"StoveKraft Limited Q1 FY22 Earnings Conference Call"

July 30, 2021

<u>Management</u>

- Mr. Rajendra Gandhi – Promoter & Managing Director, Stove Kraft Limited
- Mr. Rajiv Mehta – Chief Executive Officer, Stove Kraft Limited
- Mr. Shashidhar SK. – Chief Financial Officer, Stove Kraft Limited
- Mr. Deven Dhruva – Orient Capital

Moderator: Ladies and gentlemen, good day and welcome to StoveKraft Limited Q1 FY22 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 now hand the conference over to Mr. Rajendra Gandhi –Managing Director of StoveKraft Limited. 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 our CEO Mr. Rajiv Mehta, Mr. Shashidhar – CFO and Mr. Deven Dhruva and Neha from Orient Capital, our investor relationship partners.

We have uploaded our investors' deck, results, and highlights on the stock exchanges in the company's website. I hope everyone had an opportunity to go through the same. Q1 FY22 started on a positive note with the company delivering strong performance. Revenues grew by 133%, EBITDA by 110%, and PAT by 734% year-on-year. Our company delivered a strong performance on the back of stellar volume growth, operational efficiencies, better product mix and cost rationalization programs. The business would have grown at even better pace had we not been hampered by the second wave of COVID-19 in the month of May. The second wave of COVID-19 had adversely affected the economy. In these tough times our priority had been clearly to taking care of our people on ground who are working relentlessly in these challenging times. The company organized vaccination camps at the factories for employees and their families. We also extended the health insurance program for all our employees. Ten commercial grades large RO water purifiers have been donated and installed at the neighborhood villages of StoveKraft factory in Bangalore. Each RO purifier is sufficient to take care of the drinking water needs of the entire village daily. Also, during the second wave, ten oxygen concentrators have been donated to the public health department of Ramnagara district where the StoveKraft factory is located.

Coming to the quarter:

The company introduced 20 SKUs across different segments. We have increased our sales of our high value premium products which have helped increase our gross profit margins. During the last quarter, the company launched India's first touch mixer grinder, that is a sensor touch mixer grinder with a 1000-watt motor. It has an anti-shock ABS body and an intuitive touch panel. It is also fitted with surgical grade stainless steel blades and ergonomically designed panels with a jar locking feature. The company launched a very innovative product, the blender. It is the any-time blender. It is easy to carry and drink straight from the container, easy to power up with a USB cable to the power bank, laptop, etc., and can easily make 20 glasses of smoothies per charge. It has an unbreakable food grade polycarbonate container, and it is very easy to clean. Also, the company launched a new range of cast iron cookware series which can make dosas, there is Dosa Tawas, Concave Tawas, Kadhai, Grill Pan and Frying Pan. It is a naturally nonstick cookware not coated, but naturally the way it is made. It is chemical free having even distribution of heat. Cooking in these adds iron to your feed. These are of longer lifespan too. The company also launched sleek cooktop which has an impact resistant-tough glass non-slippery like for confident cooking and very sleek designed ergonomic knobs with a nice glow. These have really crown shaped pan supports for extra appeal. The company is continuously focused on creating new products to improve the consumer experience. We plan to launch over 30 SKUs in the coming quarter.

During the quarter, we have increased our spending on branding and marketing. We believe that continuing to develop awareness of our brands we focus on consistent branding and marketing initiatives is important for our ability to increase our sales volume and our revenue growth. Our existing market share and expand into new markets and new product categories. The digital platform and the social media have enabled us to reach and engage with wider audience and customized business product offerings. The company plans to spend between 3% to 4% of our revenues on branding and marketing. Due to the second wave of COVID-19, there are lockdowns and restrictions now in the majority of the states. The general trade and the modern trade, the large format stores were closed thereby adversely impacting sales. The business would have performed much better had we not been hampered by the second wave of COVID-19 in this particular month of May. Business resumed to a reasonable level post 10th of June, post the relaxation in lockdown restrictions the company has been doing well and witnessing robust demand from all channels. The company has shown growth throughout all the channels of distribution during the last quarter. Modern retail, general trade, and e-commerce all grow over two times despite May being a tough month. Our focus is on the increasing distribution, increasing the network in rural areas and bringing more customers onboard through our increased number of outlets. Our kitchen solutions comprises of cookware and cooking appliances across our lines and our home solutions comprises of various household utilities also includes the consumer lighting. This has enabled us to be a one-stop shop for kitchen and home solutions and offer products with different price points to meet the diverse consumer requirements and aspirations.

Our pressure cooker category had a volume growth of 195% and this contributes to about 22% of our revenues for Quarter 1. Our nonstick cookware category had a volume growth of 61% and contributes over 25% of our revenues. Our gas and induction cooktop category had a volume growth of 218% and 152% expectingly. Collectively they contribute to 18% of our revenues.

The company is focused on own manufacturing. Our trading sales have also reduced considerably during the last few quarters. During the last year the company incurred a CAPEX of about 63 crores on various building and infrastructure, along with the machines that were required to create this infrastructure for the large growth in the manufacturing contribution of the company. Our manufacturing facilities are backward integrated. We have the ability to manufacture components such as Bakelite Handle Sheet Metal components, molded parts, diecast wires, molds, dyes, and fixtures, all within the company’s manufacturing facilities. We believe the backward integration of our manufacturing facilities have reduced our dependence on third party suppliers and OEMs for six components. We have a constant focus on technology upgradation at our facilities and we believe that this will enable us to achieve greater efficiency in reducing time taken to and for the cost of manufacturing of our products from design to commercial production and in-house testing and quality assurance processes resulting in higher profit margins. Our endeavor is to keep adding new and innovating products to our portfolio and enhance our addressable market for strengthening the distribution network across domestic and international markets and be a preferred brand for our consumers. We have a dedicated inhouse R&D facility and have progressively increased our investment in R&D in the last few years. We have installed a 3D printing facility which can give us real-time designs in terms of the new products that we develop. To further our efforts to innovation, we have also entered into tie-ups with foreign companies for technology enablement and tech know-how agreements. We are continuously trying to improve our distribution network. We have a dedicated distribution network for each, Pigeon, Pigeon LED, Gilma and Black & Decker. We have also been able to leverage the distribution network for Pigeon branded products and their brand record value to introduce product segments in the markets. We strive to ensure the quality of our products is complemented by after sales service provided to our consumers across segments. We have a dedicated centralized CRM and a large team of in-house service personnel to cater to the requirements of our consumers. We have implemented a distribution management system which helps the organization to track secondary and tertiary sales and maintain inventory levels that the distributors center. This also gives us visibility to the second day billing happening from our distributor to the retailer with a constant focus on technology upgradation and increasing level of automation, the company plans to achieve greater efficiencies and cost reduction resulting in operational efficiency and higher profit margins on a sustainable basis.

With this, we now open the floor for any questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is on the line of Koundinya Nimmagadda from JM Financial.

Koundinya N.: Just a bookkeeping question. Can you help me understand what is the A&P spend for the quarter, advertising, and promotion?

Management: Generally, we plan to spend about 3% of our revenues which would have actually been around 6.5 crores, but we could only spend 5 crores.

Koundinya N.: Otherwise, other than the A&P spend what are the heads where we saw a reduction or significant increase vis-à-vis last quarter?

Management: Our cost on spends that is outward play which is a cost to the company in percentage terms has come down, is now below 3% which is far better than the industry and it used to be higher for us also. And there has been a cost in the finance cost because most of our debt is retired and just for the discounting that we incur for our channel partners both the suppliers and the customers, otherwise more or less the finance cost has come down to almost nothing. So, these two are the major things.

Koundinya N.: Okay. Sir, this outward spread cost that you said it will grow 3%. Do we see it sustaining at the same level going ahead as well?

Management: Yes, we still see there is a scope for some 100 basis points. So still there is a possibility that we improve on this, but I think the company has done very well on the cost of outward spread.

Koundinya N.: What is our debt on books as of 30th of June?

Management: Around 15 crores.

Koundinya N.: So, it has remained flat Q-o-Q?

Management: Around 15 crores.

Koundinya N.: I think that is the same number at the end of March.

Management: Yes. There have been some CAPEX investments that we have been doing and the first quarter generally is a soft quarter. It is the nature of the business. The money that was generated were also invested in various ongoing CAPEX.

Koundinya N.: What is the CAPEX amount sir if I may ask you?

Management: For the current quarter? The last quarter?

Koundinya N.: Yes.

Management: It is an ongoing thing, but I can tell you that it is in the range of 10 crores.

Koundinya N.: Can you comment a little bit on the working capital of the company and also the inventory levels with our channel and how it is shaping up with all the lockdowns and everything that has happened in the quarter?

Management: Particularly in the last quarter because the markets were all closed, the general trade markets, and the modern retail stores were closed. There was a little bump up in the inventory. But that is already getting back to the normal levels because we are having very robust demand from all the channels. The inventory levels are at the normal levels that we aspire to. So currently we are at about 34-35 days on inventory and also, we are below 30 days on receivables.

Koundinya N.: And whereas on payables sir?

Management: Payables we have gone to be at 16, we are there.

Koundinya N.: And how is the channel inventory level currently?

Management: I think I had mentioned in my call that we have implemented a DNS and we continuously monitor this, the inventory levels at our distributors. So, it is at a very healthy level. And it is only to cater to the requirement of our demand that is there from the consumers.

Moderator: The next question is from the line of Vipin Goel from Mirabilis.

Vipin Goel: Sir, this question on the trade mix, so if you can comment on what is the current trade mix for us in terms of general trade, foreign trade, and e-com? And then also on the margins for these trades. So, how do the margins shape up for these sectors?

Management: For the quarter, if you look at the quarter, because May and in the first couple of weeks of June was practically a lockdown, the contribution from general trade which include Pigeon and Pigeon LED was about 30% and e-commerce was close to 45% and general trade and e-commerce we had modern retail again a large part of it was closed, but modern retail contributed about 8%. Then we had export, export contributed close to 15%. So, that was a mix in terms of the channel split.

Vipin Goel: How is it generally kind of? I mean, this was in the first quarter, so usually like if I had to talk about FY21, so how do we see this mix?

Management: We just saw a spike in export in e-commerce because of the lockdown, the other two which is modern retail and general trade were not able to. E-commerce was on its normal course of business. We had a spike in export, so hence contribution of export as a percentage of revenue was higher in this quarter which is the first quarter of FY22.

Vipin Goel: Last one on the pricing. So, since this commodity upcycle since last year, what's the price hike that we have taken across the product categories and within that within that product category if you can just give some clarity?

Management: Our pricing is actually on a cost-plus level. What we do is we know what our landed cost is, and on that we add our markup so that we can retain our gross margin and that markup is constant for all products and across all channels. So, our margins are channel agnostic, and our margins are also product agnostic. In order to pass on the price because we are a cost-plus company, the price increases are passed on and we have an opportunity at every quarter to do a price correction or a price revision. There will always be a certain amount of inventory in terms of raw material which will be at the starting of the quarter and that correction follows a certain amount of, there is a certain amount of lag. So, at every quarter beginning we do a price increase. In last November 2020 we did an increment of average 4%. In April of 2021, we did an increment of 4%. And going forward depending on the price increase of raw material we take a call at the beginning of the quarter whether to pass it on or not.

Vipin Goel: So, as of now the price increase, the change in raw material has been factored in?

Management: Yes, it has been neutral.

Moderator: The next question is from the line of Mayank Bhandari from Nirmal Bang.

Mayank Bhandari: As we have seen in this quarter, nonstick cookware is contributing almost about 25%, which was about 18% in Q4. Can you give a corresponding figure for Q1 FY20 or maybe for the full year 2020, what was the contribution for nonstick cookware?

Rajendra Gandhi: So, the spike in contribution only while for us all the products are growing at the similar rate, the spike in contribution has been high because of the higher contribution of exports in the revenue, because we had lost some revenue from the general trade and the modern retail. The overall revenue otherwise would have been a little higher. So that is why you see a little higher contribution, that is 25% of nonstock cookware. You wanted that number. For FY21 we were at 30 crores, and we are at 67 crores for FY22.

Mayank Bhandari: So, that is nonstick cookware.

Rajendra Gandhi: Yes, it is nonstock cookware.

Mayank Bhandari: Revenue number.

Rajendra Gandhi: Revenue number of nonstick cookware in the quarter, the first quarter of FY21 we were at about 30 crores and this corresponding same period, that is quarter entire in FY22 we were at 67 crores.

Mayank Bhandari: So, extended to that for the full year as my export has now increased to 15% of total revenue, for the full year it is expected to be around that, FY22?

Rajendra Gandhi: While the export is of course growing, we don't expect it to be at 15%. For the first quarter, the contribution from export was higher because that channel was open. We were allowed to manufacture and export. Whereas the general trade and the modern retail were not. So, we believe that but for 1% or 2%, between 13% and 14% is what we expect that this year we should end up on exports.

Mayank Bhandari: And I just wanted to understand, how e-commerce revenue is behaving? Like, you had said that 30% of revenue had come from e-commerce. So, within month-wise, like let's say, there was lockdown in May month, so the contribution in May month would have been higher from e-commerce and now as in July month contribution would have been lower. So, it's just that I want to understand the trend that whether with the unlocking whether the e-commerce is going down or how's is the consumer behaving in terms of buying from e-commerce?

Rajendra Gandhi: The e-commerce channel actually there is no change in contribution from e-commerce as a channel. But it is higher in the terms of contribution because of the reduced contribution from other channels during the first quarter. And the e-commerce also goes through various, there are weaker first quarter, then there is a season in the second quarter, so actually the second quarter will be higher in terms of the overall revenue number for the e-commerce. But on the contribution, I can say, it's growing at the levels that we have anticipated and only for the quarter there seems to be a little more from e-commerce because of this subdued contribution from general trade. But 1st June I can tell, all the channels are doing extremely well.

Mayank Bhandari: No, my question was that with the unlocking and with movement starting…

Rajendra Gandhi: E-commerce channels continue to contribute. They continue to grow, that's what I wanted to convey. It's not that just because of the lockdown, means there is a normal situation in the general trade which is not that the e-commerce revenues are reducing. No. They are still growing.

Moderator: The next question is from the line of Amit Mahawar from Edelweiss Securities.

Amit Mahawar: So, I have three quick questions or maybe I'll club them into two. First is, what is the growth in product that are launched before one year? So, old product range, what is the growth that we have in this quarter? And correspondingly, what is the e-commerce market share right now we have, that's the first question. Second is a particular question on digital visibility. The entire team that we have, what is your plan on ramping up the digital presence? Dominant market share is something which we already have, but something beyond that in terms of comprehensive approach to digital marketing, what are our plans? Thank you.

Rajendra Gandhi: We are particular about the growth on the various product categories. When we say we introduce products, but they are all classified either in the cookware segment or the cooktop segment or the appliance segment. So, for us these three segments, as I had mentioned to you about the percentage contribution and also the growth, they have been very-very high and we continue to grow in all the three categories, that is the cookware category. When the new products that are launched are only a subcategory of the same segment. So, there will be new range of cookware that is being launched. That is the Cast Iron cook range which was never there in our offerings is now a new variety that we are launching. So, they are both the existing range, and the new ranges are contributing, it's not that the growth is coming only from the new categories. They are yet to stabilize and see the future. But the existing categories are also growing. All of these three categories, the cooktop I had mentioned to you that we had the kind of growth we had both on induction cooktop and gas cooktop. and on the pressure cooker and the nonstick cookware I have also mentioned to you the kind of growth in terms of both volume and value growth.

Amit Mahawar: I will rephrase it just for ease. What is the revenue contribution of the last maybe product launch in last six months particularly in this quarter? That's the specific question.

Rajendra Gandhi: I think we will not have exact numbers right away, but we can share it with you.

Management: On the digital marketing, of course, like you said we are prominent in both, Cloudtail which is Amazon as well as on Flipkart. Having said that, we have a team which is constantly working on Amazon, both on the keywords for marketing which is EPC as well as EPM where we buy the banners. And we optimize it ourselves. We make sure that there is a certain amount of cost benefit that is happening on an ROI basis. So, we are increasing our spend on digital. I would say that a significant spend compared to last year, this year in marketing will be through digital media. We have also started engaging with influencers. We have ramped up our presence on social media which was less compared to this first quarter last year. And same with Flipkart, we are working with the Flipkart team. Flipkart has a portal similar to Amazon where you can put your own money and you can monitor the progress of all your digital marketing. So, marketing efforts on the digital front, both in social media and on the platform is being ramped up this year.

Moderator: The next question is from the line of Samir Palod from AUM Fund Advisors LLP.

Samir Palod: With our trading business you are not reducing drastically, what kind of margin profile will we see going ahead?

Rajendra Gandhi: Obviously, the contribution from our manufactured products, because see, when we get into manufacturing there are two phases. Once we start manufacturing any product with a scale, that is we set up assembly lines and as we set up assembly lines, there is a cost reduction and obviously we see growth in the numbers and when we get substantial growth, then we backward integrate. Both these initiatives end up in reducing our costs. We pass on a majority of that, I can say 75% of that cost benefit we pass onto the consumer. So, there is a residue number that contributes. Obviously, with the growth in contribution from manufactured versus traders, I can say there will be definitely improvement in the gross margin. There is an improvement in gross margin.

Samir Palod: On the EBITDA level, can we see that we can do upwards of 15% EBITDA margin, once we are completely out of the trading business and in a normalized year?

Rajendra Gandhi: It's not that we will be completely out of trading business, never, because the strategy (28.17) to first introduce new products, the initial growth will be trading, and we continuously keep on adding new products. And then subsequently get into. Yes, that is I think we are heading towards that 15%.

Samir Palod: What kind of capacity do we have in terms of gross block, and do we need further CAPEX to grow more, or do we have capacities to scale up our revenues or double our revenues in the next three years?

Rajendra Gandhi: The last year we have already started this expansion and we have invested close to 63 crores on the various, requirements like building new sheds and several lines we have added and also backward integrated on several of the products. I can say, the process is already on, and it will culminate into expansion of our capacities from what used to be. I can say by the end of this year we will almost be adding say 50%-60% additional capacity in all the categories. So, we are expanding on the nonstick cookware, we have added capacities on our pressure cooker and also the small appliances. We have a completely new factory, a multi-level factory first time in

StoveKraft always we used to have a single level, but this is a multi-level factory for the small appliances that we are getting into manufacturing. So, all these three categories we have invested and including the induction cooktop, we have expanded our capacities. We used to consider ourselves that we had a capacity of between 1000 and 1200 crores, but with the new additions we see the revenue can, actually at a full capacity, we can get to 1800-2000 crores.

Moderator: The next question is from the line of Deepak Lalwani from Unifi Capital.

Deepak Lalwani: Sir, what is the current export order book status? Previous quarter you had indicated Rs. 130 crores for FY22?

Rajendra Gandhi: Yes, actually we have capped for this year even before the beginning of the quarter, we were full with the orders. We are at the same number or little higher and we would want to develop new customers this year, but not for the revenue, but for the future for the next year.

Deepak Lalwani: With the improved visibility that you have what is the kind of number that you are looking for FY23, can we expect somewhere around Rs. 200 crores?

Rajendra Gandhi: I believe for a few years, the kind of demand that is being witnessed at the StoveKraft we will grow at not less than 50%, but it could be little higher on the export.

Deepak Lalwani: On our margins profile this quarter it was low due to on account of lower sales, so what will be our full year guidance on the EBITDA margins?

Rajendra Gandhi: We will be better or at the level of last year. We can change the function of the revenue, beyond the breakeven point, substantial portion of that gross margin flows to our EBITDA. Obviously, I can say we were at about 70-75% of our aspired number, of course which is all explained about the lockdown and all that, but post June 10th I can say we are experiencing a robust demand. We are able to both produce and sell. On both sides we are seeing very good traction. In terms of percentage margin, we will be at the level of last year or I can say we will be an incremental….

Deepak Lalwani: Got it that is helpful. As the demand has picked up in the domestic business, so what kind of growth do we expect for FY2 and FY23?

Rajendra Gandhi: The company has been growing between 15 and 25%, but, the current times, in spite of the huge setback that was there in the first quarter, we have done well, because similar period last year also a very bad period, even worse than what it was this year. So, if there is no lock down kind of a situation, we'll be at the higher end of this growth. We can definitely expect a growth upwards of 25%.

Deepak Lalwani: Okay, so 15% for the domestic business, right?

Rajendra Gandhi: I said about 25%.

Moderator: The next question is from the line of Nikhil Gada from Abakkus AIF.

Nikhil Gada: My first question is that in the press release, you have mentioned that we have seen a gross margin improvement, due to higher sales of value products, as in a premium product, is this in the Pigeon brand that we have created some premium products or is it the Gilma and Black and Decker?

Rajendra Gandhi: So, when I say that, go by features, we are clearly targeting our PG. We are focused on the target segment that we believe that we belong to or aspired by and but this PG is also evolving and so we want to continuously excite them with higher end feature, but the consumers are actually more and more consumers are directly themselves involved in cooking and celebrating in the kitchen now. So, because they are involved in that, they are also, mean, they are getting excited with new features in better product offering. At the higher end within the range that we offer in the Pigeon brand we are seeing that the categories which are relatively premium to the brand are seeing higher traction.

Nikhil Gada: And sir what would be the share of this, any quantitative number?

Rajendra Gandhi: Yes, not exactly, I think we'll start doing this.

Nikhil Gada: Can you at least give the gross margin difference in this product compared to our base?

Rajendra Gandhi: No, honestly, for us it's not very big, but of course at the premium end, we get our full margins, meaning there is no compromise on that, so the difference will be there, but it's not very substantial. It is 1 or 2%.

Nikhil Gada: So, my second question is, when we also look at peer numbers, we have definitely done better than them. Could it be because our e-commerce presence is comparatively better that has helped us? And another question regarding this, can you quantify how much sales we would have lost because general trade was not operational?

Rajendra Gandhi: I'll tell you June month we could recover more or less, May was almost shut. So, the revenues that are there, majority of the revenues only from long general trade and modern retail outlets. So, the revenue for the month from these two channels, you can add to that number that we would have lost, if you want to me to put number, it will be between 30 and 40 crores.

Nikhil Gada: 30 and 40 crores, got it. Lastly, you said that we are planning to increase our A&P spends, I guess, if I'm not wrong, our FY21 was close to 3%, how much or do you plan, like 3% of sales how much do you plan this to go up by for FY22?

Rajendra Gandhi: There is an increase in revenue number for the current year and then between 3 and 4%, it cannot be very specific. You get opportunities where we can rightly invest on the marketing and advertising. But we would want to be in the range of 3 to 4%.

Nikhil Gada: And it would not stay in our margins as in the margins will still be ...?

Rajendra Gandhi: I will tell you is a function of the revenue and the contributing margin also goes up and when the contributing margin goes up and then from that even if we are spending 1% more towards advertising at the EBITDA level it neutralizes or there is still hope.

Moderator: The next question is from the line of Pritesh Chheda from Lucky Investment.

Pritesh Chheda: I missed the comment on how much growth we will see in FY22? Did you mention 25% as a company level top line level?

Rajendra Gandhi: I think, I mean, I don't know whether it was fair of me to have told you this number but anyway since you have already mentioned yes, you can expect that 25%.

Moderator: The next question is from the line of Aditya Mehta from G. K. Capital.

Aditya Mehta: Just want to understand that what are our longer-term plans with regards three- or five-years plan, for current year we have given guidance of 25%. What is it, which is helping us to grow so fast? Is it that the whole industry is going with a such pace, or which is there are some strategic decisions that we have taken or areas which we are working on, which is helping us to grow?

Rajendra Gandhi: It is our position of the brand, the country, and the positions are in sync and the opportunities that are there in the country, I believe more and more of manufacturing is going to help. Our strength of company, particularly these three, they believe that manufacturing is our strength and in the branded space, the companies that operate here, the maximum contribution of our revenue is coming from manufacturing. Further we are investing further on this, that is our capability and strength, which brings the cost as, actually the margins are both of manufacturing and the marketing are in one company. And, we have a very, what do you call, lower aspiration on the margins. It's not that our products are very, we don't have very high gross margin. We've operated about 35%, which is at the lower end for the peer group. And, with that modeling, we are able to get to an EBITDA level which is at par or better than the peer group. That is on the margin side and the growth side, because we are in the segment, which is the largest segment in the country, the aspiring class, and all our products are actually targeted to a larger customer base. Because also these consumer base is growing faster, their capability to buy that is disposable income of this class of customers is growing, obviously, because we are catering to them is the largest consumer base and our capability to continuously excite them and deliver, I mean meet the demand, both these are helping us to grow at higher than that. We believe that it will unless there is some disruption, for a long time to come the strategy of the company and the strength of the company, will help it to grow at higher than the industry.

Aditya Mehta: Just one more thing, just if he had just, we deduct our promotion expenses from our revenue numbers, right. If we adjust and back so what will be our gross margin then?

Rajendra Gandhi: Sorry can you please repeat?

Aditya Mehta: We deduct promotional expenses from our top line numbers.

Rajendra Gandhi: Generally, it is about 4 to 5%. There'll be various promotional spend. What I mean by promotional spend is incentivizing the channels, incentivizing the sales, so whatever goes into incentivizing this we call it as promotional spend and we merge it off from orders.

Aditya Mehta: So, if we had them back then the gross margins will be around 40% odd levels.

Rajendra Gandhi: Close to, yes.

Aditya Mehta: What was the investment, which was done for increasing capacity about 50, 60% in domestic increase?

Rajendra Gandhi: I think it is closer to 63 crores so far that we have invested in the last year.

Aditya Mehta: So, 63 crores will help us give a what type of revenue number?

Rajendra Gandhi: It is an ongoing thing; this was already invested, and once investment is done because we are investing in all the categories. It will take us to at least 1.5x, 1.6x or within capacity which we believe will take us to around 1,800 to 2,000 crores.

Moderator: The next question is from the line of Rusmik Oza from Kotak Securities.

Rusmik Oza: I wanted to understand this Rs. 1,800 crores will be achieved by FY24 or much before that or it will be FY25?

Rajendra Gandhi: You are talking about the capacity or the revenue?

Rusmik Oza: The revenue, you said based on the additional capacity you are aiming for Rs. 1800 crores of revenues.

Rajendra Gandhi: The capacities are always built for the future and of course it's not that every it’s a uniform revenue around the year. For the peak is what it is and we will not be able to utilize 100% around the year and the revenues will be obviously a little lower than the capacity. And we still have room for traded goods. All this that I was mentioning is about the manufacturing, within the company or in the business itself I will tell you, it is little cyclical, for the nature of the business that we are, the percent the last quarter generally contributes over 40% and the second and the third quarter generally contributes to 60%. So, there is a skew in the requirement also, as the manufacturing and the revenue that is the sales I cannot go only in tandem, that is as a manufacturing company it's not that we can keep produce and keep, we believe that we should be as in as possible in our inventory. And so, we will manufacture these on demand, but for maybe sometimes a little here and there. The capacities that are built are actually for the peak. I mean, to satisfy the peak also.

Rusmik Oza: Going forward what could be the asset turnover ratio we should look forward; will it be 3.5 times or 4 times? I did not understand can you repeat? The asset turnover ratio, that's for example to raise this 1800…

Rajendra Gandhi: For us it is very important that we do at least 4 times.

Moderator: The next question is from the line of Ashish Kumar from Infinity Alternatives.

Ashish Kumar: Just wanted to understand with regards to your exports business, you're talking about 131 to 142 the exports business this year. Going forward over the next three years we can receive his business in terms of revenue?

Rajendra Gandhi: We think that it will grow higher than the company's growth rate, the exports business for at least the next few years. We are at about, between 13 and 15% of our revenue, we believe we should stabilize for this year between 13 and 14% but, in the next two, three years, definitely because of the higher growth rate it is moving towards 20%.

Ashish Kumar: So, if we expect that 25% revenue growth at the company level is it safe to assume that our export will be growing in excess of 25%, we may reach around 300 crores export turnover?

Rajendra Gandhi: Actually, we also want the growth at the right pace. The opportunity is higher than what we are catering to at least 50% growth rate for exports is what we are seeing in the next, at least two years. The visibility is there.

Ashish Kumar: Just on the margin for the exports business, is it similar to the company level like 13, 14% which you are reporting right now?

Rajendra Gandhi: At EBITDA level yes, not at the gross margin but at EBITDA level yes, because we have very few costs after the gross margin, at the EBITDA level it is either at the same level or even more.

Moderator: The next question is on the line of Nilesh Jethani from Envision Capital.

Nilesh Jethani: My first question I wanted to, it's the bookkeeping question, wanted to understand what is our current share from the e-com business in terms of percentage?

Rajendra Gandhi: If you look at only the first quarter, then it will be skewed, it will be close to 45% but for the year we expect it to be at about 30%, between 30 to 35%.

Nilesh Jethani: Second thing I wanted to understand, since our share from the e-com business is quite higher. What it takes to sell higher in the e-com platforms, is it the price differentiation or is the brand recall value, at least for the product categories in which we are available, any sense on that?

Management: Again, is a value proposition. We are addressing to the relation the bottom of the pyramid as you can say. That is where the lifestyle is changing, people even in the rural areas are modernizing, as a result of which it is helping us cater to new and people who are coming onto the e-commerce. The second part is that we were already present in e-commerce before anyone else came. We had the early more advantage, way back in 2016 we started our e-commerce journey both with Flipkart and Amazon and third of course, we have the top-quality product at an unbeatable price. As a result of which these two have yielded us with high number of ratings and high rating itself, if you look at our pressure cooker or if you look at our nonstick cookware is or if you look at our choppers, we will have a rating, the number of ratings will be in lacs and the rating itself will be 4+. So, these three early more advantage, top quality, and unbeatable price and of course ratings helped us capitalize on the e-commerce opportunities.

Nilesh Jethani: My next question was on the growth outlook. So, when we talk about aspirational asset turnover, it's in the range of 4x, our current gross block is in the range of 220 to 250crores and we did around 60 crores revenue last year, even if I take a 25% growth, we will be at around 1100 crores of revenue for FY22. So, at 225-250 crores of gross block, how can we have that 4x optimal level of asset turnover or either we purchase contribution would be higher or that will drag the margins for FY22. We wanted to have a sense on that.

Rajendra Gandhi: There is a semblance that they apply also and for the CAPEX to contribute there is already a little lag one or two quarters. It has to start generating revenue. There's a time when you invest in the same, when it starts paying, I mean working, otherwise the thumb rule that we apply is that it has to give us minimum 4x.

Nilesh Jethani: And now about current situation, as of FY21, our gross block could be in the range of 250 crores and revenue was around 860 crores. So, aspiration of having 1100 crores kind of revenue in FY22, our current existing capacity would be able to support that kind of numbers I am asking that?

Rajendra Gandhi: Yes. You will have to understand that the company has already invested on land, all the lands that we currently have can take care of all expansion plans for the next 5 years. So, this investment is already done. It is only that we build new sheds and the set up lines and unless you do very large backward integration for the normal frontend investment the minimum that we apply it should deliver us 4x revenue and we are very confident of this.

Moderator: The next question is from the line of Abhishek Maheshwari from SkyRidge Wealth Management.

Abhishek Maheshwari: There will be one question. These products that we are launching at Onam festival, are these company's own manufactured product or even this includes trading products also?

Rajendra Gandhi: Majority of them are our own production, but there are some products that we are launching and once there is scale, we will be able to manufacture.

Abhishek Maheshwari: So, in these manufactured products supply chains are domestically sourced all you are importing a compliments from different countries?

Management: Supply chain for domestic product, we are largely backward integrated for most products. There is a very limited amount of dependence on anything, which is imported. One of them being last quarter was gas cook top, so largely we are backward integrated as a result of which most of our domestic products are completely made in house.

Moderator: The next question is on the line of Nikhil from SIMPL.

Nikhil: As you mentioned our brand is currently focusing on the bottom of pyramid and there is a big change in the lifestyle, just want to understand on the premium side on Black and Decker and Gilma how are we thinking about and I don't know if you share the revenue contribution from those brands and for next three, five years what are the plans over there?

Rajendra Gandhi: These are totally different offering to different set of customers. We are targeting different customers and the strategies for these are different. Today the contribution of these two brands is relatively very small, is in the range of 5 to 6%, but because of the smaller base where the growth rates are higher, of course since they are addressing a different class of customers, offerings are also different. The strategies are also different, Gilma brand we operate only through our exclusive outlets where we have VBL stores and we plan to now ramp up these, expanding initially from the south. But we want to take these towards across the country, currently we are in the range of around 70 stores, but already post the lockdown period we have started working on this and very soon quarter-on-quarter we will see number of Gilma stores growing. On the Black & Decker because it's a better premium end and most of the products are currently sourced, we import them from most of them come from China. We add a lot of challenges because of the smaller quantity of product. I mean, in the number of pieces that we import, there was supply disruption even in China and so for the recent past we had constraints from the supply side, rather than the demand side, we have addressed this, and they are reviewing the offerings also. There is a process of getting these approvals of these products. We take a reasonable time, six to eight months of process, as the range grows and the supply chain improves this will also grow. I can say that there is opportunity for high growth in terms of contribution to the revenue.

Abhishek Maheshwari: And, secondly, this was in respect to a question which was earlier asked that if you look at the new product launches which we have done, so it can be around two segments. One is entering new segments, and another is providing new SKUs our innovative products. If you have to understand, say on cumulative three, five years the number of products we would have launched, how would they break up be between new categories which we have entered and new innovation and going forward would you see that we would more consolidate in our existing categories with own manufacturing and everything or how do you plan out in terms of new categories and new products, new SKU launches?

Rajendra Gandhi: I want to again guide you through this, these are the segments that we operate in. Whether it's a cookware or the cooktop, other kitchen appliances mostly in the kitchen and then there are some utilities in the home segment. The segment is the same, the innovation between these segments is a continuous process and within the product segment that we offer also, so there could be a new variant of a mixer-grinder, but there is a completely different variant which is blender, this is not a product that was existing, but it is an offshoot of mixer-grinder. There are products that, there was never a chopper in the kitchen, but then today we have a huge offering in the chopper category and then the innovation goes on and we come with the complete food processor on the lines of chopper. The categories are the same, in the last few years we have not seen any category which is not done well and the moment we see volumes picking up in any of these products. Then of course, we get into manufacturing, when we get into manufacturing, we rationalize the number of SKUs. We then want to focus on limited SKUs which are doing very well, we would want to be an 80:20 kind of analysis. We would want to focus on the 80% and probably let go the 20%, so that's what we do.

Abhishek Maheshwari: Last question, from my side, I just want to understand this trading business which you mentioned in the call, that is reducing. Is it like, what I intuitively think there should be a low gross margin business which will be pulling the overall margin? What is this trading business and by when do you think it will be below like 5, 10% and what would be the core gross margin of our manufacturing business?

Rajendra Gandhi: Let me explain to you what we were, in the past we were at 30-70, 30% of the revenues were contributed by our trading products, but we have in the last two years, particularly we have moved a lot of these to manufacturing, but the trading will continue. The new innovation that is happening globally we'll want to bring them to our consumers, and we'll want to import them and then offer it to the consumers. Of course, that would be a kind of trading activity but as and when we see that volume growing and acceptability of this product, we will then get into manufacturing. It's not that it is very low, of course there is a difference in contributing margin, the contribution from our manufacturing products is little higher than the trading products.

Moderator: The next question is from the line of Pritesh Chheda from Lucky Investment.

Pritesh Chheda: What would be our networking capital cycle, and do you see any improvement there as we scale up?

Rajendra Gandhi: Currently, we are at about 27 days, we want to make it zero. When I say zero, we would want to move to a complete actually link to revenue. Today we are already of payable, we want to link it to revenue, so it will be a little higher. On the inventory and the receivable, we want to move to that 16? So, we want to net off these two, that is the total payable and the total inventory and receivables to be at the same level. Currently it is at 27 days.

Pritesh Chheda: I couldn't compare. If you do, then what is the debtor payable and the inventory base?

Rajendra Gandhi: Currently the inventories are little higher for the last quarter, because of the lockdown situation, otherwise it used to be in the range of 38, 40 days, which we want to bring it down to 30, but for the last quarter, it was 75 days. Payable we want to be at 66 days and debtor is at 36 days.

Pritesh Chheda: And the corresponding debt in our balance sheet is now zero or we have a net cash positive?

Rajendra Gandhi: We are at about 15 crores of debt.

Moderator: Thank you, ladies, and gentlemen, that would be our last question for today. I now hand the conference over to Mr. Rajendra Gandhi for closing comments. Thank you and over to you sir.

Rajendra Gandhi: Thank you. Each one of you for joining us, I hope we have had been able to answer all your queries. We look forward to such interactions in the future once again. I would once again thank the entire investor community for the tremendous support shown during our IPO. We hope to live up to your expectations. In case you require any further details, you may please contact us, or our investors relationship partner Orient Capital will be more than happy to answer. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of StoveKraft Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.