material cost and otherwise in the other space of our cost we are actually increasing our efficiency whether it is employee cost or it is the freight forwarding or even the business promotion that was an expense I can say we are becoming more efficient so if we retain this gross margin at the level that we wish to that is between 33 and 35 definitely we are more efficient then peer group and difference at the point of consumer will further increase we will only plan to gain market share with that.

Achal Lohade: What is the absolute A&C strength?

Rajendra Gandhi: We are currently at below 3%.

Achal Lohade: Somewhere around 10 Crores.

Rajendra Gandhi: 15 Crores.

Achal Lohade: We spent 15 Crores in the second quarter?

Rajendra Gandhi: In the period that is the first half not the quarter.

Achal Lohade: Thank you so much.

Moderator: Thank you. The next question is from the line of Himanshu Nayyar from YES Securities. Please go ahead.

Himanshu Nayyar: Thanks for taking my question and congrats on a great performance. So firstly I understand we are growing much faster than the industry but just wanted to understand your view what entire industry especially in traditional categories like cookware and cookers is growing at such a fast rate and what are the structural reasons and whether they sort of growth rate is here to stay now for the industry as such.

Rajendra Gandhi: I can say that consumption is definitely growing but whoever is going to more efficient and consumer base that we are catering to is not larger than the delay the listed peer group so obviously the consumption in this base growing higher than the other CG so we believe that we will grow at a higher rate than the industry of course consumption is growing it also in the past what used to be capital goods kind of thing is becoming consumer goods. This category of products that we are in also has a replacement cycle which is also accelerating. I can say the life cycle of these products is reduced from what it used to be all this leading to higher consumption. The industry is growing and with the consumer category that we are catering to and the efficiencies that we are building between the organization we believe that we these two combinations of this we will grow at a higher rate than the industry for near term I can say there are long feature it will continue to be there as long as country remains conscious on cost, we will be very relevant to the consumer.

Himanshu Nayyar: Second question now that we are widening and diversifying our range of products quite significantly are we looking aggressively in say setting up our own chain of retail stores something like which competition has done also if we are looking at more investments in strengthening our service network to further build our brand equity for Pigeon specialty.

Rajendra Gandhi: At the moment I believe it is not that we have chosen on any concrete plan but definitely it is at a discussion stage like building our own retail on consumer post sales satisfying for the consumer it is a continuous effort. We are increasing the number of franchises. We are increasing the number of our service personnel and also for us the consumer delight is taking precedence over everything and this will continue to be there I can say that there is lot of scope for improving on the consumer satisfaction index if there is a scope we will definitely address this so I can say that both this are fluid at the moment particularly on the retail you ask, it is at deliberation stage and we will definitely announce you once it run through board and it is approved and definitely bring it to the investors.

Rajiv Mehta: Very soon you will see revamped website which will have chat box link, we are also working with large aggregator of app which will be able to give an instant confirmation for a service call of course by like Mr. Gandhi said the number of service franchises will increase and on top of that as we have digitization it will help in increasing consumer delight.

Himanshu Nayyar: Understood sir. Thank you sir, that's all from me and I wish the entire team a very happy Diwali.

Rajendra Gandhi: Thank you.

Moderator: Thank you. The next question is from the line of Bismith Nayak from RW Advisors. Please go ahead.

Bismith Nayak: Could I get the commentary on inventory and receivables levels as of now they seem a little bit higher as of FY2023.

Rajendra Gandhi: Yes more they are also installing new lines and because of also increased volumes this has increased inventory levels but I think actually as we go forward this number of days we are working on this to reduce further the number of days of inventory so if the revenue number definitely grows up the absolute number will also look northwards, but in the terms of number of days we are continuously working to bring it down. Today from what used to be 37 days of working capital in March 2020 has moved to 27 days in March 2021 and the current half we are already 23 days so in absolute working capital days we are a at far improved number of days. We believe that in the times to come we want to bring it to 0.

Bismith Nayak: Understood and the new category sir, storage container, what kind of capital we are looking at would it be a traded goods or we are looking to set up?

Rajendra Gandhi: We have invested in plastic injection molding machines we have a large set up very high quality setup and these are additional molds we have design how this showing up and molds also we make there so we already got this mold as and when we introduce new mold is about using new molds the capex for the machines is already there it is catering to general department for the overall company I can say hopefully that size of business that we are in category 3 of business that we have, we have the largest injection molding capacity in the country so there is no need for additional capex for this line currently. If the business grows beyond the expected levels definitely there will be additional capex for that we do not require additional capex. On the mold front I will tell you it is not very high, generally one range of mold will cost within one or two Crores.

Bismith Nayak: Pricing of storage containers, some of the popular ones that we see are from Nysa and Milton and others.

Rajendra Gandhi: We are very clear we are a cost plus model we want to have the reasonable margin that we aspire so that we can take care of the company and stakeholders otherwise at the price point we will definitely be more for the consumer it will be more advantageous to look at us at the quality level that we deliver.

Vishvesh Nair: Thank you sir. That’s all from my side.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back 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. We wish everyone a very happy Diwali and a prosperous New Year from all from the Stove Kraft family. In case you require any further details you may please contact us or Orient Capital, our Investor Relations Partners. Thank you again.

Moderator: On behalf of Stove Kraft Limited that concludes this conference. Thank you all for joining. You may now disconnect your lines.