STOVEKRAFT®

March 10, 2022

To,

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

Subject: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations,2015: Transcript of Earnings Call

Pursuant to the Regulation 30 of Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings call held on February 09, 2022.

Please also note that the transcript of the Earnings call will also be available on our website https://stovekraft.com/investors/.

Request you to kindly take the same on record.

Thanking you,
For Stove Kraft Limited

Elangovan S.
Company Secretary

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"Stovekraft Limited Q3 & 9M FY-22 Earnings Conference Call"

February 09, 2022

MANAGEMENT: MR. RAJENDRA GANDHI, MD, STOVEKRAFT LIMITED
MR. RAJIV MEHTA – CEO, STOVEKRAFT LIMITED
MR. BALAJI A S, CFO, STOVEKRAFT LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q3 and Nine Months FY22 Earnings Conference Call of Stovekraft Limited. As a reminder, all participant 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajendra Gandhi, MD of Stovekraft Limited. Thank you and over to you sir.

Rajendra Gandhi: Good morning everyone. Thanks for joining this call. I hope your family and friends are all keeping safe. And I pray for the wellbeing. Today on the call. I'm joined by Mr. Rajiv Mehta our CEO, Mr. Balaji A S, our CFO and of course the Orient Capital team, who are our Investor Relationship Advisors. We uploaded our investor deck and earnings press release on stock exchanges, and on the company's website, I hope everybody had an opportunity to go through them. On the third quarter, we recorded a revenue of Rs. 298 crores and increase of approximately 1%. This happened because Diwali last year was in the middle of November, and as a result the third quarter of the last year witnessed higher volumes on account of festive season. For this year, majority of the Diwali purchases occurred before the beginning of the third quarter. And as a result, impact of Diwali purchases were extremely limited in the third quarter of this year.

During the nine months of FY22. Our pressure cooker category had a volume growth of 40% and accounted for about 24% of our revenues. We continue to rapidly grow our LED business and to the nine months of FY22 we achieved a volume growth of 29%. And this business contributed 7% of our total revenues. Our small appliances business saw a volume growth of 24% and contributed 30% to our total revenues. Our nonstick category as the volume growth of 14% and this contributed to 17% of our revenues. Our cooktop business, induction cooktop and the gas cooktop category had a volume growth of 65% and 8% respectively. That is the induction cooktop and the gas cooktop and both the business has contributed 11% to our revenues prospectively.

On the cost front during the current year, the company faced challenges with increase in prices of key raw materials. The company did not pass on the price increase, as we expected the price hike in commodities to taper down or reverse. Both gross margin and EBITDA margin saw a decline of 400 basis points and 780 basis points respectively when compared to the last year, the gross margin and EBITDA stood at Rs. 94 crores and Rs.52 crores. Having said this, the company has taken a price increase in Q4 as the commodity cost inflation continues. Going forward, your company will ensure that gross margins are back on track by passing on the required price hike in line with the market conditions and further strengthen its backward integration.

Now let me also brief you on the two acquisitions which were announced by the company. Stovekraft has acquired the business of SKAVA Electric Private Limited, on a slump sale basis. The promoter of SKAVA will join the company as a business head to drive this vertical. With this acquisition the company will enter into the business of manufacturing low voltage switchgear solutions electrical switches, sockets, distribution boxes, et cetera. This acquisition will act as a natural extension for existing products offering of Pigeon LED. Apart from this, the company also has entered into business of branded modular kitchen segments through acquisition of Metsmith, both the segments represents attractive market opportunity allow us to offer our digital products to our customers at an attractive price point. We will leverage our strengths in both these businesses that is manufacturing expertise, strong brand recall for Pigeon brand and pan India distribution network. Further we envisage to make additional investments in both the segments to ramp up capacity as well as to automate the production line.

We remain focus on increasing our pan India distribution network. And in the current quarter we have added 7,200 retail outlets, 4,400 for LED and 2,800 for Pigeon to our network. As on 31st December 2021 we had presence across India to our distribution network of 70,610 retail outlets. This along with our five product offering at attractive price points will enable us to increase company's market share going forward. 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-and-answer session. The first question is from the line of Prithvi from Unifi Capital. Please go ahead.

Prithvi: Rajiv, this question is basically for you, given that Diwali base, et cetera, it's there for all the companies, it's not just for Stovekraft. Despite that the volume growth in this quarter, 20%, 30% decline has been very sharp on Y-on-Y basis, so what explains this, if it is something industry wise phenomena that you're seeing, because of inflation, etc., or is it anything related to StoveKraft specifically, that had hurled the volume to the extent and also can you throw some light on how is Q4 progressing?

Rajiv Mehta: Yes, sure. So, what has happened particularly that industry wide e-commerce all other brands in our category has sold e-commerce pipeline while at the end of Big Billion Day which was at the beginning of October. Stovekraft, Pigeon brand, as well as the other brands were on a good days of inventory, e-commerce in general home category and a large amount of inventory for the other brands as a result of which, they did not pick up as much as they anticipated to pick up. So, we saw close towards 28% decline compared to last Q3 in e-commerce alone, as a result of which the volumes were down. Other channels which is particularly modern retail, general trade, institutional and export has seen a run.

Prithvi: So, going forward how is the trend in Q4 and can we expect that 15%, 20% volume growth that we have been growing over the last few quarters to come back again?

Rajiv Mehta: Yes, so e-commerce is back to normal all other channels have been growing, as we expected between 15%, 20%. So, in Q4 you should expect everything to come back to normal in terms of revenue.

Prithvi: Try to expect that our growth rates in Jan and probably the first week of February were back to our conventional growth rates of 20% odd or this is too early to pencil in a recovery?

Rajiv Mehta: No, it's back.

Prithvi: And Rajiv second on the gross margin front, you mentioned that you took some price hike this quarter, so what has been the overall RM inflation in this year and how much is the exact price hike cut due to?

Rajiv Mehta: See, the RM inflation with a price hikes that we have taken across the two times that we have done is close to 6% but the RM inflation has been much higher than 6%, what has helped us is also partly our backward integration. So, in a lot of our finished goods, be it WIP, or the example we are making our gasket ourselves, we are making our weight valves ourselves, we are making glass lid ourselves. So, partly by 6% has been the overall price increase over the years, raw material prices have been higher the price increase.

Prithvi: So, given that our price hike is lower than RM inflation so what kind of gross margins are we looking at going forward?

Rajiv Mehta: So, we are going to go back to anywhere between upwards of 32% in FY23.

Prithvi: So, by the end of FY23, or somewhere during the middle?

Rajiv Mehta: No, we will start working on it from the beginning.

Prithvi: Okay. And just one bookkeeping question, Rajiv what is the export number in this quarter?

Rajiv Mehta: Export is about Rs. 16.7 crores.

Prithvi: So, that has been quite low, because last couple of quarters you're growing exports at almost 50%, 60% Y-on-Y, the growth was almost a 50% decline so what explains this for exports?

Rajendra Gandhi: The overall scenario for the logistics because particularly American Exports the logistics is managed by the customer. And they were unable to get the containers that was the major problem, but their shelves were empty, but logistics was a bigger problem. But, since I can only say that the logistic thing is getting streamlined and because the order pipeline is there, and the capacity is there, so it is getting back to normal. Maybe the third quarter you will see a reasonable growth but the pipeline for order is very strong.

Prithvi: And what is the current orderbook?

Rajiv Mehta: Particularly for the American market, I can say we have an order book of equals annual sale, but we believe that the logistic thing is getting streamed lined, it's normal then we have orders of in excess of 70-75 crs currently for the next three, four months, which is normally our annualized sales was in the past.

Moderator: Thank you. The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Sir, we have seen across multiple consumer companies that the growth momentum has slowed down post Diwali. So, just wanted to check how was the off take in the month of December and even in January has the situation improved now, is the volume up tick is getting better now. So, that is one question and question two, is the volume growth that you indicated is it value weighted volume growth or it's a pure number means let's say we have sold three liter cooker and five liter cooker. So, whether we consider it as same or so, basically we consider it as two cooker sold as volume or then we have value weighted that for the MRP the way the other consumer companies do, that's it from my side.

Rajendra Gandhi: In my address the number that I have mentioned is by value and of course in the presentation we have also given you the volume growth numbers. Of course the volume growth numbers for individual unit categories. We are having growth both in terms of unit of numbers and by value. So, in my address, I had mentioned all the numbers that, I have mentioned these are in value terms and in the presentation that is uploaded on the website we also have on page number #7, you can see all volumes and to be more specifically answer the question it is all single units each of these numbers are both earlier numbers are also based on single unit and current numbers are also based on single units.

Aniruddha Joshi: Yes, sir, so that was the precise question. So, let's say in case of pressure cooker, so if we sell three cooker we still count as one unit and we if we sell a five liter cooker till we counted it as one unit so is it correct assumption?

Rajendra Gandhi: You are right.

Aniruddha Joshi: Okay. But sir then volume growth means it might be pretty different picture but got it. And sir on the second question demand outlook after Diwali how it has changed in December, January?

Rajendra Gandhi: So, the fourth quarter is comparatively a lower quarter over the second and third quarter, but because the third quarter of last year that is the current year was not in line with the numbers because of early Diwali, I can say that compared to our AOP, Annual Operating Plan we see good demand back in the fourth quarter.

Moderator: Thank you. The next question is from the line of Kunal Shah from Carnelian. Please go ahead.

Kunal Shah: I have two part to the questions. First, was more on the side of the margin part since growth you are saying is back, so I did not get the gross margin number so wanted to understand whether we can go back to the gross margin that we were having in the range of 35%. And secondly, if I remember correctly, we had already taken a 4%, 5% price hike in Q2. And then now we have taken another price hike and we have been all the while saying that, we work in very close lines with cost plus model. So, was just wanting to understand this big deviation in gross margin, for the quarter how should one read that?

Rajendra Gandhi: So, of course the correct price is based on the input cost, more particularly in this quarter, the third quarter we have seen abnormal price increase in both the input cost, material cost and freight cost that we import. Both these had seen some very abnormal prices increases. And we basis on the likelihood of the prices coming down and maybe we are not covered up for enough of that price increase. But I will assure you that we have corrected at the beginning of this quarter. It was for the annualized number nine months number, we were at 35% it is at 32.5% which is top of the 2.5% growth number.

Kunal Shah: Sorry sir your voice was breaking so you said we are at 32.5%, we can expect to be in the range of 35% is what you said is that correct?

Rajendra Gandhi: No, I said the same period of nine month period of last year we were at 35% and currently we are at 32.5% so I will also tell you that period of last year was the opposite of what it is today. The input cost had seen a deep dive in actually as you said there was a positive impact through the gross margin because the prices were very low, naturally there being a downward trend. Because beginning of the quarter price hike and then during the quarter the price continuously goes down. It concludes to our gross margin, and you have to see the opposite. So, it will be unfair to expect a 35% it will be also not correct to expect a lower than 32% in between is what will be the right estimate.

Kunal Shah: Okay. And just two follow up questions on this particular part. So, if we see our larger peer right, even they are in the same category, but their gross margins have not affected to the extent our gross margins are affected. So, would it be right to assume that the price hikes by the larger peer would have been there in the quarter in which our margins got affected?

Rajendra Gandhi: It is a function of correcting the price. They would have taken a price increase before the third quarter and so the impact of the middle cost got nullified and we were expecting the prices actually because we believe that they were speaking at the time. And we'll get that, but actually particularly all the metals, they are seeing a continuous price hike and so the input cost has impacted.

Kunal Shah: Okay. And this then extension to now moving from gross forward to EBITDA margin, we have seen an increase in employee expenses in the last two quarters from Rs. 24 odd crores to Rs. 33 odd crores and other expenses to Rs. 40 odd crores. So, if I add both of this, probably we will have an annual run rate of Rs. 300 to Rs. 320 crores kind of expenses out there. So, with a gross margin of 33% odd and below that expense line item of Rs. 300 odd crores. What kind of EBITDA margin management is looking at because if I take into account a 15%, 20% sales growth, with a 33%, kind of EBITDA gross margin and with the current expenditure run rate the

13%, 14% EBITDA margin what you have been guiding looks like a little difficult. So, am I missing out something on this particular aspect?

Rajendra Gandhi: So, if you want guidance, I would want to say that the gross margins will continue to be between upwards of 32%, so assume it that 33% and all our cost direct and indirect cost whatever you assume is also correct which will be in the range of 20%. And so we believe that if everything is normally the expected EBITDA should be between 11% and 13%.

Kunal Shah: Okay. And just one more question from my side sir. We are seeing a lot of changes in the e-commerce platforms the way that kitchen appliances are getting sold. So, Cloudtail has been the biggest seller on Amazon has now completely disrupted. Also, similarly, so this inventory led model which was earlier allowed by, which was allowed on e-commerce platforms, has now been dismantled to a larger extent. So, how do we see that kind of affecting our sales or has that kind of affected our sales in the quarter that has gone by, till the time we kind of tie up with other bigger vendors on this platforms if you could help us understand a little bit on that front?

Rajendra Gandhi: Your question was on e-commerce; you have dwelled into the situation very well. There has been a little change in the way particularly this larger sellers on the e-commerce platforms have evolved or correcting. So, they're moved from what you mentioned Cloudtail to other seller. Also, there was a little impact in the quarter more particularly also to do with this transition. Now the new sellers are already in place, so the business is as back as normal, it's nothing to do with large sellers. So, it is only a replacement of one company with another company.

Kunal Shah: Yes.

Rajendra Gandhi: Yes, so on the e-commerce thing, it is only there was a transition during this period that the existing company particularly you have mentioned about Cloudtail and some companies like this have been replaced by other companies. So, of course, during the period of transition there was a little disruption, but that is already normalized now.

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

Himanshu Nayyar: Sir firstly just to understand in terms of the current quarter's performance, is there any specific geography you would want to point out where you faced a bigger decline on volumes, especially the South market or was this slowdown broadly equal across our regions?

Rajendra Gandhi: No, actually we track our channels and particularly if we want to track region it is more to do with modern retail, general trade. But e-commerce is neutral actually, all the shortfall in the revenue a very large chunk it is closer to Rs. 26 crore of that revenue which the shortfall was only in the e-com there are multiple reasons for that, one was that the pipeline for this category was choked that sufficient stocks not particularly to our brands, but in general and so, there was a little what you call embargo or limited buying. And as we already explained to you there was a transition from existing large sellers to other sellers. So, there was another reason why they had slowed down their purchase. And now again it is back to normal. So, region wise, there is absolutely no problem because our general trade has been growing, our modern retail has of course seen very, very large, I can say handsome growth. If we want to know the number that we have grown on the modern retail, in this quarter we have grown by 70%. So, of course it may not be exactly comparable to the last year because last year maybe we were selling more on the e-commerce and there was impact of COVID at the time, we didn't have impact of COVID this time but compared to the last year period, this period was better. So, the modern retail was all open.

Himanshu Nayyar: Okay, got it sir. Sir second question slightly longer-term growth outlook. So, what we are seeing is maybe in this inflationary environment, the players who are focused on the more premium products, are maybe not getting impacted, because maybe their target market doesn't really get impacted that much by this inflation. But given that we focus on the economy products, mainly what are your comments or what are your views on the price elasticity, for example, if this inflation were to continue for some more time, and maybe even increase and we are forced to take more price hikes, do you think demand structurally can get impacted in our target segment?

Rajendra Gandhi: We believe that inflationary, input cost going up is uniform for everybody. And then, of course affordability and cost increase are factors to be considered. But when all the players in the segment will have this impact. And if there is an increase in overall cost of that particular product, I don't think it really impacts overall sales. Because if we were as a brand and the segment that we operate, if we were the only people to have a price increase, then it could probably, right to assume that it will impact business. But if this is across the brands for the whole category, I don't think it should really impact it is more of being prudent to ensure that the costs are rightly assumed and passed on. So, we are working on that and so we should be back to our normal gross margins.

Himanshu Nayyar: No, sir my point mainly was to understand given that we are already at a lower gross margin than competition. So, what I was thinking was maybe the other guys have some room to absorb some amount of material inflation. But in our case, we have limited flexibility on that front. So, from that perspective, is what I was asking you.

Rajendra Gandhi: So, comparing with anybody else, I don't think I have an answer for that. But on our business, the way we work we operate, we believe that we are comfortable at the gross margins that we aspire to have. And as discussed earlier, we would want to be upwards of 32%, but ideally safe to assume at 33%. And we want to ensure that all our cost are covered at 20%. And then if there is no abnormality in between during the project, then we'll end up to the aspired EBITDA margins.

Himanshu Nayyar: And on the growth front your guidance would remain, or your aspiration would remain to keep growing at this 20%, 25% despite the recent slowdown that you've seen?

Rajendra Gandhi: So, again, I would want to say for the nine-month period, we have grown upwards of the number that we are discussing, and also for the current quarter we are seeing business as normal, as per the business plan. So, we believe that we can continue to grow at that growth rate.

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

Deepak Khatwani: I just had a question on the tax rates. Tax rate again is lower this quarter, which is supposed to be normalizing going forward. So, could we put some color to it as to what happened this quarter?

Rajendra Gandhi: So, we had assumed higher profit for the year assuming the normal profits for this quarter and so, you go by that 45% for the first half. And so, we had already covered, we are already provided for the tax. So, that has got normalized now.

Deepak Khatwani: So, what would be the effective tax rate for the year?

Rajendra Gandhi: We had assumed a higher profit numbers for the year. And we had provided for tax at that rate for the first half. Since the profit number is not in line with that annualized number, we have again so if we want to understand, I will tell you we have assumed at Rs. 125 crore profit PBT and then we have corrected it to Rs. 89 crore so there is a number, so that's why for this quarter you will see that the correction on the tax.

Deepak Khatwani: Okay. And what is going to be effective tax rate for the year if you have that number?

Rajendra Gandhi: So, we have a carry forward of Rs. 40 crore and almost 50% of that average rate, assuming 25% is the rate, we will be 50% of the 12%, 13%.

Moderator: Thank you. The next question is from the line of Saurabh Shah from AUM Advisors. Please go ahead.

Saurabh Shah: Sir a question on your employee cost, have gone up by about 40% from last quarter to the current quarter, last quarter and year ago quarter to now, just wanted to understand sir what's happening over there because the volumes are not large, so is this just salary increase or what has really happened here?

Rajendra Gandhi: No, so is not correct to assume that volumes are not large, I will explain to you in detail. So, last year, we have two kinds of employee cost, direct employment and indirect employment all the direct employees we had at the end of December 2020 last year, about 2,200 people on our role which has ballooned to 3,200 people, the increase in number of people is both to the volume growth and also additional plants that have been installed for backward integration of our facilities. Where every quarter we have been increasing production capacity and also both some products which we are earlier either importing or sourcing. So, likewise on the indirect cost, I can say we had 924 people, which is now 1,032. So, there is an increase in the number of indirect also. So, during the Corona time, during that period of course we had also rationalized some people. So, all that in both for the growth by volume, by also the ensuring with the new lines, we have been well capitalized by human resources, like I can say in the total from 3,200 people, we are 4,200 people family today. So, the number of people have also grown. Of course, there is a normal increment that we provide to our employee, both put together is what it is contributing to the increased employee cost. But when you will see revenue growth, and will want to then comparative percentage, then it will be normal.

Saurabh Shah: Sir further question on the margins, I heard earlier that, you're looking at what we should consider about 12% EBITDA margin. Sir just mentioned with the backward integration and all those efforts, shouldn't margins be increasing, or you don't expect this to increase in the near term, say in the next year or so once the full year backward integration?

Rajendra Gandhi: New plants also take some time to stabilize. But as a quality wise we want to slowly increase on the gross margin. But it's not dramatic as the policy of the company, we would want to protect our EBITDA margins maybe a little more than the 12%. But all the benefits that we accrue we want to pass it on, we would want to look at higher growth rates than higher margins but still I want to protect your margin and also protect your position so we continuously invest on backward integration to be more relevant to the consumer TG that we are addressing.

Saurabh Shah: Yes, so the question was is backward integration more for preserving your quality or you think it should be adding to the….

Rajendra Gandhi: Supply chain quality and to control cost.

Saurabh Shah: Okay. So, the last question was on the two new business the modular kitchens and electric switches how do you see those businesses scaling the next maybe two or three years and what kind of margins do you see in the business as you build more scale?

Rajendra Gandhi: Because they fall under the Pigeon brand for us. It is product agnostic, the margins will be similar, but for the initial period when we establish but since we know the kitchen business already and the led, the switch business is extension of the led bulb business. So, we believe that both these will contribute.

Saurabh Shah: But margins should be the same kind of?

Rajendra Gandhi: Same scale.

Saurabh Shah: Just now you we saying they are quite small so they will be a bit dilutive to margins.

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

Binoy Jariwala: We are seeing a decline in the volumes and we've seen some decline in our net sales realization per unit as well. Can you just explain me what drives the decline in the net sales realization, there is quite a sharp decline on a sequential basis?

Rajendra Gandhi: I don't understand it, where do you get this data on decline on?

Binoy Jariwala: So, this is the sales divided by the volume data that you share. That has declined quite sharply on our sequences basis. So, in Q2 FY22 particular average.

Rajendra Gandhi: Any particular item that you observed this, any particular category?

Binoy Jariwala: Pressure cooker has declined from roughly about 850 to 666, that's the main which is dragging the entire.

Rajiv Mehta: No, you will not know how many combis we have sold versus how many single unit we have sold. So, the sales divided by the volume is not a comparison.

Rajendra Gandhi: Otherwise, there is no price decrease in any of our categories, because there is inflation in cost itself so there is no price decrease in any of our category. Unless we are replaced with some categories like kettle or choppers which we have replaced imports versus our domestic production, where we have had substantial cost benefit which we have passed on, but the product which you are already producing domestically, there is no downward cost.

Binoy Jariwala: Understood, okay. Second question is on the GT channel, could you help me with the growth in GT channel for Q3 FY22?

Rajiv Mehta: It's about 10%.

Moderator: Thank you. The next question is from the line of Aman Batra from Goldman Sachs. Please go ahead.

Aman Batra: Just wanted to understand the A&P spend, how that has changed over the last couple of quarters?

Rajendra Gandhi: No, we continue to spend about 3% and it is based on the revenue and currently also we are in the same trend.

Aman Batra: Okay, so there is no reduction in the A&P spend?

Rajendra Gandhi: YTD we are at Rs. 24 crores and for the quarter it was Rs. 9 crores. So, YTD is at 2.8 and for the quarter it is at 3.1. So, there's a small appreciation in realization. So, on an average we want to spend 3% on the A&P.

Aman Batra: And just on the discounts which operate on the website Amazon, Flipkart, etc., there is optical discount, I would say compared to the MRP. Is that controlled by the Amazon and Flipkart or do you have any say when you sold to their arms so it goes away and the pricing is determined by them?

Rajendra Gandhi: So, we work on a system called MRC for the company, the minimum realization costs for each product. And we will always invoice them at this price. And today, statutorily they cannot sell it below their cost. Of course, the price is controlled by them, but we will not allow them to discount below, we will want to always manage the various channels. So, the channel conflict is what our product has managed. And to keep that stable across the channel, we will ensure that none of these people go below those desired minimum value of sale. But for the company, it is actually the guiding number is the MRC.

Aman Batra: Got it, understand. And just on the margins you earlier commented that gross margins could go back to 34%, you will see a toned down of expectation earlier 35% gross margins and 14%, 15% EBITDA margins used to be the guidance. So, this 12%, 12.5% EBITDA margin which you are guiding for currently is for the near term or is it kind of sustained for the medium term as well?

Rajendra Gandhi: Inflationary trend, it's better to assume that we will be on the lower end of the margin. So, between the range that we expect, so I believe that it will be upwards of 12% for the annualize and for the near term. If the same inflation rates trend continues, we should continue to expect in that range. Obviously because all the price correction does not get 100% pass down. Whenever there is a decline trend in the input costs, the margin will definitely again shoot up. But currently we are witnessing inflationary trend in the input cost.

Aman Batra: Got it. And lastly on the channel financing piece, where are we on channel financing now?

Rajendra Gandhi: More and more of our consumers are coming on channel financing, but there has been a change shift in the e-commerce platform currently, because there is a change from the existing buyers to a new company. And we are funding normally otherwise they will organize for channel financing. And so at the moment it's funded with our resources, but that will again come back to normal. So, I can say upwards of 70% of our revenues are on channel financing and there would be a little change during this last quarter because there was movement from the existing companies which are buying to other new entities. And that will again get stabilized, it is only a question of a little time.

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

Deepak Poddar: Sir, I just wanted to understand the range that you mentioned 11% to 13% EBITDA margin. So, that is from fourth quarter onwards, because that's when you said that it has come back to your normal kind of growth right?

Rajendra Gandhi: So, currently, this is for the quarter you can, from the quarter you can safely assume that we will be back to that. But currently we are YTD at 10%, there has been an improvement for the year with the correction in the fourth quarter.

Deepak Poddar: And even on the margin front 11% to 13% is what we are expecting in the fourth quarter as well which you mentioned?

Rajendra Gandhi: No, that's what I mentioned YTD we are at 10% on EBITDA and for the quarter there is a slip. And with the improvement in the fourth quarter, we definitely expect the margin to be upwards of 10%. But for the near term, we can say that we are again getting back to that between that 11% to 13%, 12% is safe to assume.

Moderator: Thank you. The next question is from line of Ronak Vora from Om Advisors. Please go ahead.

Ronak Vora: I want to ask so, exactly we couldn't hear what happened with the employee cost if you can just help me out?

Rajendra Gandhi: Okay. So, there was an increase of about 1,000 employees in the direct employment. We have added new line to increase capacities on our existing plant apart from the backward integration, the factories that have come across. And there also the rationalization during this year we have limited our number of employees with the growth currently that we are witnessing and the plant growth there is an increase in the number of employee count, overall what we're used to be at 3,100 number for the company, it's currently at 4,200. So, there is an increase in the employee costs, but when you compare it with in terms of percentage they are very much in line to the revenue the employee cost means the same. It will be correct to compare it to quarter-to-quarter realize what is the number you should see, because the employees remain, the cost remains constant more or less throughout each of the quarters and the revenue numbers moves up and down by 10%.

Ronak Vora: Okay. And secondly in the gas cooktop and nonstick ware segment. So, we witnessed for the nine months single digit volume growth number So, what will be the reason for that?

Rajendra Gandhi: So, the last year we were also selling cooktops in the Oil company business that is a lower end of the cooktop and we have over the last five years from the year 2014. We are continuously as a strategy and policy continuously reduce the sale from this channel. And in the current year we have brought it down to zero. So, although we are growing it is also a netting of the business that was let gone. Last year we had a 20 crores revenue from the channel which we have let gone and brought it to zero.

Moderator: Thank you. The next question is from the line of Romil Jain from Electrum. Please go ahead.

Romil Jain: Sir just want to understand the gross margin contraction that we saw Y-o-Y was there any apart from the increase in the raw material, was there any impact on the product mix that we usually have and also the price hike that we took, did it compensate for the entire raw material or are we seeing more hikes coming in?

Rajendra Gandhi: So, the function is only to do with more with the input cost, and there is a very steep price increase in the input cost, very, very steep price increase. There are two factors one is the domestic buying that we buy all these metals and plastic which has seen a steep increase during the year and also there is an abnormal freight cost increase as to give you an idea, I'll tell you, our average cost of one container from the factory in China to our factory used to be about Rs.1,06000, which has ballooned to Rs.6 lakhs, so, the rupees has been abnormal and to ensure that supply chain does not get affected we had given a free hand because the availability of containers were also a challenge. So, we have a very good freight forwarder and we have given him a free hand to be in trend whatever is the current trend, the market price to pick up the containers. So, there has been a steep price increase in the input and that is what has affected the gross margin. On the container cost front I can say it is slowly coming back to normal but there is a price continuous increase in the input cost of particularly metals like aluminum and steel.

Romil Jain: Okay. So, now, are we seeing the pressure coming down or how is the situation on the raw material side now?

Rajendra Gandhi: So, there are multiple raw materials, some materials are stabilizing. And the freight cost we are, not coming back to the original, but coming into a downward trend. But aluminum input, which is a major input in our various manufacture products that we see a continued to go up, the cost are going up. So, we have corrected the price for this quarter. So, if i say that we will be back to the extremely good times when we had say gross margin at 35% I don't see there but we are definitely looking upwards of that 32, 33. So, that means we are seeing this quarter ahead.

Romil Jain: Okay. And the second question is on the competition side. So, just want to understand, obviously we were waiting for the raw material to fall and it didn't fell. So, we did not pass on the price hike, but is the competitive scenario also very high which is also avoiding, not letting us increase the price just on the competition piece?

Rajendra Gandhi: So, fortunately yes, at Stovekraft we are a very confident company and we believe in what the internal Think-Tank thinks and with each of this product head has given the freedom to think and we only go by this that what we assume and it was not correct to assume that the price will stabilize that's the only, I don't think otherwise, we are having volume and growth in channel both, but for the e-commerce situation it's the circumstances growth. So, demand side is not an issue for us at the moment we are not experiencing any demand even now, current times after the quarter four we are seeing normal demand. So, that is not affecting our decision on price increase. This was based on the trend that we had foreseen because the price peak, but what we have experienced is beyond this.

Romil Jain: Okay. And the feedback from the dealer distributor regarding the product quality, any complaints, warranty, all those things, any sense you can give us on that?

Rajendra Gandhi: We continuously improve on our product offering so, I don't think there is anything to worry about the product quality or the consumer expectation from our brand. We are actually improving every day. Our customer service we are strengthening it every day. I don't see any such issues in that front.

Moderator: Thank you. The next question is from the line of Divesh from DS Investment. Please go ahead.

Divesh: Just wanted to get your comment about two years CAGR, because last year the base quarter had a lot of favorable condition, and this year it's working other rates. But if you were to take a two-year point of view, how do you see our performance?

Rajendra Gandhi: We are going upwards of 20%.

Divesh: Okay, so that's as per your aspiration, what you called out and you think volume wise and value wise combined we are delivering where you want to be, is that correct?

Rajendra Gandhi: These are interlinked both volume and value, because unless there is a decline in the trend on the input cost, in value and volume are co-related, for us actually it's a volume growth which derives the value growth, and so with both the channels getting stronger, and our product offerings getting stronger, to safely assume this despite growth, I don't see any challenges at the moment, we are not experiencing any kind of resistance or challenges.

Divesh: Got it. And then another thing on competitive landscape, I believe you answered to previous participant, I just wanted a different flavor here. Now, if we were to look at all industry peers, the similar issues has been faced by everybody. And we have already announced our intention to sort of have 25%, or 20% of our revenue coming from new entries that we announced. I just wanted to get your feel that the core focus areas which we have currently, do you see an issue of a medium term competitive landscape that is triggering us to sort of look at other opportunities, just wanted to get a medium term plus view from your point.

Rajendra Gandhi: No, we are not seeing any kind of resistance or tapering on demand actually, they're very robust, I can say. Like, we explained to you there were up gradations in the e-commerce channel, there were also challenges in the export channel, but in terms of orders from the export, we have a very strong pipeline of orders and with what we are seeing on the logistics, this is getting normalized and also from our customers, they want to buy more than what they ordered that is the situation we are seeing so on the product offering and the categories that are there each of these categories, we are seeing very good growth.

Moderator: Thank you. The next question is from the line of Rusmik Oza from Kotak Securities. Please go ahead.

Rusmik Oza: Sir, question on the employee and the cost so Analysis this year revenue last previous around Rs. 1,200 crores of revenue, and if you remove the 30% e-commerce contribution then we have around Rs. 850 crores of non-e-commerce revenue, do we need 4,000 employees for this kind of revenue this is my first question. Second is, if you can just give us the breakup of these 4000 employees and how much on the manufacturing side, how much on the office side and how much are in the sales side. And third related question is, does this high Fixed cost eat way or has the negate the entire impact of a backward integration because the purpose of backward integration is to improve EBITDA margins, but if these kind of fixed costs eating to all these efforts, then we are at a situation where we are at EBITDA margin, which is a little subpar than the peers in the industry. Your comments on this could be helpful, sir, thanks.

Rajendra Gandhi: So, on the direct and indirect number and I want to say that currently out of 4200, 3200 direct employee role that is you are attributing to manufacturing and indirectly we have about 1032. So, these are not comparable numbers to tier two, because we are a manufacturing company. Today, we are closer to 90% of our revenues come from products that are manufactured within the factories of Stovekraft and highly backward integrated. On the margin improvement from backward integration. Our objective is to ensure that we are relevant to our target customer. And so majority of the benefits that accrue whether by optimizing on various cost including backward integration, they pass it on to be relevant to the TG. So, our aspired margin is in the range of what we have been discussing. It is not that we are with backward integration our aspiration is to increase our margin but it's to be more relevant to the TG, focus on a higher growth rate than only increasing the model there could be small improvement but it's not the 100% of the benefit that accrues goes to the gross margin, it will go to the consumer.

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

Aejas Lakhani: Sir, so my first question is on the e-commerce, I wanted to understand you mentioned the number as 26 crores. So, we didn't have a 26 crore sale this quarter. And that is on account of the Cloudtail. Could you explain that bit so is it that Cloudtail is in the process of shutting down and hence they did not reorder from us is that the reason why we didn't have that Rs. 26 crore sales?

Rajendra Gandhi: There are two reasons. One thing is overall, this e-commerce channel had clocked their, for the category there was jam, or anticipation of better sales top up their warehouse which for the categories since it was Jam, they were kind of embargo on fresh buying, but also it is not of course, the entity cloudtail is shutting down, but that have been replaced by multiple entities and in our category. So, there is a new entity already in place. So, there was a transition period, which has also affected the sales in that quarter, but that will all get corrected. So, finally, the minimum stock that they require to maintain they'll continue to do that. So, that will get corrected here, what I mentioned was, the last years Q3 versus this year's Q3 for e-commerce sales, we were at Rs. 104 crores which is Rs. 77 crores this Q3, for the period so, there was a drop of 26% or 26 crores more or less it's the same.

Moderator: We will move to the next question from the line of Kalpit Narvekar from Allianz Global Limit Investors. Please go ahead.

Kalpit Narvekar: I joined the call a bit late. So, this might be asked earlier, but if you could share some color in terms of the volume declines that you saw in the rural versus urban say on the general trade channel?

Rajiv Mehta: See, general trade has actually grown by 10% we have not seen a decline in this Q3, of course year to date also we are very robust but specially for Q3 compared to last year general trade has grown by 10% there has been no volume decline.

Kalpit Narvekar: So, let's say not just on the general trade, on overall company basis if you know, if you have data on say rural versus urban, where the demand comes from do you have any color on how much was the decline or the growth for rural versus urban, was there any major divergence?

Rajendra Gandhi: While we may not have that data like that but I don't think there is any change in the contribution from rural, there has been actually of course we are addressing investor fraternity which has witnessed the same number on the revenue. But actually, we have grown there are two particular segments where we had challenges one is in the e-commerce which is well explained and on the exports is because more to do with the logistics it's not to do with demand. And otherwise, we have been growing even in the quarter, both in volume terms and value terms. There is a decline in gross margins due to the input cost. There is increase in employee cost is to do with the growth in the overall the size of business. Otherwise, business is as normal.

Kalpit Narvekar: Okay. Sir, so if I'm looking at Slide #7 on your presentation, so these gas cooktops and nonstick cookware and small appliances have seen 20% to 30% decline on a Y-o-Y basis. I actually don't know how once that is on a Q-o-Q basis, but have you seen any declines on a quarter-on-quarter basis there and why has there been a higher impact on say these two three segments?

Rajendra Gandhi: Let me explain item wise, gas cooktop we have list on one channel, which we have been continuously doing over the years. And so actually there is a premiumization of the product that we offer today versus what we were selling in the past on the gas cooktop, we have given you on that both on the quarter and the nine-month numbers on the gas cooktop. So, if you will see the nine month in absolute numbers, there is a growth maybe in the last year quarter the sale of the stainless steel cooktop that we were selling through this oil company channel was higher and that's why you're seeing an overall Q3 drop in the number of units, but overall and also the lower sales in the e-commerce this is where the impact is there in the gas cooktop business and on the nonstick cookware it is more to do only with exports, almost 50% by number of units for the nonstick cookware, it comes from our exports and for the Q3 particularly there was a huge I can say challenge in getting the containers and that was the only challenge in the nonstick cookware. The small appliances is a combination of all several products by unit wise we will have to but otherwise only the Q3 you have seen a lower number and again this is to contribute to what we would be selling in the e-commerce.

Kalpit Narvekar: Okay, sir one last question from my side. Just you've mentioned that you've taken price hike in the 4Q so to what even would those price hikes be?

Rajendra Gandhi: From 4 to, different categories, they have a different increase, but I can say overall at a company level between 3% to 4% is what is the price increase that we have passed on to the business and the effective date I can say though, we started from the beginning of this quarter more or less from 15th of January the new prices were effective.

Moderator: Thank you. The next question is from the line of Siddharth Purohit from InvesQ Invest Advisors. Please go ahead.

Siddharth Purohit: Sir just one clarification, you said you lost some shipment to export and is it possible that they will come back during this quarter and any incremental order that you are expecting from export also and if you can quantify what could be the probable revenue that we are looking in Q4, are we going to make up some losses that we saw in last quarter, if you can quantify that, that will be helpful.

Rajendra Gandhi: Like we say that currently the order book for the next three, four months that will between say March, April, May, June is upwards of Rs. 75 crores, which normally is our annualized number in the previous times. So, for this the period between the fourth quarter and the first quarter, the expected revenue from our export is in the range of we will be able to of course, we have the capability to execute the whole order. And also, the situation on the container front is also not absolutely normal, but it is getting streamlined.

Siddharth Purohit: Okay. And given that now we have some kind of notification in Q3. So, are we expecting some sort of maybe aggressive sales and trying to make it up in the Q4. So, could you quantify what's the internal set of target that we're looking at in terms of top line?

Rajendra Gandhi: No, so again, I want to repeat the top line for us is driven by the various channels. And we are seeing other than these two, the challenges that we had with the export and with the e-commerce. E-commerce is already getting normal with the new entity is also in place and the channel, the block that has been over. So, with both this the e-commerce is back to normal and on the exports once the container thing stabilize actually, there is I can tell you a very robust demand, there is a lot of this our consumers want to look at India from current country of buying so on the demand side there is a good demand. There were challenges once this container thing gets stabilize so for them the input freight cost because the product is bulky, the freight cost what used to be for them has gone up by five, six times which has impacted the cost of the product also which is getting stabilized. So, I don't think there is any abrasion for any kind of demand from any of the channel so, for us the growth numbers remain and we are very positive on the analysis.

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

Binoy Jariwala: Could you help me with what is the current exposure to FRL as on 31st of December 2021?

Rajendra Gandhi: Yes, so, we have provided for majority of that one of the reasons for the decline in the margin will also be that. We have some more maybe the end of this quarter by the fourth quarter all of that will be provided for.

Binoy Jariwala: So, in the fourth quarter provision would be approximately three crores, two and a half, three crores?

Rajendra Gandhi: About Rs. 2.5 crore .

Binoy Jariwala: Understood, okay. Sir could you just confirm you said e-com sales in Q3 FY22 was about Rs. 77 crores versus Rs. 103 crores in Q3 of FY21?

Rajendra Gandhi: Correct. Rs. 104 versus Rs. 74.

Binoy Jariwala: Understood. And sir what would be the volume decline in e-com channel?

Rajendra Gandhi: So, there is a contribution of several all the categories offhand I don't have this number exactly individual product wise but otherwise in value terms these are exact decline.

Binoy Jariwala: Sorry, in value terms you said?

Rajendra Gandhi: Value terms that reaches Rs. 104 and Rs. 77.

Binoy Jariwala: Right. On the commodity inflation, what is the total inflation and your key input commodities like aluminum, steel, stainless steel and plastic?

Rajendra Gandhi: Plastic, it is peak and it is getting back to normal not a original level, COVID level during the COVID times the first COVID wave, all this metal and plastic had actually seen a very steep decline, was the COVID continuously increase in all these costs, the plastic both the demand and supply and the price have got stabilized, there are also glass which had been a very huge surge in cost input, cost of distrust and also the supply was highly affected. So, these two are getting stabilized and also both on the supply side and the price, but aluminum continues to see an increase in cost and aluminum is one of the major material that we buy. Both stainless steel and steel stabilize at the price, there was a steep increase in both stainless steel and steel but they have stabilized, it is not that it is further going up. But aluminum, we are seeing further increase every month we are seeing price increase.

Binoy Jariwala: Sir, so what would be Q3 of, what would be the inflation or price increase broadly for these commodities in Q3 FY22 versus Q3 of FY21?

Rajendra Gandhi: This is very, very abnormal I can say, aluminum I'll give you in dollar terms from \$2,000 to \$3,000 LME currently it is spending towards 3,200 that is a kind of increase by about 50%, 55% cost increase in the aluminum. Even the conversion cost has gone up. So, I can say safely it was close to 60%. On steel Q3 was at about, I will talk about steel not stainless steel, we consume a lot of steel, but again similar 50% price increase was there in steel. Plastics has also seen between 40% and 50%. Glass has seen about 30% to 35%, paper which goes into the packaging of our products had seen closer to 30%, 35% increase over the last previous year to this year. If it is the same period more or less the same period. Until the second quarter, the prices were normal. After the third quarter the prices started seeing a price increase.

Binoy Jariwala: Fair enough. So, sir with this the 3% to 4% price increase that you've taken in mid of Jan. And cumulative price increase in the earlier quarters that you've taken which is to the tune of 8% to 10%, would you still be able to touch your 30% to 33% gross margin and another round of price increase right?

Rajendra Gandhi: We are in line between 32 and 33.

Binoy Jariwala: Sorry?

Rajendra Gandhi: With the current price increase, we are at the 32% to 33%.

Moderator: Thank you. The next question is from the line of Romil Jain from Electrum. Please go ahead.

Romil Jain: Just a follow up on the export side, I just want to check whether the gross margins would be similar, company level margins or they would be different?

Rajendra Gandhi: Export margin at EBITDA will remain same but our gross margin will be lower.

Romil Jain: Sir, I could not hear can you please repeat.

Rajendra Gandhi: Export margins at EBITDA level will be the same for the company. But at gross margin level, it will be lower.

Romil Jain: Okay. And maybe lower by how much?

Rajendra Gandhi: Extent of the operating cost other than the manufacturing. So, we have 12% to 14% on operating cost. So, it will be lower by 12%, 14%.

Romil Jain: Okay. And just one more thing on the cost structure are we doing any project or some bit of cost restructuring or somewhere where we can add to our efficiency and maybe kind of help the margins increase maybe slightly medium to longer term. But what are we doing on that?

Rajendra Gandhi: So, improvement on various aspects of our business, we continuously keep engaging with the big four and various projects, it's not only limiting to increase in margins it's about efficiency, you were improving the quality of our overall operations. So, these are continuous affair and it's not that we attempt to do everything at one go and these are continuous. We keep engaging with them on various projects, but then the objective of the company is very clear, we want to be very relevant to the TG. So, to expect a very high growth in gross margins or the EBITDA will not be the right expectation, I can say that we will want to protect our current gross margins and EBITDA margins, there has been aberration in the current quarter, but we'll get back to the normal gross margins and EBITDA margin. So, we continuously work on protecting this, and we want to be more relevant to TG and with that, we also can expect, definitely expect higher growth rates than the industry.

Romil Jain: Okay. So, can we assume that, any incremental apart from the range that you mentioned on the margins any incremental benefits that we derive will be?

Rajendra Gandhi: Yes, incremental benefit will pass on.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to Mr. Gandhi for his closing comments. Over to you sir.

Rajendra Gandhi: We thank each one of you for patiently having heard us and I hope that we are able to answer all your queries, but in case you have any questions because of time constraints, this call was immediately truncated. So, if you have any questions, you please reach out to our Investor Relationship team, they will be and the company will be more than happy to answer any of your questions. And, I understand most of the questions are revolving around when there have been expectations and maybe on particularly the gross margin numbers there was a slide on that. But, I can only assure you we have a very strong team here at Stovekraft very committed and we'll be back on our regular guidance. Thank you again.

Moderator: Thank you. Ladies and gentlemen on behalf of Stovekraft Limited that concludes this conference. We thank you all for joining us. And you may now disconnect your lines.