



Stove Kraft Limited
Q3 & 9M FY'21 Earnings Conference Call

February 24, 2021



Management:

- Mr. Rajendra Gandhi – Promoter & Managing Director
- Mr. Rajiv Mehta – Chief Executive Officer
- Mr. Shashidhar SK – Chief Financial Officer

Moderator: Ladies and gentlemen, good day and welcome to the Stove Kraft Limited Q3 FY'21 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 call, please signal an operator by pressing 'star' then 'zero' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajendra Gandhi, Promoter and Managing Director of Stove Kraft Limited. Thank you, and over to you, sir.

Rajendra Gandhi: Hello, and good evening. I hope you're all keeping safe and healthy during this time. I would like to thank the entire investor community for the tremendous support shown during our IPO in February 2021. It was a proud moment for all of us. Today on the call, I'm joined by Rajiv Mehta – CEO; Mr. Shashidhar – CFO and the team from Orient Capital, our Investor Relations partners.

We have uploaded our Investor Deck and Results Highlights on the stock exchanges and the company website. I hope everybody had an opportunity to go through the same.

Since the company has just been listed and we are doing the entire earnings call for the first time, I would like to share a Brief Overview about our Company, its Journey and Growth Strategies going forward.

Stove Kraft Limited is a kitchen solution and an emerging home solution brand. Further, we are one of the leading brands for kitchen appliances in India and are one of the dominant players of pressure cookers and among the market leaders in the sale of free-standing Hobs and Cooktops. We are engaged in manufacture and retail of wide and diverse suite of kitchen solutions under our Pigeon and Gilma brand and propose to commence manufacturing of kitchen solutions under the Black & Decker brand, covering the entire range of value, semi-premium and premium kitchen solutions respectively.

Our Kitchen Solutions comprise of Cookware and Cooking Appliances across our brands and our Home Solutions comprise various household utility, including consumer lighting, which not only enables us to be a one stop shop for kitchen and home solutions, but also offer products at different pricing points to meet diverse consumer requirements and aspirations.

Our flagship brand, Pigeon and Gilma enjoyed a market presence of over 15 years and enjoy a high brand recall among consumers. For quality and value for money, we manufacture and retail a wide and diverse range of affordable quality products under our kitchen brands, including cookware, cooking appliances, and household utilities. That also includes consumer lighting.

As a result of our co-branding initiatives for over eight years with Indian Oil, HPCL and BPCL, we utilize their sale and distribution channel. Our kitchen brands have enjoyed a wide consumer outreach and continues to have a very high brand recall value. We currently offer a wide range

of products such as Chimneys, Hobs, Cooktop under the Gilma brand, which is targeted at the semi premium segment.

In addition to our established presence in the value and semi premium segment through the Pigeon and Gilma brand, we have also entered the premium segment in 2016 pursuant to our exclusive Black & Decker branding license arrangement, which enables us to exclusively retail and provide sales and service in relation to the wide range of products such as Blender, Juicers, small kitchen appliances and domestic appliances in India under the Black & Decker brand. This agreement is valid up to 31st December 2027.

Coming to our manufacturing facilities, we manufacture our Pigeon and Gilma brand products at our well-equipped and highly backward integrated manufacturing facilities at Bangalore, that is in Karnataka and at Himachal, Baddi which enables us to control and monitor the quality and the cost. Our Bangalore facility is spread over about 46-acres and over 30-acres of the land is still available for future expansion. It has an installed annual production capacity of 38.4 million units with the capability to manufacture products like Pressure Cookers, Non-Stick Cookware, LPG Stove, Mixer Grinder, LED Bulb, Electric Iron and Induction Cooktops. Our Baddi facility has an installed capacity of 2.8 million units per annum with the capability to manufacture products such as LPG Stove and Inner Lid Pressure Cooker.

These robust facilities with the constant focus on technology upgradation are equipped to manufacture wide and diverse range of products as well as several components used in our products. We have proposed to increase the level of automation at our facilities as we believe that this would enable us to achieve greater efficiency in reducing time taken for and the cost of manufacturing of products, from design to commercial production, and in-house testing and quality assurance processes, resulting in higher profit margins.

For certain product categories and sub-categories which do not enjoy economies of scale in India, we engage in sourcing from third-party OEMs predominantly from the global arena. For our source products, we have a dedicated team to undertake inspection and ensure that such products are built to suit our specifications in terms of design and quality.

Coming to our distribution network, we have a separate distribution network for each of the brands, Pigeon, Gilma and Black & Decker brands. Further, there is a separate distribution network for the Pigeon LED products. Our manufacturing facilities in Bangalore and Baddi are well connected with nine strategically located C&F's. Additionally, we have 651 distributors in 27 states and 12 distributors for our products that are exported globally. The C&F agents and distributors are in turn connected with the dealer network comprising of about 45,400 retail outlets, which are driven through a sales force of 566 personnel.

We have entered into commercial arrangements with retail chains, such as Metro Cash and Carry for the sale of our Pigeon branded products from several of the retail outlets in India. Further,

we also entered into agreements with eCommerce platforms such as Flipkart for the sale of our products on their portals.

Our Gilma brand products are sold through exclusively branded outlets owned and operated by franchisees. There are 65 such stores spread across four southern states and 38 cities and towns that are present in the urban market in South India. Gilma stores are designed to be an experience store. We believe we have been able to leverage the distribution network of our Pigeon branded products and the brand recall value to enter the new segments and markets. Outside of India, we export products which are manufactured by us through retail chains in the United States of America and Mexico.

We continue to focus on the development of our brands and significantly invest our resources towards their growth and outreach. Further, our dedication to R&D, quality and customer satisfaction, our in-house servicing capabilities and our own maintenance and service network also contributes to the market perception of our brands and products.

With this, I would like to hand over to Mr. Rajiv Mehta, our CEO to discuss the strengths of the company and the future strategy. Thank you.

Rajiv Mehta:

Hello and good evening everyone. Stove Kraft Limited is a one stop shop for kitchen solutions with a diverse range of products across consumer preferences and our consistent focus on quality and innovation, with strong manufacturing and great backward integration.

Stove Kraft Limited has always remained focused on quality and innovation. That is one of our key strengths. We believe that quality is a prerequisite for a positive consumer experience and long-term brand loyalty. This philosophy has formed the foundation of the expansion and diversification of our product portfolio since our inception. Our focus on quality is maintained at all stages, right from the sourcing of raw materials, which is undertaken from manufacturer to the product development and manufacturing stage, which is subject to a rigorous review and monitoring process. For products which are sourced by us from China, we have dedicated sourcing team and quality assurance team. We closely monitor the quality of such products. Our efforts to maintain the quality have always been well recognized and regarded to be the best. Over the years, we have focused on investing in product innovation that are most relevant to the consumer for our brand. We have added segments based on shift in consumer preferences and market demand. We have a dedicated in-house R&D facility and have progressively increased our investment in R&D over the last few years.

To further our efforts in innovation, we have also entered into tie up with foreign companies for technology enablement, and tech know-how agreements. As a result of our focus on innovation, we developed the Super Cooker, which has a registered design and is customizable into products with multiple utilities.

We have also developed the Super Storm Advanced Mixer Grinder with forced air cooling technology and the Infinity Glass Cooktop with a fastener free body.

We have a few upcoming launches too, which include the Turbo Chopper, the Feather Touch Mixer Grinder, the Personal Blender and the Fruit Chopper.

We have a strong manufacturing capability with very efficient backward integration.

We believe the scale at which we undertake the manufacturing of our products combined with our raw material sourcing, packaging, transportation practices and quality control, enables us to derive higher margin from the sale of a product. It is also one of the few facilities in India to have a fully automated roller coating line for the manufacture of nonstick cookware. Our manufacturing facilities are backward integrated. We have the ability to manufacture components such as Bakelite Handle, Sheet Metal Components, Moulded parts, Die Cast parts, Mould Dyes and fixtures in-house for the manufacture of our products. We believe the backward integration of our manufacturing facilities has reduced our dependence on third-party suppliers and OEM for such components.

Both our manufacturing facilities are ISO 9001:2015 certified for implementing quality management systems.

We have maintained a strong track record for growth over the years through expansion of our brand portfolio, distribution network, improved procurement costs and increase in sales growth. Our operational efficiency and efficient supply chain network have resulted in better control of operational expenses and thereby enable rise in profits after tax. Further, we have been able to capitalize on our existing logistics supply chain network and backward integration manufacturing facilities to utilize our capital efficiently.

Over the past few years, we have added manufacturing and warehousing infrastructure, scaled up our retail franchise operations, added a number of new product categories and entered new customer segments. We believe that these initiatives have prepared a strong base for future growth.

We are also continuously scaling up branding, promotional, and digital activities.

Our widespread presence and scale of operations allows us to increasingly focus on branding and promotional activities to enhance our visibility in our category in the industry. While our consumer brands are well established, and enjoy a high brand recall amongst our customers, we seek to continue to enhance awareness and customer loyalty through our promotion and marketing efforts such as increased advertising in print and social media, retail branding, product branding, and factory visits for our trade partners, substantially increasing our digital presence and engagements, generating contemporary educational content, and engaging in brand associations.

The digital platform and social media have enabled us to reach a wider audience and also customize our advertising offering through our prospective consumers. We believe that our customer focused products and product information along with our well-recognized brands, increased customer confidence in our product and influences our customers buying decisions.

We seek to utilize our research and development capabilities to develop new products to cater to evolving requirements of our large customer base and cover new customer segments. Being technology-driven enabled us to gain a deep understanding of the market trends in the kitchen solutions industry, and shift in customer preferences enables us to expand strategically and with great agility.

Our next focus is on LED Consumer Lighting business. We will continue to introduce a wide range of LED Lighting products for different end use segments and expand to newer and broader geographies. Further, we are leveraging our manufacturing strength and have established a fully automated LED assembly unit for LED bulb and Batten manufacturing in our Bangalore facility.

We are continuously increasing our export opportunities with manufacturing and technological competence with non-stick cookware. We are globally competitive to cater to both the developed and developing markets. Our presence is currently spread across 14 countries. We seek to expand our global reach, through constant innovation and increased customer acceptance of our products in international markets.

With this, I would like to hand over to Shashidhar, our CFO to discuss the financials for the quarter and nine months ended 31st December 2020. Thank you.

Shashidhar SK:

Thank you, Rajiv, and hello and good evening to everyone. Our company reported a strong growth for the third quarter and for the nine months ended 31st December 2020.

Revenues for Q3 FY'21 stood at Rs.295 crores versus Rs.200 crores registering the growth of 47% on a year-on-year basis. EBITDA has seen a strong growth of 160% which stood at Rs.43 crores as compared to Rs.16 crores same period of last year in Q3 FY'20. We have seen an improvement of 670 basis points in our EBITDA margin on the back of volume growth led by good festivities, operational efficiency, better product mix and cost rationalization programs. Our EBITDA margin for the quarter stood at 14.5% as compared to 8.2% in Q3 FY'20. The profit after tax for the quarter stood at Rs.33 crores versus Rs.9 crores in Q3 FY'20. The PAT margins stood at 11.4% showing an improvement of 700 basis points compared to 4.4% in Q3 FY'20.

Now, coming to our nine-month performance, our revenues stood at Rs.624 crores vis-à-vis Rs.516 crores same period of last year registering the growth of 21%. EBITDA for the nine months of financial year 2021 stood at Rs.88 crores as compared to Rs.36 crores in nine months of FY'20 which registered a growth of 147% year-on-year. The EBITDA margin has also seen a healthy improvement of 710 basis points which stood at 14% versus 6.9% in the nine months

of FY'20. Profit after tax for nine months of FY'21 stood at Rs.62 crores as compared to Rs.13 crores in the nine months of FY'20, recording a growth of 368% year-on-year. PAT margin stood at 9.9%, a stellar improvement of 730 basis points as compared to 2.6% in the nine months of FY'20.

We are continuously working on improving our efficiencies. Our working capital cycle has improved from 54 days in March 2020 to 47 days as of December 2020.

During the current financial year, the company has reduced its debt by Rs.134 crores, by Rs.93 crores through the primary rights from the IPO and Rs.41 crores from internal accruals. The company going forward plans to be a zero-debt company in the near to mid-term.

With this, we will now open the floor for questions-and-answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: My first question is regarding employee and other expenses. The pre-COVID base for us was about Rs.190 crores and there is a lot of variability in the last three quarters. What should be the number that we should look at on the employee and other expenses side as we move forward?

Rajendra Gandhi: We should consider at the same level that we were in the last year. There are cuts on our costs, both on our travel expenditure, the employee costs and the marketing costs. But going forward, we could consider the same level as the last year.

Pritesh Chheda: Anything specific about this quarter because when we look at Rs.190 crores last year and the quarterly run rate that we have seen this quarter is at least 20% higher?

Rajendra Gandhi: We are back at the same level for this quarter.

Pritesh Chheda: We are at about Rs.60 crores in this quarter and ideally it is Rs.50 crores if you look at the last year number on a quarterly basis?

Rajendra Gandhi: There could be some skews in cost in the different quarters, but on an ideal basis, while the first quarter and the last quarter contribute lower costs, the second and the third quarter, there'll be spend more on marketing. So, on an average it will be in the range of 45 to 50 crores a quarter. But yes, the first and the last quarter, the costs are lower than the second and the third quarter.

Pritesh Chheda: On the gross margin side, considering the material price rise, how do we see the gross margins and what are your pricing actions?

Rajendra Gandhi: So, there are two things about the gross margin. One thing is of course, if there is any cost increase, we pass it on but it takes some time, it is only once in a quarter that we correct our

prices. But otherwise, we are a cost plus company and pass on any cost increase. We would not want to encash on that but whatever is our cost increase, we pass on.

The second thing is as and when we are moving more from trading to manufacturing, it is adding some percentage points to our gross margin. So, as we are moving from what used to be a 70% of manufacturing and 30% of traded, so far, we have already achieved this year 80:20, we are at 80% of manufacture and 20% of traded, that is also adding to our gross margins. And progressively as we move towards more of manufacturing our gross margins also go northwards.

Pritesh Chheda: My last question is looking at the buoyancy in the market, what do you think, you should be clocking sales for FY'21?

Rajendra Gandhi: We are growing and there is a very good traction in the market. Overall the market is seeing very high demand, and we believe that we'll be able to grow at the current level.

Pritesh Chheda: Where are we on the working capital cycle days?

Rajendra Gandhi: We have been improving continuously. We were at about 54-days in March 2020 and currently we are at 47-days of net working capital cycle. But there is a continuous thrust on improving this. So, going forward, you'll see much better working cycle days.

Moderator: Thank you. The next question is from the line of Shivaji Mehta from Nippon Mutual Fund. Please go ahead.

Shivaji Mehta: In terms of the distribution network, could you provide some colour as far as what could be our target in terms of the retail touch points that we would like to be present in the next two to three years?

Rajiv Mehta: Currently, we are at about 45,000 plus retail touch points across our three brands, which is LED, Black & Decker and Pigeon. Of the 45,000, Pigeon is about 33,000, LED is about 11,000 and 1,000 is for Black & Decker. Black & Decker and LED are present only in nine states and six states respectively. Given that LED growth is possible through geographical expansion beyond the six states, we are planning to add more states, and as you can see, there are smaller retailers in LED, so the growth in LED in terms of numeric distribution and adding retail touch points will be much faster. When it comes to Pigeon, I think the universe is close to about a lakh, lakh and a half. We are at 33,000. There is scope in both numeric distribution and geographic distribution. As we grow, we believe that we will focus both on weighted average distribution as well as numeric distribution.

Shivaji Mehta: On eCom, if you could provide some colour, what is the contribution of the same as of now, and how do you really see this going ahead?

- Rajiv Mehta:** eCommerce is at 30% currently, and we believe that they will it will remain between 30% to 35%, that is how we see for the next year at least.
- Shivaji Mehta:** If you could just give us some color on the share of the OMC business as of now? I understand you are trying to reduce that contribution.
- Rajendra Gandhi:** We are moving towards zero. We are currently of course having some revenues from our oil company business.
- Moderator:** Thank you. The next question is from the line of Rahul for Haitong. Please go ahead.
- Rahul:** You have a very strong presence in the kitchen small appliances and all. How do you see the company in terms of the product portfolio over the next five years -- do you see yourself moving from kitchen appliance to the entire home appliances area, or you would prefer to stick to kitchen appliances only?
- Rajendra Gandhi:** Yes, you should consider us as a kitchen appliance solution provider. And, of course, we are there in some parts of the home appliance as well. Our thrust will be more towards the kitchen solutions. But we also realize that within the channels that we operate, there is opportunity for the home appliance. So, there will also be some areas where we are getting into the home, like the LED Bulbs, but primarily, we are a kitchen solution company.
- Rahul:** And you've listed down a couple of products that you're looking at launching. Is there a pipeline that you have over the next couple of years, that you would like to hit?
- Rajendra Gandhi:** I think innovation is a continuous process. So, probably we will continue a doing that. I think, overall, the consumer behavior is also evolving every day and the needs also are evolving. We continuously work on that. But the guidance is that we will be more geared towards the kitchen.
- Moderator:** Thank you. The next question is from the line of Praveen Sahay from Edelweiss Financial Services. Please go ahead.
- Praveen Sahay:** Sir, I missed one thing. You responded to the LED distribution numbers. How much is that?
- Rajiv Mehta:** LED has 11,000 plus retail outlets present in six states.
- Praveen Sahay:** Sir, in that distribution only, as you had mentioned, you have C&F present as well as you have exclusive stores of Gilma. So, your entire retail touch points, their service through these C&F agents only?
- Rajiv Mehta:** LED business we do not use C&F agents, we have super distributors, we bill through the distributors from our mother warehouse, we directly ship to those distributors. For Pigeon general trade and modern retail, we use C&F agents which are spread across the country. And Gilma franchisees, our stores are also serviced to super distributors.

- Praveen Sahay:** How many super distributors do you have?
- Rajiv Mehta:** So, for LED business, we have six and we have three for Gilma.
- Praveen Sahay:** Also, in the presentation, you talked about the huge opportunity in the export market. So, which all products are there in the export market? And also, just curious on that, we have a huge India market for kitchen products. Why to venture in the export market?
- Rajendra Gandhi:** The whole entire range of kitchen products that we export to the Indian diaspora wherever Indians are living, but more particularly to the developed countries, like in the USA, we work only with the retailer and the only product category that we export is nonstick cookware. We are by far the largest exporter of this range of nonstick cookware, and we believe that we can build a very strong relationship with all the retailers and then probably in the future, we have some kind of brand and distribution play ourselves there. That is the strategy behind building this business.
- Praveen Sahay:** Any ambition for a company on the percentage of sales you are going to drive from export?
- Rajendra Gandhi:** We are currently about 10% of our revenues come from exports. And we believe as the company grows, it'll be in the 10% to 15% range. Exports at the moment are growing faster than the company.
- Praveen Sahay:** Second question is as you had answered related to the strong growth in the coming years and also the current situation, I believe there is some pent up, can you give some more color on that, from where exactly the huge growth in the sector is coming
- Rajendra Gandhi:** One is the category itself is growing and that is giving us the opportunity to grow and the channels that we operate. Of course, the eCommerce channels are going faster and as a company for us, that is a very important channel also. Since that channel is also growing faster, we are growing faster than the industry.
- Praveen Sahay:** Any numbers how much the eCommerce channel is growing at and our growth rate in that channel?
- Rajendra Gandhi:** I can say that we are currently growing upwards of 50% on the eCommerce channel. Overall, as a company, eCommerce channel is growing higher than the company's growth rate.
- Praveen Sahay:** Is it fair to assume that eCommerce is taking share of a brick and mortar or there is a category growth which is driving eCommerce?
- Rajendra Gandhi:** I can say that it is a mix of both. It is not that nothing would have transferred from the general trade to eCommerce, but then there are several areas where we are not very strong, particularly in the north and the east, and we have a substantial contribution coming from our eCommerce channels even in these areas. So, we believe that is a pure new acquisition. Of course, there has

been a shift in the consumer behavior itself, some of the consumers would prefer to shop online, so to these consumers we are catering to. We are continuing to grow in our general trade channel too

Praveen Sahay: Out of your 45,500 retail outlets, how much are in the southern India?

Rajendra Gandhi: In the southern states we are stronger, so the revenue from the dealers will be higher. If you want a breakup of these two, for our general trade, we are skewed more towards the south; we have a 55% contribution coming from the total revenue from dealers from the south and the rest of the country is only giving us 45%. But when you combine all these three channels, there is a general trade, eCommerce, and modern trade channels. We are 45:55; about 45% of our revenues come only from the south and 55% from the rest of the country.

Moderator: Thank you. The next question is from Jeetu Panjabi from EM Capital Advisors. Please go ahead.

Jeetu Panjabi: My broad question is, can you give us some contours into what drove these numbers and how these numbers are sustainable, if I look at it over the December '19 numbers, it's almost 50% growth, so a little bit of sense on what could be the next two or three or four quarters looking like from a growth perspective?

Rajendra Gandhi: So, for the near term, you can expect us to grow on similar lines, because we see very high traction in the market, and also our capabilities are enabling us to cater to the market. We have our lines available and the capacity to cater to this, we are also expanding our manufacturing capacity, so both this should allow us to grow at the same levels that we are growing.

Jeetu Panjabi: What resources would you be needing, I mean, do you need more capital, or do you need to hire a lot of people to get to these numbers or do you think your current organization is well sized for that?

Rajendra Gandhi: So, on the manufacturing side, we are moving more and more towards automation. We believe that this will lead to higher efficiencies and higher production. On the indirect manpower, it is not that just because the revenue number is growing, we need to add more people, we have a team that is catering to sales across the country from north to south, and west to east, and the management team is capable to handle the current growth rate. At the manufacturing front, maybe there could be a slight increase in the number of people, but then more of it is driven by automation.

Jeetu Panjabi: On the cost side, I'm assuming the last couple of quarters were in a lockdown world. What do you think would be the incremental costs that would add up the function of normalization over the next six or 12 months?

Rajendra Gandhi: The current quarter and the first quarter of the next year, I don't think we will be comparable, because we had this very special situation, truncated March last year, and larger part of the first

quarter was completely washed off, so I don't think these two will be comparable. But otherwise, I can say in the near-term, the growth rate, if they were to be in comparable terms would be still in the same range that we are currently growing.

Jeetu Panjabi: If I see your numbers, you're doing 11%, 12%. PBT margin. Those kind of margins will sustain in your view?

Rajendra Gandhi: There's no other reason why it should be lower.

Jeetu Panjabi: I understand the broad sector that you are largely in the kitchen appliances, and you are adding new products and you are working for the three channels and exports and driving growth. Is there something completely new and different that you guys could play out over time for the next 12 months?

Rajendra Gandhi: Actually, our positioning is itself different from the listed peers, and also the way we function. So, if you will understand from our numbers, we are at a lower gross margin number, but we are far better than our listed peers in the EBITDA and bottom line number. It's a totally different operational efficiency and cost structure that we have.

Jeetu Panjabi: What percentage is online sales out of the total revenue line?

Rajendra Gandhi: Around 30% currently.

Moderator: Thank you. The next question is from the line of Abhishek Daga, who's an individual investor. Please go ahead.

Abhishek Daga: Actually, I had two questions. One is, in south India we see a very best presence. So, will it be monetized over the time? And the second question is the working capital requirement on the number of days will be less, so the cash flow is more, and the company is now generating profits. So, will we get dividend as a retail investor?

Rajendra Gandhi: Talking about the north, of course, there is a concentration for general trade that 55% is south and the rest of India is 45%. So, we will be focusing on growing the rest of the country. There is a huge opportunity for us to increase the number of distributors as well as the number of retail touch points in the north, east and west. So, yes, there will be focus on making sure that our brand is present across the country.

Rajendra Gandhi: Abhishek, we definitely always want to excite our investors and at an appropriate time I'm sure we'll do the best that is in the interest of the every investor with regards to dividend

Moderator: Thank you. The next question is from Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Sir, just a follow up on what will be the taxation going forward for the next two, three years?

- Shashidhar SK:** The company has got carry-forward income tax losses. As a result of which, in the current financial year FY'21, as well as the better part of the next financial year, we will not be paying any corporate taxes. We have now moved to the new regime. But yes, next year there will be a partial impact in terms of the corporate tax and from FY'23 onwards, we will be fully paying the tax is what the bottom line implies.
- Pritesh Chheda:** So, FY'21 and FY'22 will be zero percent in the P&L also, right?
- Shashidhar SK:** FY'21 will be zero. FY'22, no there will be an impact in terms of what we have projected. Better part I would say there'll be no taxes, but there'll be a partial impact in terms of when we completely, I would say, set off our existing income tax losses. Next year there'll be a tax impact, but that will be minimal, but full tax will come on from FY'23 onwards?
- Pritesh Chheda:** Full means you will be paying 25% tax in FY'23?
- Shashidhar SK:** Correct.
- Pritesh Chheda:** So, which means FY'24 you move to full 25%, and from '22 onwards, there is slight increase every year, so let's say, some taxation in '22, going higher in '23?
- Rajendra Gandhi:** That is right to assume.
- Pritesh Chheda:** Can you tell us what will be our taxation next year if possible, 5%, 10%, 15?
- Shashidhar SK:** It will be 5% to 10%, that is what we have projected.
- Moderator:** Thank you. The next question is from the line of Prithvi Raj from Unifi Capital. Please go ahead.
- Prithvi Raj:** How are the initial trends in Q4 FY'21, because you would have some season sales during the new year eve, right and also the Pongal season?
- Rajendra Gandhi:** Yes, the January Month was very good for us, and we are continuing to have the same kind of demand and we are able to execute the demand at the same levels that so far in the nine months that have been demonstrated.
- Prithvi Raj:** What about the sustainability of the current margins that we are seeing in Q3 -- do you think you'll be able to sustain the same in FY'22?
- Rajendra Gandhi:** So, actually, it's a function of the operational lever. So, for us, currently, we are at above 2x of our breakeven number. So, 80% of our gross margin goes to EBITDA beyond the breakeven. So, we believe it will be in the same range.

Prithvi Raj: On the exports part of the business, you said that it is growing faster than the overall business. Can you throw some light on the key partners you're working with in that particular segment? And what is the breakup in terms of the share in the overall export business?

Rajendra Gandhi: So, for our OEM exports, they contribute about 7% to 8% of our revenue, and the overall exports is about 10%. And as I mentioned, we work in about 12 countries, that is for our Pigeon brand in the North American market, Mexico, we work with the large retailers there. Of course, very specifically, if you want to know about the names of these retailers, Walmart is our largest customer, and then we have JC Penney, Belk and Big Lots.

Prithvi Raj: What are the reasons you are seeing this particular growth in this particular business because are you replacing any other players like Chinese players or is it an organic expansion?

Rajendra Gandhi: It is an organic expansion.

Prithvi Raj: How sustainable is this growth?

Rajendra Gandhi: We have a unique capability to produce this product at the price that we are able to export, being globally competitive, and the technology that we have is very unique to us. Our cost structure for manufacturing these nonstick cookware is different from the traditional way of manufacturing nonstick cookware. And our focus is to only being the nonstick cookware export business.

Prithvi Raj: The margins in the export business, will it inch up in your overall business?

Rajendra Gandhi: Yes, if you set off the costs that are attributed to the branded business, we are at the same margin level. But, of course, the export business does not have any substantial cost that we incur in the that are attributed to the general trade.

Moderator: Thank you. The next question is from Vinod Jayaram from Composite Investment. Please go ahead.

Vinod Jayaram: Your majority of the sales seem to be coming from Pigeon brand, if I am right, more than 80% is contributed by that single brand. And if that is so, are we under invested in the other brands, namely Gilma and Black & Decker. Going forward, can we see some traction in those brands as well, what is the strategy out there?

Rajiv Mehta: Yes, you're right, currently Pigeon contributing large part of the company's revenues. Having said that, Black & Decker agreement was signed in 2016, we started in 2017, it has 10-year plus agreement, we have built a very robust portfolio, we have also built presence in nine states across 1,000 retailers. So, we are definitely poised for good traction coming forward given that the product portfolio is well equipped. We are also going to start manufacturing. So, yes, you will definitely see renewed focus and growth in Black & Decker. In terms of Gilma while the brand

is established around the same time as Pigeon. During 2012-13 to 2017-18 at we took focus to come out of the oil company business and put our focus in increasing distribution of Pigeon. Now that Gilma has a very good presence in the south of India through 65 outlets, we believe this is the right time to take Gilma also across the country. Gilma portfolio is largely chimneys and Hobs. We also believe that with modernization and urbanization across the country, we will see good traction if we are able to take Gilma pan India. So, yes, you will see again increased presence and increased focus on Gilma and Black & Decker as well.

Vinod Jayaram: What is the reason for having different distribution channels for each of these brands because they seem to be overlapping product segments in each of them and is there a positioning difference among these brands, is that why you're having a different distribution set up?

Rajiv Mehta: Yes, definitely, Pigeon is our value brand, we will definitely retain that value proposition for Pigeon. The second is Gilma which is semi-premium and third is Black & Decker which is the most premium. So, while a particular product in Pigeon will have certain features, Black & Decker product will have plus, plus features for the same kind of utility, for example, can be a toaster oven. So, you're absolutely right, that is the difference in the way it is positioned.

Vinod Jayaram: In terms of growth, if I look at the last couple of years, you have probably grown at 20%-odd and currently at 40%-plus. So, what has changed in the last couple of quarters -- is it the initiatives which you have taken earlier that have contributed or is it a pent up kind of thing which has also contributed into the last couple of quarters?

Rajiv Mehta: It's a combination of the demand and the capacity. So, there has been a continuous enhancement in our capacity, we have automated various lines and also the demand and the growth in the various channels, particularly, as I mentioned, there is a very high growth rate in the eCommerce channel, which four years back did not exist for us. So, it is a combination of all these three I can say -- the channel, the capacity and the consumer demand.

Vinod Jayaram: I wanted to touch upon the online. I think, the 30% which you have mentioned that seems to be one of the highest for a consumer appliance or durable brand segment. So, what has contributed to that kind of high growth in the online segment and contributed almost that kind of revenue? The question related to that is how are the margins in that particular segment compared to the offline segment?

Rajiv Mehta: So, one of the key benefits that we had were we have the first mover advantage, we were very early on to the eCommerce bandwagon, we believe that technology is going to drive the future consumer and hence we came on to eCommerce very, very quickly. Second, if you look at Pigeon for the branded value positioning, so that has helped us. When the consumer is moving from an unorganized unbranded product to an organized branded play, Pigeon becomes the brand of choice because of its quality.

Over the years, as we were present on eCommerce, we have worked on digital marketing, we have worked on our customer service. And if you see the ratings and reviews of most of our products, that has created a ripple effect where the number of people reviewing it and the rating, despite the number of large number of people reviewing it has created positive above effect on new consumers that come onto the platform. So, when someone searches for a pressure cooker, and they see that Pigeon pressure cooker has more than 1 lakh people who have reviewed it, and it's 4-plus rating, there is a natural tendency for people to buy. So, all of this has been an effort of over last five years where we have capitalized on our value positioning, worked hard with the team and ensure that we cater to the consumer on the eCommerce platform.

On the margins, as an organization, we are cost-plus organization. So, our pricing is channel-agnostic and product-agnostic. We make sure that after a landed cost, we levy a common gross margin that we require on top of our cost and at that price which is called MRP, minimum realization to the company, that becomes the invoice price to any channel, and then the channel margin is levied on top of it. So, in short, it is product-agnostic and channel-agnostic. Our margins are the same.

Moderator: Thank you. The next question is from the line of Hiren Trivedi from Axis Securities. Please go ahead.

Hiren Trivedi: You mentioned about the raw material imports from China. So, how much of your raw material is imported from China? And is there a specific product which is 100% made in China and it is traded by you through your outlets?

Rajendra Gandhi: Yes, the raw materials that go into the manufacture of our various products, and also we import completely built units based on our specification and quality standards. As I mentioned, our overall revenue, that is the finished goods 80% today contributes from manufacturing in our clients and 20% is from these traded goods. So, you can attribute majority of this coming from China.

We have a very strong team with our office in China and we take care of both continuous development and supply chain management including the quality assurance. But we are progressively moving towards indigenization of all these products. It is not that it will happen very soon, but it is a continuous process. There are some products which were 100% imported from China, for example, I will give you, glass plates for our nonstick cookware 100% imported from China, we have put up automated line for manufacturing of these glass plates which will be operational very soon in the next say 30 to 45-days, which will completely eliminate this category of import for us. So, similarly, we are continuously working on indigenization of these products.

Moderator: Thank you. The next question is from the line of Anurag Goyal from Ampersand Capital. Please go ahead.

- Anurag Goyal:** Just wanted to understand our CAPEX plan for the next two years?
- Rajendra Gandhi:** On an average, we have been investing about 20 to 25 crores in the past and the advantage is we had the land reserves already contribute substantial cost for any CAPEX. We need to put up lines and of course build sets. So, we believe that in the same range, Rs. 25 to 30 crores we will be investing on CAPEX, that includes our pooling and maintenance CAPEX.
- Anurag Goyal:** But apart from this is there no major CAPEX that you plan for next two, three years?
- Rajendra Gandhi:** Yes, that's good enough for the kind of business that we are in.
- Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Asset Management. Please go ahead.
- Sunil Kothari:** If you can a little bit explain what has changed during last four or five years? We were doing some Rs.500 crores of top line, and making losses and now from negative operating to 5% EBITDA and now 15%. So, broadly, this journey if you can explain it will be very helpful?
- Rajendra Gandhi:** Of course, that was the past. I would want to take you through the journey; the company has three segments of business. We had a co-branding arrangement with the oil companies, we were also having large opportunities with the supply of government business and the brand business. More particularly from 2013, we completely came out of the government business and started tapering down the co-branded business with oil companies from 2014. What used to be Rs.250 crores of business in 2014 for our oil company business, in the last year we were at only Rs.50 crores and we are moving towards zero. So, while we were recalibrating this business, there were the fixed costs for a company. You will see that the top line look to remain normal, but it was not so. We were actually letting go the co-branded business and building our brand business. So, the net growth whatever you could see on the top line is only after setting off the leads on business from co-branded. The margins of the co-branded business were not in line with the branded business. And the control on the business is also not like how we control our brand business. So, that's the big change that has overall transformed the bottom line numbers of the company. And as we have hit the operational leverage, there have been times that we were very close to the cost structure, the way the company was built. Our breakeven point was very close to the revenue numbers that we were making. But now we have moved to (2x) I can say currently, because we have worked on our costs, and also the revenue number has gone up. So, with that even the bottom line numbers now look healthy.
- Sunil Kothari:** What is the promoter stake after this IPO?
- Rajendra Gandhi:** About 54%.
- Moderator:** Thank you very much. Due to time constraints, we'll have to take that as the last question. I would now like to hand the conference back to the management team for closing comments.



*Stovekraft Limited
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Rajendra Gandhi: First of all, thank you everyone for joining us. I hope we have been able to answer all your queries. We look forward to such interactions in the future. I would again like to thank the investor community for the tremendous support shown during our IPO. We hope to live up to the expectations of you all. In case you require any further details, you may please contact us or our Investor Relations partner, Orient Capital. Thank you.

Moderator: Thank you very much. On behalf of Stovekraft Limited that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.