June 07, 2022

To,

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai- 400 001
Scrip Code: 543260

National Stock Exchange of India Ltd.
Exchange Plaza, Plot no. C/1, G Block,
Bandra-Kurla Complex
Bandra (E), Mumbai - 400 051
NSE Symbol: STOVEKRAFT

Dear Sir/Madam,

**Sub: Intimation under Regulation 30(6) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015: Transcript of Earnings call**

Pursuant to Regulation 30(6) of SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, please find enclosed the Transcript of the Earnings call held on May 31,2022.

Please note that the transcript of the Earnings call will be on the Company's website under the following link:- https://stovekraft.com/investors/

Request you to kindly take the same record.

Thanking you,
**For Stove Kraft Limited**

Elangovan S
Digitally signed by Elangovan S
Date: 2022.06.07 12:05:50 +05'30'

**Elangovan S.**
**Company Secretary**

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# "Stovekraft Limited
# Q4 FY2022 Earnings Conference Call"

**May 31, 2022**

**MANAGEMENT:** **MR. RAJENDRA GANDHI - MANAGING DIRECTOR AND PROMOTER, STOVEKRAFT LIMITED**
**MR. RAJIV MEHTA - CEO, STOVEKRAFT LIMITED**
**MR. BALAJI AS - CFO, STOVEKRAFT LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Stovekraft Limited Q4 FY '22 Earnings Conference Call.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants' lines will be in 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 '*' and '0' on your touchtone phone. Please note, this conference is being recorded.

I'd now like to turn the conference over to Mr. Rajendra Gandhi, Managing Director and Promoter. Sir, thank you and over to you.

**Rajendra Gandhi:** Thank you. Good afternoon, everyone. I hope that all of you and your families are safe and healthy. On behalf of Stovekraft Limited, I extend a warm welcome to all participants on Q4 and FY '22 financial results discussion call. Today on the call, I am joined by Mr. Rajiv Mehta, our CEO; Mr. Balaji AS, our CFO and the Orient Capital team who are our investor relationship advisor.

We are pleased to inform you that your company has crossed INR 1,000 crore revenue for the first time and posted a revenue of INR 1,136 crore, an increase of 32% over last year. While EBITDA and profit after tax, for the years stood at INR 108 crore and INR 56.4 crore respectively. We witnessed the challenging external environment with global supply chain volatility, fuel and commodity price pressures in Q4 FY '22. But overall, the consumer sentiments look strong and opening up the economy and the markets.

We witnessed strong growth in offline revenues backed by addition of about 27,000 outlets during the year. E-commerce channels continue to grow steadily at 36.4% year-on-year. During the fourth quarter, we recorded the revenue of INR 261 crore an increase of 11% over the last year.

The growth in Y-o-Y revenues was contributed by 18% growth in volumes and 11% increase in the selling price. Despite the increase in selling price, the impact of higher raw prices continued to cause the declining gross margins and EBITDA margins by 450 basis points and 265 basis points, respectively, when compared to the same period last year. EBITDA and profit after tax for Q4 FY '22 stood at INR 21.1 crore and INR 8.8 crore, respectively. During FY '22, our pressure cooker category had a volume growth of 26% and accounted for 24% of our revenues. We continued to rapidly grow our LED business and during FY '22, we achieved a volume growth of 18% and this business contributed to 7% of our total revenues.

Our small appliances business saw a volume growth of 17% and contributed 30% to our total revenues. Our domestic non-stick cookware category had a volume growth of 24%, while the export business saw a decline due to the non-availability of containers, there was a disruption in logistics of sea freight.

The revenues under our cooktop category, we had a volume growth of 30%, while contributing to 22% of our revenues. In addition, the company started power generation through our own installation of solar panels on our factory rooftops and a windmill at Kottige, Chitradurga, Karnataka. Both these initiatives are expected to generate 50% of our requirement of power for FY '23. And on a blended cost it will amount to a saving of 35% on our power cost for FY '23.

I am pleased to inform, we have successfully completed the acquisition of SKAVA, which we announced in the last quarter. The commercial production for SKAVA is just beginning this month of my May ’22. For the year ended 2022, our RoCE stood at 16.7%. Net debt stood at INR 52 crore and working couple days have come down to 32 days.

Now I would request the moderator to open the floor for question and answers. Thank you.

**Moderator:** Thank you very much, sir. We will now begin the ‘Question & Answer’ session. We have a first question from the line Pritesh Chheda from Lucky Investment Managers. Please go ahead.

**Pritesh Chheda:** Yes, sir, where are we on recouping the gross margin numbers? What actions we are taking and where are we on the cost curve and the pricing curve?

**Rajendra Gandhi:** So on the gross margin, we will continue to endeavour to protect the 31% gross margin and at the cost, again our endeavor will be to maintain it at our about 20%. So that should leave us with protection -- I can say our endeavor be to protect that 11% gross EBITDA margin.

**Pritesh Chheda:** So what are we doing there sir. And why -- earlier your earlier communication used to be 31% to 35% gross margin, today your communication is 31%.

**Rajendra Gandhi:** Yes, so that's I'll repeat our endeavor will be to protect this 31% and what we are doing for this quarter on quarter. Of course, the last year we had very, very volatile situation unprecedented in the past on all input costs, whether it was sea freight, it was paper, of course, our major input, like aluminium, steel, copper, plastic, all of these inputs had very high volatility. I can say to the extent of input cost some material cost price increase even upwards of 60%, 70%. But we had passed on some price increase and there was a shortfall of this and that is what has resulted in depleting of the gross margins. But I can also say that we have taken additional measures over the particularly last quarter and the first quarter of this year, which we are ensuring that will protect this margin.

And fortunately also, the costs are also getting slowly favorable. It is not that we are working on this, but we are -- overall I can only say that we are working towards this -- protecting this level, it does not mean that we'll end up only -- in business works like this. Whenever there is input cost pressure, the margins are generally under pressure, but wherever the price -- when you see that input cost price coming down, then the margins become a little more healthier, particularly in the last year, because you are seeing that the best times also. That we would have sometimes at been 34%. That was the time when all input costs were actually going down.

**Pritesh Chheda:** So now have you entered a phase where your pricing increases now ahead of cost because we've seen all the base metal prices correcting significantly, is your last price hike now ahead of that metal price, or you're still behind the metal price? I think until last quarter you were referring to aluminium at whatever $2,600, $2,800 or $3,000, and now I think most of them should be below. So where are we on that?

**Rajendra Gandhi:** So I'll also tell you, I'll guide you something which will give you a little more comfort. In the last quarter, particularly when you see our number for the last quarter, we had a one-time raw material, we provided for raw material to the extent of INR 5.5 crore. We had during the COVID times got into some COVID products and we believe that while we may still be able to recover some, but we provided 100% of that on the raw material input cost. So the margin side, I can say, even in the last quarter, we are ahead of our, what you want to protect we are ahead of even that.

**Pritesh Chheda:** So INR 5 crore means say 2%. So you already at 68% RM to sales which means.

**Rajendra Gandhi:** Yes, closer to that.

**Pritesh Chheda:** Okay. And my second and last question is sir, what was the volume growth that you had for full year in FY ’22?

**Rajendra Gandhi:** Volume growth is between 18% and 19%, the rest coming from value.

**Pritesh Chheda:** And what is the carry forward price increases that are there, which would've taken in second half whose benefits also should be there in '23. And what is pricing taken so far?

**Rajendra Gandhi:** We have again, progressively, over the year, every quarter there was the price increase. The whole price increase that we took for the whole year is in the range of 10% of course it will vary from category to category that was for the last financial year. We did take a price increase again for this current quarter between 3% to 4%.

**Pritesh Chheda:** Okay. And past you were mentioning that you will grow 25% CAGR for a few years, where are we on that thought process?

**Rajendra Gandhi:** The business, I mean, the markets are robust and our endeavor will be definitely to grow at the pace that we have been growing the last three, four years.

**Moderator:** Thank you. We have next question from the line of Achal Lohade with JM Financial. Please. Go ahead.

**Achal Lohade:** Yes. Hi. Good afternoon, sir. My first question was if you could talk about the employee cost being lower Q-o-Q and it's down Y-o-Y, while the sales is up on a Y-o-Y basis. If you could help us understand, what is the recurring cost or what is the employee cost one should look at on an annual basis?

**Balaji AS:** Yes. So what happened between the Q3 and Q4 is in Q3 we had about INR 33.4 crore of employee cost that was reported. If you remember last time on the call, we had mentioned that that included a one-time special sort of support that we provided to the employees of about INR 2.5 crore, so that has obviously not featured in the Q4. In addition to it, there was an annual reversal of the bonus/ variable pay that we had created for all the employee and therefore the proportion of those employees who had left during there and therefore not eligible that was reversed. This quantum was about INR 2.5 crore. And then the third component is that there was a regrouping of contract labor costs, which till last year we were showing it under labor, employee expense itself. This time basis the discussion with the statutory auditors, this has been regrouped into the other expenses. So that is not necessarily a reduction, but more of a regrouping that has happened. So if you see the actual contraction per say between Q2 and Q4 is less than INR 1 crore, in terms of the fixed cost that has happened.

**Achal Lohade:** What is the quantum of this regrouping of labor costs for 4Q FY '22 and FY '22?

**Balaji AS:** INR 2.7 crore.

**Achal Lohade:** INR 2.7 crore for the fourth quarter, as well as for the full year.

**Balaji AS:** It's for the full year and because the Q4 is only the balancing figure between what is reported in Q3, the entire impact of the regrouping would also appear in Q4 financials.

**Achal Lohade:** Understood. My another question was if you could quantify at this point in time, if you look at the raw cost as we speak, what is the extent of price increase we have to take to pass on that fully? Part of that we would've taken till now, but how much incremental is required apart from the one which you have already announced or taken how much more is required to kind of normalize this gross margins to 33% or levels.

**Rajiv Mehta:** So Achal, if you look at Q1, and if you see Q4, both Q4 last year we took an increase between 3% to 4%. Again, in Q1, we took an increase of 3% to 4%. There was an impact of 18% because of the RM price increase directly on the gross margin. Of that 18%, 11% has been already absorbed because of the net price increase over the year. The balance 7%, about

4% has been because of backward integration, we've got some efficiencies. That left us with about 3%. And as a result of this price increase, we are fairly confident that we are more or less on track with the RM, unless there is another volatility event, which we are not foreseeing right now.

**Achal Lohade:** Understood. And, in terms of the growth if you could talk a little bit about the recent acquisitions, what is the thought process here from FY ’23-24 perspective? What kind of initiatives we looking at and what kind of contribution can we look at from these additional category, new category?

**Rajendra Gandhi:** See SKAVA has just started production. And the range will only complement our existing channel through which we sell the LED. So we are very confident of the takeoff immediately, because it's already an existing brand, existing range of products. It's only that -- moving the manufacturing from their existing facilities to our facilities, that was the only change. So we are very confident of a good contribution coming up from SKAVA. SKAVA in the past with their own operations was doing between INR 10 crore to INR 20 crore in the various years. So, I mean, we definitely see with our network and the larger channel access we're able -- we can definitely cross this number, I mean, grow on this number on the SKAVA side. And the Metsmith is more of a equipment acquisition, so the factory is being set up and we did trial kind of a exhibition to understand the kitchen business and we are seeing very, very -- we are very excited with the response from the consumers and we will be, now of course, exploring all the channels for our kitchen and---same, I can say that it sounds very exciting. To give you an exact number today it will not be fair. I don't think I can give a number, but both these business are going to be very positive throughout our top line and bottom line.

**Achal Lohade:** Understood. One more question I had in terms of the balance sheet, A, we have seen increase in the working capital debt and also reasonable amount of supplier credit, which I noted, if you could elaborate a bit, what has changed in terms of the working capital for the year and how do you see it going forward?

**Balaji AS:** See from working capital standpoint, I think in terms of the working capital turnover per se, we have been working around that 30 to 33 days of working capital throughout, while you see specific spike during our larger quarters of Q2 and early Q3. As far as supplier credit goes, it is more to do with how we have been approaching the entire working capital from a banking standpoint. We are today largely in the endeavor to increase the trade payables, what we are trying to do is leverage or we have opened working capital limits with the banks. And under that we try and leverage as much as possible in our Letter of credit ranging from 60 to 90 days from an OPEX standpoint and also longer term LCs for CAPEX. So that is what you're seeing as the supplier’s credit incremental that has happened. So that is largely what would have otherwise been direct trade payables, if I'm able to get sourced that amount that kind of credit from the vendors, but this allows the vendors also to get the monies on time, as well as allowing us to get that additional credit at a optimum rate.

**Achal Lohade:** And if you could talk about what is the extent of the cost we are incurring for this? And also, what is the channel financing and bill discounting outstanding as of March ‘22?

**Balaji AS:** So can you please elaborate what do you mean by when you say channel financing outstanding?

**Achal Lohade:** As in how much bill discounting, did we do in FY ‘22 which would also result into reduction in the receivables?

**Balaji AS:** See as of 31st March, 2022, we've had about INR 30 crore of our receivables where we have discounted the bills, but the actual credit period had not lapsed as on 31st of March. So that, you would see as assets that we have derecognized through the factoring arrangement that we have with our channel financing partners. Now in terms of coverage, if you ask, today our coverage is about 50%, 60% of our general trade business is on channel financing.

**Achal Lohade:** So INR 30 crore as of March '22. Would you recall what is the number for March '21?

**Balaji AS:** I would not have that number on me Achal, let me get back to you on that. But typically this, if you ask me would not be really impacting us because this is the amount of assets that I've derecognized pertaining to the agreement that I have, and we don't carry any risk of default because this is the factoring arrangement without recourse to the channel financing partners.

**Achal Lohade:** Correct. No, what I was asking is in terms of -- because this is where we have also given the cash discount, right. That kind of captured in the P&L but separately in terms of the supplier credit, what is the cost for this in terms of the effective interest cost or for the higher credit?

**Balaji AS:** So for us, the working capital limits, whatever we are sourcing through LC the cost is anywhere between around 6% you can take from an LC standpoint. So as far as the dealer financing is concerned, we are working with -- so dealer financing product is actually translation of only the cash discount policies we have. So currently we offer about 2.5% CD on our supplies for people who are directly taking on CD, for people who are on the channel financing story then we are passing that 2.5% to the channel financing partners.

**Moderator:** Thank you. We have next question from the line of Prithvi with Unifi Capital. Please go ahead.

**Prithvi Raj:** Mr. Gandhi, just have a couple of questions. First, if I look at your presentation in almost every segment, there had been a volume degrowth for us except for induction cooktops in this quarter. So what happened in this quarter? What extent this volume degrowth of 10% to 15% in each and every segment?

**Rajendra Gandhi:** So particularly I will have to go by the channel itself. So we had suddenly one modern retailer, with whom we are not able to work. Actually, that was a challenge for us compared to the previous comparable quarter. And though we could retain the number, but the growth number -- we could not get a growth number because that particular modern retailer we could not work. General trade, we generally had a normal quarter, but I think there was one item that one set of -- that set we could not set, one combi and e-commerce particularly there was degrowth. And that's where you see the big shortage in the number.

**Prithvi Raj:** And if this is the case, so how do we expect to grow at 20% to 25% volume run rate that you are telling, because I guess even last quarter, we had a degrowth, even this quarter we had a volume degrowth.

**Rajendra Gandhi:** No last quarter, we did not degrow, but we did not grow normally. We if you'll compare, what was our previous quarter about INR 250 crore. So for us I think particularly in the last quarter, we would've grown at about 10%, 11%. it's not that we have degrown. Other than the modern retails and exports, I don't think we have degrown anywhere, including the general trade, e-commerce. It was not the expected growth, I can say. We had growth, it was not the expected growth.

**Prithvi Raj:** I was talking about volume, not on revenue, but sir, what's happening on e-commerce? What extent this decline even in this quarter?

**Rajendra Gandhi:** No, I'll tell you that we took a strategic call that we will want to correct our prices, both in the fourth quarter and this quarter, between these two quarters, we have taken a price increase of between 7% and 8%. And so when immediately such we have brought in a thing, there will be a little resistance from any of these channels, but then there was a call that we decided that we will have this. I can assure you that in the long-term it does not really affect business, but for the immediate reaction to price increases. There will always be from any channel, when you say that there is a price increase immediately there is a little resistance, but in the long run it all gets normalized.

**Prithvi Raj:** Okay. So when you expect this to normalize, how many more quarter?

**Rajendra Gandhi:** It kind of already normalized.

**Prithvi Raj:** And then I just have a couple of bookkeeping questions. In your P&L there is this line item allowance for expected credit loss, or impairment of financial assets some INR 12.5 crore, what exactly is that number?

**Balaji AS:** So, this has been the provision that we have been creating on our overdue receivables in line with the accounting standard requirements, largely this has been fueled this year, if you see this year for the full year we have taken a hit of about INR 13.5 crore on the P&L Q4 taking that INR 5.5 crore. So this has largely stemmed from the entire future retail issue that we have had. You will see that Q4 there has been a catch up. So this was on the fact that we had estimated a certain amount of collections to come from future retail during the year the shortfall that we've had, we had to provide by 31st March. Now we have covered the 100% of the outstanding receivables from future retail under this provision. And we do not have any further overdue receivables which require any further provision.

**Prithvi Raj:** Even the COVID inventory write off is completely over right? We can't expect any more inventory right off.

**Balaji AS:** Yes

**Moderator:** Thank you. We have next question from Kalpit Narvekar with Allianz Global Investors. Please go ahead.

**Kalpit Narvekar:** Hello. Thanks for taking my question. So firstly, on the e-commerce front, right, so you mentioned that there's de growth in e-commerce. So last quarter you had mentioned that there was one of the distributors of a large retailer who was going reorganize -- undergoing a reorganization. So just want to understand what is leading to de growth in e-commerce in this quarter and has that normalized, have the volumes from those large retailers normalized?

**Rajendra Gandhi:** So let me correct the understanding when I said degrowth we were growing at a very different rate. So if you'll say last quarter, also we grew by 24%, 25%, but particularly on the e-commerce, we were growing at a very high rate, where the growth rate is degrown, not -- business has not degrown. So if you will compare between the two quarters of Q4 ‘22 and Q4 ‘21, we will have grown by 25%, but in the normal -- in the last three, four years, we have been growing upwards of 50% when I said degrow is that, yes, why this has happened. There has been continuously -- it continues to have a disruption within their own operations between how they're moving out from the large sellers to smaller sellers and breaking off. So it is still getting stabilized, I can say it has moved, but still work is in progress. So that is definitely affecting. Second thing is, we are also seeing very high spike in the growth rate of our general trade and modern retail. We believe more people are also started shopping physically, more people have moved to that also. Because we are witnessing higher growth rate than normal in both the modern retail and the general trade.

**Kalpit Narvekar:** So, is it possible to share some number on how much revenues you possibly lost because of this reorganization this quarter and how many quarters do you expect it to normalize on the e-commerce?

**Rajendra Gandhi:** It'll be better to -- mean understand it this way. We were growing at about between 40% and 50%. We believe that now the e-commerce will also stabilize with a growth rate of what the company is growing at rather than having a disproportionate growth. So it'll also offset with higher growth in the other channels. So we believe that or I can say our endeavor will be to grow at the rate we have been growing and it'll not be disproportionate contribution from e-commerce. So e-commerce will also continue to grow at the same rate at the company's growth. I think that is the right way to look at it.

**Kalpit Narvekar:** Okay, sir. And one last question from my side so this -- on the exports, what kind of volumes were you able to do this quarter? Has the container situation gone better?

**Rajendra Gandhi:** Yes. I can say all that we could not ship in the last quarter, we will definitely be -- or already, I can say are shipping or shipped this quarter. In the first month, there was little -- been a very tight situation on the containers, but I think the customers have intervened and we have been able to ship out all the -- almost all the inventory that we were holding for the last quarter and the orders that we had for this. So we will have a relatively good spike in the exports in the first quarter.

**Moderator:** We have next question from the line of Rushabh Sharedalal with Equirus PMS. Please go ahead.

**Rushabh Sharedalal:** Yes. Thanks for the opportunity. My question is more on the macro front. So if you can give some sense about what kind of industry size is it for cookers, cookware and especially mixers in the kitchen appliances, and how has each of these segment grown in the last five years? And what sort of a market share do we have currently in each of these segments, if you can give some sense of it? That will be my first question.

**Rajendra Gandhi:** Exactly the number -- I mean, in terms of market share we don't have it -- we don't have authenticated certified data, but I can tell you in pressure cooker, in the non-stick cookware, induction cooktop and some appliances we are growing at much higher than the industry rate, at the rate the industry is growing. We are growing at a much higher rate than the industry. More particularly on the pressure cooker and non-stick.

**Rushabh Sharedalal:** Yes, but if you can give some color on what kind of industry size would it be for cookers and cookware and mixer, especially? Just to get a sense of the size of opportunity. That's why I ask this question.

**Rajendra Gandhi:** I don't think we have exact data right now to give you numbers. It'll be unfair to give you an approximate number. Is it okay that we share it with you?

**Rushabh Sharedalal:** Yes, sure. If you can share it with us offline, that would also work.

**Rajendra Gandhi:** Yes, we can share it with you offline.

**Rushabh Sharedalal:** Okay. And my second question would be on the level of penetration. So my sense is that cookers are very well penetrated, but it's not the case with cookware and kitchen appliances. So if you can share some numbers on what sort of a level of penetration would we have for cookers, cookware, stoves and especially mixers in the kitchen appliances, if you have some numbers handy?

**Rajendra Gandhi:** So I'll tell you, there are two ways to approach this. One is of course these products are now consumer -- their relative life cycle has reduced drastically. The consumer replaces this product at a much more higher frequency than in the past. So it is not that penetration does not mean that the existing customers are no more your customers. They are repetitive customers actually. And there is always upgrade that happens from the variety of the product example. If you talk about aluminium pressure cooker, the consumer will want to upgrade to either a hard anodized pressure cooker or a stainless steel pressure cooker and so on. So the penetration -- to imagine a penetration, or if we are highly penetrated, I don't think the way the business opportunity works. In fact, the more the penetration, more the business opportunity, because all these customers will definitely come back to you for the next level of pressure cooker or replace this.

Similar is for the cookware, the non-stick cookware. For us as a channel -- I mean penetration by geography and channels, I can say that we continue to grow our rest of the regions higher than the rate at what we grow in the south. So the opportunity for us in the west, north and east is relatively much more higher than what it is in the south. The overall contribution from the south may be larger, but the opportunity to grow in these geographies, in the domestic market from the north, east and west is much larger.

**Rushabh Sharedalal:** Any, any number you want to put to the level of penetration for the segments, if you have any number on hand?

**Rajendra Gandhi:** No, I don't think we can give you a number right now, but if you're so specific, we'll take out these numbers and share it, percentage penetration in each of the regions.

**Rushabh Sharedalal:** Sorry, I didn't get you.

**Rajendra Gandhi:** We will dig out these numbers and share it with you.

**Moderator:** Thank you. We have next question from the line of Vidit Trivedi with ULJK Financial Services. Please go ahead.

**Vidit Trivedi:** Yes. So I have two question, first question is on the balance sheet front. I was going through your annual report of last year on page number 133, trade payables as per the annual report was INR 1706.25 million, but when I look at your results for the year ended and the audited number they are INR 1,465.52 crore, so there's a difference of INR 241.2 million can you please tell me on that.

**Balaji AS:** So Vidit you'll appreciate that this year we have had a lot of changes in terms of reporting basis the new Schedule III requirement that we have had. And there have been reclassifications that have happened basis those particular requirements. So if you see on trade payables specifically, again the difference is an account of the suppliers credit, which was last year included under trade payables itself. This year we have disclosed it separately as the suppliers' credit.

And second is on account of what we call as the refund liability. Refund liabilities is basically the provisions that we make on account of future sales returns, against sales made in the current year and on account of whatever schemes provisions that we create which is to be passed onto customers in the future. These two, which again were part of the trade payables, we have now moved it to separately under refund liabilities as a separate heading. So you'll see the specific reclassifications along with the notes as part of the annual report, but there have been, the stark difference that you have correctly identified is largely on account of the reclassification, which is stemming from the statutory requirements of the revised Schedule III.

**Vidit Trivedi:** Okay, fine. Thanks a lot. And my second question is that, when I look at the online marketplaces like Amazon and Flipkart, I can see whenever I search a product, be it electrical or be it anything the products manufactured by them comes first, and then later on your product comes. So don't you think this is a big disadvantage that you guys are having and what are you doing in that front?

**Rajiv Mehta:** So I think to answer that, of course these are their private labels and for reasons best known from a business angle, they would like to promote their private labels. Having said that, the power of the brand and the power of the consumer always will ultimately bring out the product. The reason why our products come up right after their products and also have the best seller tag also have high rating is largely because of the way we have been able to price the product with the great quality. So what happens is there is a little bit of a marketing effort, but there is a lot more that is coming from the consumer side, the consumer searching for Pigeon kettles, the consumer searching for kettles will get to see automatically us, but we will try and promote their products all the time. So that is the way marketplaces are built.

**Moderator:** Thank you. We have next question from the line of Kunal from Carnelian Asset Management. Please go ahead.

**Kunal Shah:** Hi, thank you for the opportunity. I joined a little bit late. So excuse me if you've already answered the question. I'll listen it out. So the first question was on the balance sheet front. So basically our borrowings have gone up from INR 36 odd crore to INR 121 crore in comparison to the last year and simultaneously we see a little bit of jump when it comes to inventory as well from INR 156 odd crore to INR 217 crore, so anything specific out here that I'm missing out to connect?

**Balaji AS:** See from a borrowing perspective, I'd like to say that there are two parts to it. One largely what we have -- the actual fund based debt that we have has actually moved from above INR 21 crore to INR 78 crore. Now this, if you see if is largely from the fact that our working capital has gone up by about INR 36 crore to INR 40 crore year-on-year. Most of the operating funds that are generated from operations has also been invested in CAPEX. Last year has been a heavy year when it comes to the CAPEX investments that we've had. We have spent more than hundred crore on CAPEX. Now that meant that all the investment into working capital and the outflows that we have on tax close to INR 9 crore that we have paid of tax all of that were largely coming out from has also resulted in this incremental fund based debt that you're seeing.

Of course, the number that you called out also includes this all the LCs that we have discounted, which from a reporting standpoint will also come into borrowing, but you'll see the split, the actual fund base numbers for us are actually has moved from INR 21 crore to INR 78 crore and on the INR 78 crore also, we also carry about a INR 16 crore of cash and cash equivalent on the balance sheet. So our net debt is about INR 62 crore as of 31st of March.

**Rajiv Mehta:** Also on the inventory, Mr. Gandhi explained earlier, there was a disruption in availability of shipping containers as a result of which our OEM export finished goods inventory was higher than normal by about INR 20 crore at end of the year, March 2022.

**Kunal Shah:** Okay. Fair enough. And basically how should -- is there anything further to be written-off on account of exposure to countries like Sri Lanka or further or we are already done with the credit loss financial impairment? And there are no more pending now in the coming year.

**Balaji AS:** So the credit loss impairment for us as of 31 March 2022, is complete in terms of us providing for 100% for FRL, and for the other all the dues that we've had, whatever catch up that we had do in the last two, three quarters has all been done and is why you're seeing that March where we have taken that incremental hit where it was about INR 2.4 crore in the previous two quarter Q4 alone has been at about INR 5.5 crore. So the entire provision that was required from the expected credit loss model has been duly provided for as of 31st of March.

**Kunal Shah:** What I'm wanting to understand is as on 31st March you have provided for, any incremental exposure in the month of April, May coming out on account of exposure to countries like Sri Lanka?

**Rajiv Mehta:** No. So we don't have exposure to Sri Lanka, just to give you an example. I mean, just to give you a bit on Pigeon export, Pigeon export, either we work with very long time partners with us, whom we have had a relationship over several decades, or if it is a new party, we work with a guarantee whether it's a PG or an LC, and we make sure that our payments are secure.

**Kunal Shah:** Okay.

**Rajendra Gandhi:** From Pigeon side, we don't have any exposure.

**Kunal Shah:** Okay. Fair enough. And also wanting to understand also the earlier participant pointed out, right, the competitive intensity you have addressed on e-commerce channels has been increasing at a faster pace. So yes, we do have of our own right, and also somewhere partly kind of getting reflected in the volume, degrowth in comparison to the previous year. So how do we try to tackle that? Or what on that particular piece, because a very good part of the growth that we were experiencing growth, we were getting through e-com channel.

**Rajiv Mehta:** Yes. I don't think -- I think there is a misunderstanding, I would like to say that e-commerce has definitely grown Q-on-Q as well as Y-o-Y. Y-o-Y has grown by 37% and Q-on-Q has grown by about 25%. Given that we have only taken a price increase of 11%, I can safely say that there is an increase in volume as well. Having said that, last year we were at the base of INR 291 crore, INR 291 crore went to about INR 398 crore, given that the base today is close to INR 400 crore, we expect the normalization of the growth rate from between 40% to 50%, from a small base to now at the same rate at which the company would like to grow. So I do not see it to be that much of a challenge when it comes to e-commerce. Specifically our ability to manufacture and at the same time provide variations in various product categories, whether it is different pressure cooker from hard anodized aluminium stainless steel and upgrading the consumer or induction cook tops, providing various designs and wattages or LED bulb innovation. There are enough and more ways for us to ensure that we capture the consumer both from the premium competitors, as well as the unorganized segment.

**Kunal Shah:** Okay. Fair enough. And would it be fair to assume now in case you've covered in the previous call -- previous participant questions that all the price hike required has now completely gone through, and we can go back to our historical gross margin and EBITDA margins for current quarter.

**Rajiv Mehta:** So we would like to say that the guidance is always been that we will protect the 31% gross margin on an annualized basis and control our costs within 20%, 21% as a result of which again, protecting the 11% EBITDA over an annualized basis. To answer your question in terms of catch up, we had a delta about 4%. We are practically there unless we witness another volatility and price hike in the metal.

**Kunal Shah:** Okay. Fair enough. Thanks, Rajiv. I'll join back in the queue.

**Moderator:** Thank you. We have next question from the line of Aashish Upganlawar with InvesQ Investment Advisors.

**Aashish Upganlawar:** Yes. Okay. So I'm trying to understand the gross margin deficit that we had, the decline that we had this year. It's mostly to do with the catch up that we have to do with the raw material prices, or is it also to go with the competitive intensity being too high, and that would've put a lot of pressure on bringing down. So could you put some light on these two aspects? Just trying to understand, I mean, this 35% was one of the peaks that we made, or we can go back to these numbers and maybe higher in these categories that you operate?

**Rajendra Gandhi:** So I'll tell you for us the baseline is that we would want to protect this 31%, but whenever there is -- I mean the input cost declined, which we believe that will happen. That's what we believe -- always there is a cycle when it grows up and comes down in the run to occur when the costs are going -- and particularly in the last year, everything went up, it is the sea freight, plastic, paper, steel, aluminium all it was at one go. And we also believe that it cannot be only one sided going only up, and we are already seeing. So whenever it goes down, it'll add to that 31%. So we base it on the cost of the immediate time before the quarter. And if there is again, further input cost coming down, it'll only add to the margins. So I can say the range will be similar, but will protect the 31%. It can also get back to 35%, but then it is unfair to expect that we'll only be at 35%.

**Aashish Upganlawar:** Okay. So, our band typically is between 30%, 35%, the way things stand from a year perspective, one or two years perspective now. Because sir on the larger competitors, there are upwards of say 40%. So that is not possible for our business is it? I mean, that's the reality that we can take from this.

**Rajendra Gandhi:** So I don't want to say that's not possible or possible. This is what we want our business to be. We would always want to protect our strength being cost. So when you see our overall cost, we want to maintain it at the 20%. So will in a normalized situation which our competitor is, we'll be at the same EBITDA margins, whether even at a lower gross margin, the cost is our strength and we want to protect that. We want to remain very -- I mean we want the strength to be one of our pillars of our group, and that's why you can also see that we are growing at higher rate than the industry this year.

We will want to protect on the cost self and then that's why also to the cost to the consumer also we'd want to be as aggressive. And with this margin that we currently have is good enough for keeping the healthy growth and healthy margin.

**Aashish Upganlawar:** Okay. Sir, I mean, you are also entering into a couple of new categories, basically the kitchen part that you shared in the last call and also the acquisition that you did. So would that not be additional pressure of your profitability, especially in this kind environment next year I mean FY '23? Or you think that is not a big addition in terms of business to impact the overall profitability as of now?

**Rajendra Gandhi:** So first of all these are relatively small contribution to our revenue, but it is an existing business that we have acquired. And we have a channel, which is much larger than the business that already had. So in my opinion, it is only a complimenting thing to the business. The LED channel, we have a sales network across -- I mean, almost I can say major part of the country. And we are only complementing that revenue, additionally, with this additional range of products. So it is not going to affect us in any ways in in our margins. The kitchen business is definitely new. We are doing this in the past but a very long time back there's been a gap. And it'll not be EBITDA negative, the business even from day one will be positive on the EBITDA side and will always do our business profitably, but I will also want to say to the size of the company that this a very relatively, very small contribution to start with.

**Aashish Upganlawar:** Okay. Can I ask one more question? Basically on this write off that we had around INR 13 odd crore, so this is done and dusted, and this is not a regular thing, and we won't have anything like this, this year probably?

**Rajendra Gandhi:** There are things I would want to guide you on, first of all these are learnings and today we want to -- we have moved more towards channel financing way, particularly, we also ensure that there is no recourse to us most of them, or we also work with -- I mean we are more prudent to credit, even with our general trade, we will either do a channel financing or take some guarantee or work with our large – long-term partners. Of course, this is to do with the corporate that has happened. We are -- it's not that today, I do not want to say that we have completely lost that money, but we don't -- I mean, we had to provide for that fully, and we have provided for that fully. I can say we are more prudent on that. I don't think such -- these are learning and I don't think such repetitions will happen.

**Moderator:** Thank you. We have next question from the line of Rahul Ranade with Goldman Sachs. Please go ahead.

**Rahul Ranade:** Yes. Hi, thanks for the opportunity. Just in terms of geography wise kind of split of revenue, what we are at currently versus what we started FY '22 at?

**Rajiv Mehta:** So FY '22. So I'll give you a split. If you look at the overall business, we are more or less equal across all the channels at 25% from North, west, east and south, if you split offline and online, where online, we are getting the business of 40% from the south and 60% from rest of the country. In offline, it is about 55% from south and 45% from rest of the country. In Pigeon general trade, we did a revenue of INR 380 crore of that INR 380 crore, roughly 55% would've come from south and the rest has come from west, north and east. West being number two, north being number three and east being number four.

**Rahul Ranade:** Okay. And what would this split be let's say one year ago? I'm just trying to understand if there has been a material change in the...

**Rajiv Mehta:** Yes, because the base for south is large, the percentage change will not be, but the growth in west, north and east has been in very, very high double digits, almost doubling every year as a result of which south used to contribute close to 60%, which has gone down to 55% and the rest of the country was at 40%.

**Rahul Ranade:** Sure. And just looking at the number of outlets, so this number of outlets, which we say 79,225 this also includes the LED outlets as well, right?

**Rajiv Mehta:** Yes. It includes LED, LED is about 31,000 out of the 79,000. And the remaining 47,000 outlets are from Pigeon, Black and Decker is about 1,000 outlets on top of this.

**Rahul Ranade:** Okay. And so if we were to look, so we started the year with 52,000, or which has gone up to 79 odd thousand, so roughly, let's say a 55% odd increase in terms of outlet tree. And if we look at the offline growth, it has grown around 30 odd percent. So just trying to understand, is there a initial period where the outlets do not contribute much, and is there some seasoning period beyond which you get the throughput that you get out of the most season outlets, is that the way to think about?

**Rajiv Mehta:** No. So you need to split the LED business and the Pigeon business separately, the average billing to an outlet or the average size of an outlet in LED will be smaller. LED has gone from about 18,700 outlets to 32,000 outlets. And Pigeon has gone from the rest about 33,000 outlets to 47,000. The average billing to an LED outlet can be as low as about INR 10,000 a month, whereas for a Pigeon it'll be close to INR 50,000 a month or higher, I am saying the lowest possible. So from that perspective, it's not exactly like to like, but the large part of the billing will happen in Q2 and Q3 because of the festive season.

**Rahul Ranade:** Okay. So let's say for Pigeon then, like out of the overall 52,000 odd where we would've started the year at 32,000, in terms of Pigeon that number currently would be…

**Rajiv Mehta:** 48,000, 47,900 is Pigeon.

**Rahul Ranade:** So even, let's say even if we look at Pigeon it is rough year, 50% growth in terms of outlet, right?

**Rajiv Mehta:** Yes. Correct. New outlets will take time to ramp up. They contribute and they slowly start contributing a lot more over the years.

**Rahul Ranade:** So, like, let me ask the other way, what would be the ideal throughput per outlet for the more kind of seasoned outlet what would the number be for you?

**Rajiv Mehta:** So honestly, I don't have that data offhand. I can come back to you with that.

**Moderator:** Thank you. We have next question from the line of Aejas with Unifi Capital. Please go ahead.

**Aejas:** Yes, hi. Rajiv could you give us a breakup of the export and domestic revenues this quarter?

**Rajiv Mehta:** Just one second. So export is INR 24 crore and that includes Pigeon export as well. And domestic would be the rest of it. Export contributes 9%. So out of the INR 270 crore -- this is for the quarter I'm saying. Out of the INR 275 crore, INR 24 crore is export and the rest is domestic.

**Aejas:** Got it. So we would have closed exports, give or take at about INR 110 crore a year. So one is, could you speak about how do you expect the export to grow in FY '23, could you give some color?

**Rajiv Mehta:** Export is growing robustly. Only disruption was in the last quarter because of the unavailability of the containers. We have seen the demand come back and we have seen a good favorable intervention also from our partners in the west because of which now availability of containers as slowly started to normalize. So we have seen a good growth of export already in the first quarter.

**Moderator:** Thank you. We have next question from the line of Richa Chaudhary with Electrum Capital. Please go ahead.

**Richa Chaudhary:** Good evening, sir. How much would be the CAPEX for the next two years? And if you could give me the volume growth across GT and MT channel in Q4?

**Rajendra Gandhi:** For the FY '23 we still have a plan for about INR 45 crore to INR 50 crore of CAPEX and things are ongoing.

**Rajiv Mehta:** When it comes to volume growth between GT and -- GT what has happened is that we have grown by about 10% in volume and in modern retail, we are flat because of the -- because in Q4 FY '22, we did not have any billing to FRL, one of the large partners, which was present in Q4 FY '21.

**Moderator:** Thank you. We have next question from the line of Kalpit Narvekar with Allianz Global Investors. Please go ahead.

**Kalpit Narvekar:** Sir, just one more question from our side. Can you share some color on how the end consumer has accepted the 4%, 5% price hike that you've done, because you are kind of positioned in the value segment. So just want to understand whether the consumer is down trading. Let's say for example, if there's a cooker that they want to buy, are they say going down from three liter to two liter or something like that?

**Rajendra Gandhi:** No. So it is in relative in that side, I can say we still continue to be more aggressive than our peers and for the consumer, it is relative, cost of any other product. And these are very small I can say related pricing increase 4%, 5% generally does not change -- because they are low value ticket items. Assuming a pressure cooker, even if the boss difference is about INR 50 for a consumer, in my opinion, they don't move to a different category. They always want to compare where bodies -- relatively other brands are operating. And then we still -- I think we continue to be in the position that we are sort of by the value consumer.

**Kalpit Narvekar:** And would you have some breakup on rural versus urban?

**Rajendra Gandhi:** We are more stronger in the rural markets. Exactly it is very difficult to give you those numbers because one thing is we don't control that data from general trade. When I say so it is not only the distribution, whatever the larger city will also get it to smaller rural towns though, they will have distribution in rural towns. Some of these the channel will procure the good from the larger towns. And also, it was in the e-commerce. The e-commerce, we also have direct selling sales that we do to these channels. There also a sale that resellers do, and we do not have data from there and which city, but I can still very confidently say that our markets are stronger and further growing at higher pace in the rural markets compared to the urban market.

**Moderator:** Thank you, ladies and gentlemen, that was the last question. And I'd like to turn the conference back to Mr. Rajendra Gandhi for closing comments. Over to you, sir.

**Rajendra Gandhi:** We really thank and appreciate the time and the involvement in the company's performance and patiently listening to us and having asked the questions. We really hope that we are able to answer each one of your queries and there are some of those that we would be directly writing to you, whichever we are not able to provide immediately. But if any of you will have any questions, anytime you can write to us directly or to our investor relationship team at Orient Capital. Thank you, again.

**Moderator:** Thank you, ladies and gentlemen, on behalf of Stovekraft Limited, that concludes this conference. Thank you for joining with us and you may now disconnect your lines.