

June 05, 2023

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 May 30,2023.

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**

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**Shrinivas P Harapanahalli**  
**Company Secretary & Compliance Officer**



“Stove Kraft Limited  
Q4 FY’23 Earnings Conference Call”  
May 30, 2023



**MANAGEMENT: MR. RAJENDRA GANDHI – MANAGING DIRECTOR –  
STOVE KRAFT LIMITED  
MR. BALAJI A. S. – CHIEF FINANCIAL OFFICER –  
STOVE KRAFT LIMITED**

**MODERATOR: MR. IRFAN RAEEN – ORIENT CAPITAL**

**Moderator:**

Ladies and gentlemen, good day, and welcome to the Stove Kraft Limited Q4 FY '23 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectation of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing 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, Managing Director. Thank you, and over to you, sir.

**Rajendra Gandhi:**

Thank you. Good evening, everyone. I hope that all of you and your families are safe and healthy. On behalf of Stove Kraft Limited, I extend a very warm welcome to all participants on the Q4 and FY '23 financial results discussion call. Today on the call, I'm joined by Mr. Balaji A. S, our CFO; and Orient Capital, who are our Investor Relation Advisors. We have uploaded our investor deck and earnings press release on the stock exchanges and the company's website. I hope everyone had an opportunity to go through them.

During the year FY '23, the industry witnessed weak demand scenario across markets and despite the challenging business environment, the company has emerged with a significant volume and value growth in revenue by 13% in FY'23 to INR1,284 crores and EBITDA growth of 4.4%. All product categories grew in volume ranging from 8% to 16% aided by our strong brand identity, robust distribution channels and effective marketing strategies, and a strong manufacturing facility.

The company continues to strive hard to gain market share across business verticals and distribution channels. In FY'23, we delivered a robust growth across product categories on a year-on-year basis. Our Pressure Cooker category reported a growth of 19.6%. Non-stick Cookware registered a growth of 16.8%. Induction Cooktops grew by 13.4%. Small Appliances grew by 11.1% and Gas Cooktops marked a growth of 4.3% during the year.

This growth across various categories is testament to our robust and resilient business model and our ability to steer onto the growth journey in the most challenging periods. Our aspiration of driving growth in a sustained and responsible manner, while being future ready to capitalize on the upcoming market opportunities from the bedrock of our success.

Also we communicated in our last earnings call, with reference to the implementation of the new organizational structure. It gives me immense pleasure to announce we have successfully completed the hiring for all new positions and the team has already started working towards achieving the organization goal.

During the 2 years, we have also decided to strengthen the composition of the Board of Directors. And in this direction, we have now two new independent directors on the Board, Mr. Avinash Gupta and Mr. Natrajan Ramakrishna for effectively advocating the interest of

stakeholders through their vast years of experience in professional career previously. Our growth momentum continues in addition to our company's own and company-operated retail stores for the Pigeon brand.

During the year, FY'23, we have successfully added 54 stores in southern markets. We remain committed to accelerate our store reach in FY'24, with a target to open seven to eight stores every month. The company is in final stages of formulating a business model to expand retail stores also through franchisees. This model would help us reduce the initial cash outlay and recurring fixed cost substantially. Given the challenging business outlook, which has taken a call to stagger some of the planned capex in FY '24 to early FY '25.

As we move ahead in 2023, we remain committed to continue our growth trajectory while taking cognizance of the volatility and challenges in the market environment. We would continue focusing on expanding our product offerings and enhancing the distribution network which will lead Stove Kraft to the next leg of growth and create long-term value for our stakeholders.

Now I'll discuss Q4 performance. The consolidated revenues for the quarter stood at INR278 crores versus INR261 crores in Q4 FY '22, registering a growth of 6.4% on a year-on-year basis, driven by 12% increase in volumes and a 6% drop in prices. EBITDA for Q4 FY'23 stood at INR5.9 crores versus INR15.5 crores in Q4 FY '22. Profit after tax for the quarter stood at a negative INR6 crores versus INR8.6 crores corresponding quarter.

Moving to FY '23 performance. The consolidated revenues for FY '23 stood at INR1,284 crores versus INR1,136 crores in FY '22. Registering a growth of 13% on a year-on-year basis, driven by 10% increase in volumes and 3% increase in prices. EBITDA stood at INR99 crores versus INR94.8 crores in FY'22. EBITDA margin reported was 7.7% as compared to 8.3% in the corresponding period. FY '23 profit after tax stood at INR35.8 crores versus INR56.2 crores in FY '22. PAT Margins for the FY '23 stood at 2.8%.

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

- Moderator:** Our first question comes from the line of Devansh Nigotia with SIMPL. Please go ahead.
- Devansh Nigotia:** Sir, in case of other expenses, if you look at our long-term average is around 12%, 13%. And this quarter has been around 17%. So which line item in your P&L has been significantly higher than what we normally guide.
- Rajendra Gandhi:** Balaji?
- Balaji A.S:** Yes. So, Devansh, if you see our expenses are primarily fixed. So on Q3 versus Q4, that is close to INR2 crores of increase, which was entirely on account of the business promotion spends that we had in Q4. Other than that, most of our expenses are fixed. Given that the pressure on demand meant that, the actual sales numbers for Q4 was much smaller than Q3.
- And that is why you are getting the expenses the proportion to sales is much wider than what it is. So it's not that the spends have actually increased significantly between Q3 and Q4, but rather than the quarter in terms of sales is much smaller.

**Devansh Nigotia:** But if I compare it last year, it was 12.5% in March '22 quarter and again this quarter is 17% as a percentage of sales. And I think half are fixed and half are variable. So the variable expenses should have come down because Q-o-Q sales are down at least, I think, 15%. But other expenses are actually up INR4 crores, at least 10%. So that variable part should actually drop, I think. But it is actually trended upwards. So I mean I'm not sure if...

**Balaji A.S:** If you look at our overall expenses profile in terms of what is variable versus fixed, I don't think we are 50-50 in terms of variable versus fixed. To an extent, the marketing expenses are variable, but that is more in terms of the planned revenues that we target. Because when you get into the third quarter and fourth quarter, all the spends are largely committed with the partners that we work with.

Freight which is one expenditure which is variable and it has remained variable per se. And to an extent the sales commission would be variable. Otherwise, most of the other expenses are primarily fixed and not necessarily directly correlated to sales. Between last year and this year, I think we had explained last Q4 of FY '22 was also affected with the COVID per se. So we were sort of smaller in terms of our expenses base itself.

So to give you a view between FY '22 and FY '23, we have spent an additional INR5 crores on marketing. Our travel expenses is more by about INR1.2 crores - INR1.3 crores. Freight if you know by additional by about INR2.5 crores, INR3 crores. And the sales commission per se is more by about INR1 crore.

But if you ask me the actual fixed cost base for us, it's close to what is -- what we've been seeing in Q3 and Q4 is more realistically close to our current base in terms of operations.

**Devansh Nigotia:** Okay. So our ad expenses are INR30 crores, INR33 crores in March '22? INR30 crores, INR34 crores -- ad expenses?

**Rajendra Gandhi:** You mean full year?

**Devansh Nigotia:** Yes. For March, for FY '23.

**Balaji A.S:** Yes, it's about INR34 crores.

**Devansh Nigotia:** Okay. And can you help us with the amount of provision for doubtful debts and provision for warranty?

**Rajendra Gandhi:** So provision for doubtful debts for the full year, we have taken at about INR4.25 crores.

**Devansh Nigotia:** Okay. Provision for warranty?

**Rajendra Gandhi:** So warranty includes -- warranty significant portion of what we see as flow into warranty is our actual warranties spent in terms of the service calls that we get into. Last year, it was about INR6.7 crores. This year, it's about INR9.6 crores for the full year.

- Devansh Nigotia:** Okay. And in case of, guidance for capex, why is it trended upwards. We used guide for INR60 crores, INR70 crores but you've spent almost, I think, INR95 crores. So what has led to this actual capex being higher than original guide?
- Rajendra Gandhi:** Capex is at INR75 crores. The additional INR20 crores is actually a cash outflow. That is an advance for the future, that is this current year. Those money they have been given as advance. The actual spend is that INR75 crores for the capex list.
- Devansh Nigotia:** Okay. And why are debtors credit days are between 15, 20 days this year? So is it mainly in general trend, because I think e-commerce is 30 days. So how the debtors are shaping up -- can you just throw some light?
- Rajendra Gandhi:** Most of our channels, we have moved to channel financing, but particularly the e-com companies are still on the credit days. We are working on that and our revenues, from Flipkart in the last quarter was, I mean, is what is impacting the receivables. So it is longer than 30 days for the Flipkart. And but we are also working on having a discounting platform for these customers .
- Devansh Nigotia:** Okay. And how was the mix -- channel mix FY '23 versus FY '22?
- Rajendra Gandhi:** For us the general trade is 42% because we grew substantially in the general trade last year. Modern retail is 10% now. E-commerce has come down to 30%. We have corporate sales at 5% and exports at 10%.
- Moderator:** We move on to our next question from the line of Lokesh Maru with Nippon India Mutual Fund.
- Lokesh Maru:** So my question is more on absorption of fixed cost. So given that we are in our growth phase, we are expanding our capacities and distribution reach, everything. For last 2 years, we have not been able to absorb the kind of fixed costs that we are incurring, right? So any change in strategy versus you saw last quarter of last year, Q4, the top line would be INR1,400 crores or so. we would have been able to absorb those costs and deliver the commitment of 11 percent ?
- Rajendra Gandhi:** Yes, we are very close to that. Definitely, ideally, we should have brought that this year. I can say that the third quarter and the fourth quarter revenues were not as planned as budgeted. Otherwise, we would have already got there. There is a little shortfall in the planned revenue. And with the strategies that we now have and the plants that we have set up and the new pipeline of products that we are launching, we believe that in the current year, we'll be able to bridge that threshold number where we can cover all the fixed costs.
- Lokesh Maru:** Okay. Sir, again, given that Q1 is again going to be seasonal, so to start with, how has the demand momentum mean for the month of April and May?
- Rajendra Gandhi:** Demand is tepid. It's not that it is very strong. But again, I want to repeat, we have a strong network -- distribution network, our brand is playing. We are able to grow over the previous year's quarters. But it is not as desired. The desire -- in the normal desired demand scenario, we'll be able to grow much higher.

Our CAGR for the last 5 years is at 19%. While last year, we grew at 13%. So if there would be normalized demand, we would be on the higher double digits, vs the lower double digits.

**Lokesh Maru:** So given during this tepid demand environment, again, sequentially, covering up or absorbing the fixed cost will be difficult. So are we trying to absorb the same via expanding our gross margins? Or does our gross margin stay put where they are? Or how do we plan to absorb these costs?

**Rajendra Gandhi:** We have improved our Gross margin by about 0.8%. And we believe that we'll be able to improve our gross margins even in the current year by not less than 1%. While the focus is also to improve on the gross margins, we are also cognizant of the factor on cost, considering the current scenario. So I think both these will enable us to get back to our aspired EBITDA margins maybe by the end of the first half.

**Moderator:** Our next question comes from the line of Pritesh Chheda with Lucky Investment Managers.

**Pritesh Chheda:** Sir, we are a large market share in -- by volume terms in lot many categories. And we have expanded or put up a large capex in the last 3 years now. Last 3 years combined is something like INR270 crores, INR280 crores of capex that we have put, which has correspondingly added on the manufacturing overheads .

What is the way that you're going to balance the margin assumption or margin expectation and the growth expectation from here on? Because what we have seen in the last 2 years is that the growth and the capex is unable to just absorb the cost that you have added. And we are a large market shareholder in any case by volume terms. So any thoughts on the strategy this side, sir?

**Rajendra Gandhi:** So all the 3, while we will want to continue to grow, there is absolutely no looking back at the growth. We are on a vision to be leaders in the category. Having said that, we are also cognizant of the margin front . These are -- I can say, favourable times. The material cost is also quite stable now with this and with the price hikes that we are taking , reasonable price hikes

So we believe that our gross margins will also go up now. Particularly, I can say that we can see significant growth in our gross margins before the end of the first half. As our revenue grows, the leverage will definitely help us to get to that aspired margin level, the EBITDA level.

**Pritesh Chheda:** Have you revisited your capex now?

**Rajendra Gandhi:** Yes. capex for this year, we believe -- what we ideally want to do is we want to not actually let go that, we'll defer it. So I can say the capex that was planned for this year we'll be doing between this year and the next year.

**Pritesh Chheda:** So what is that capex number, sir?

**Rajendra Gandhi:** We would guide you that, we would want to not spend more than 25% of our PAT along with the depreciation. Put together, that sum of the depreciation and 25% of our PAT is what we would not want to exceed on the capex going forward.

**Pritesh Chheda:** Sir, I understand that if you grow your top line, then the margin comes. But what has happened in the last 2 years that the cost increases because of the capex have been high. And you're saying now you will take price increase. But so are you now willing to flex your muscle a bit on the brand and the market share with the volume that you have?

**Rajendra Gandhi:** I can say still there is enough room for growth on the market share. We will continue to focus on our market share, that does not deter us from being confident about our position in the market.

**Pritesh Chheda:** Sir, what we have learnt is that when you have a 30% market share by volume, every incremental market share gain is a little bit costly affair. So would you try to balance the margin and growth?

**Rajendra Gandhi:** Yes. Definitely, without compromising on the growth, we are confident of increasing on our gross margins.

**Pritesh Chheda:** And by virtue of price hike?

**Rajendra Gandhi:** Obviously, I'm telling you at the initial, it's not after the variable costs. It is at the point of realization to the company. So the gross margin is where we will definitely focus to increase. So we're confident that -- from a 31.8% last year, we are confident that by the end of this first half, we should be at least 2% above that.

**Pritesh Chheda:** So then when we listen -- it's just a follow-up, let me finish it. So then, next time in the second half as your strategy, instead of a band of gross margin that you're always giving, which was, I think, 31% to 35%, if I'm not wrong, or 33% to 35%. Definitely, mid-way. That band will change on the higher side?

**RajendravGandhi:** So I can assure you is that with the working that we currently have, we believe we'll definitely reach the 50% price band. 31% to 35%, we would be not less than 33.5% is what I would say.

**Pritesh Chhedda :** So as a longer-term strategy, that band will change, right? Because...

**Gandhi:** If you keep looking at it, as see, when you get economies of scale, even in manufacturing, there is an advantage that you get. And obviously, that leads to lower cost. It does not mean that we lower our realization to that extent. And also the backward integration is also helping us to increase our margin, because with lower cost. Both these, while not all of it is retained, but majority of these there are retained, we are competitive enough now.

**Pritesh Chheda:** But sir, you mentioned that you're postponing your capex, right? So in a situation where, what assets you have put on ground, and we have to work with that. Price increases is the way to improve that band -- gross margin band, right?

**Rajendra Gandhi:** Yes. So I will tell you on the capex, there are a few large capex this year. We have requirement for a larger warehouse that is a work in progress. There is another large project for the Cast Iron cookware manufacturing plant and in other circumstances, had we done very well in FY '23. We would have used that money to invest on this. Given the current situation, while all that orders are placed, we will only defer it a little to the last quarter of this year and first quarter of next year.



- Moderator:** Our next question comes from the line of Khush Gosrani with InCred Asset Management.
- Khush Gosrani:** Sir, I wanted to understand, is there since we have a high revenue coming from e-com, is there any inventory provision that we have made this year? And what would be that amount?
- Rajendra Gandhi:** So it's not very high. But in normal course, provisions are created for slow moving / non moving materials. We have provided around 4.25 crores for ECL and 70lacs for materials this year
- Khush Gosrani:** Okay. Sure, sir. And sir, we are increasing our advertisement spend despite there has been a weak demand environment. So do you feel that the costs are justifying the spends because the sales growth is not flowing through as of now?
- Rajendra Gandhi:** So our advertisement spend not more than 3.5%. And we continue it to be in that range, but, for a few decimal point here and there. And we believe that being a consumer brand, we need to invest on our maybe these are temporary times when there are weak demand, but the demand is definitely going to come back.
- We are in a product category, which is actually consumable in nature, though it is consumer durable. We are very confident about the demand. And also, we keep introducing new products in the market, which also require a reasonable communication to our consumers. And we believe that we should continue to invest this 3.5% at the lower end on marketing spend.
- Khush Gosrani:** Okay. Sure. And sir, what capacity utilization we would be sitting on?
- Rajendra Gandhi:** So our business itself as, for every quarter is different. The first and the last quarters are little smaller quarters. And second and the third quarters are larger. We speak out during the second quarter, maybe the third quarter is very close to the peak. But the first and the last quarter, there is enough spare -- I mean, relatively spare capacity available.
- But since it is seasonal, we cannot have 100% utilization of our capacity. But it's not that during the peak, we have too much of spare capacity. That's where we are.
- Khush Gosrani:** Sure, sir. And sir, you just highlighted that gross margins were improved from your -- so how will it flow to EBITDA margins as well because A) you are guiding for a double-digit EBITDA margin, but the cost base does not seem to get absorbed and gross margins also not improving too much?
- Rajendra Gandhi:** So an increase in our top line directly flowthrough, -- these are kind of fixed costs. Currently, whatever is the cost level we are, but for a small increase, we believe that we will be at the same level. And even a 10% increase on our top line can give us a closer to 3% increment on EBITDA.
- Khush Gosrani:** Sure, sir. Sure. And if you could just last question, highlight categories or product-wise volume growth which you used to give till last year, which you are not giving this year. So, if you can...
- Rajendra Gandhi:** I can again repeat, it was in the -- on the Pressure Cooker, we have grown by 19.6%, in the Non-Stick Cookware, we have grown by 16.8%. In the Induction Cooktops segment, we have grown by 13.4%. The Gas Cooktops segment, we have grown only by 4.3% and the Small Appliances, overall, we have grown by 11.1%.

- Khush Gosrani:** And, sir, LED ?
- Rajendra Gandhi:** LED is a very -- we did a lot of channel correction in the last quarter. So we have grown for the year at 2.1%.
- Khush Gosrani:** And sir, what would be the in-house manufacturing versus traded mix?
- Rajendra Gandhi:** We are in the same range of 90%. 90% is manufactured and closer to 10% is what we trade .
- Moderator:** Our next question comes from the line of Harshil Shethia with AUM Fund Advisors.
- Harshil Shethia:** So with the current gross block that we have, what kind of turnover can we do at peak utilization?
- Rajendra Gandhi:** Yes. We are ready for a INR2,000 crores revenue.
- Harshil Shethia:** But sir, I guess, the INR2,000 crores revenue, which you said you also used to say that almost 2 years earlier also with the current capacity that you had, and at that time the gross block was around INR220-odd crores.
- Rajendra Gandhi:** There are 2 investments that we have been doing. Of course, we have added some lines to manufacture those products that we were importing. And also, a lot of that has gone to our backward integration to also mitigate the challenges of the supply chain, particularly for the, the components that we are importing.
- So it will not necessarily only increase in the revenue. It is also to ensure that we do not have a disruption in our manufacturing. Both, I can say there are some lines that we have added, which have moved from trading to manufacturing. So in the last 3 years, which you all have seen what used to be a 70% contribution to manufacturing has moved to a 90%.
- Harshil Shethia:** Okay. Sir, one more thing. You said that we have invested in backward integration in the last 2 years, but our gross margins have remained the same in spite of such kind of backward integration?
- Rajendra Gandhi:** You're right. In the particular period during COVID, we had a real low cost. It is not in line with what generally the costs are. And in that year, we definitely had a higher gross margin. But it's also because of our backward integration, which is helping us to be more competitive in the market. And that's why we are able to get back to that gross margin what was there during the COVID.
- Harshil Shethia:** Okay. Secondly, my thing is like you said that at our peak utilization, we can do around INR2,000 crores of top line, and currently with around INR1,250 crores of topline that we did in the last year. We are almost at 60% utilization, and we are hardly doing breakeven leverage in terms of EBITDA. Yes, because last quarter, we almost did 2% EBITDA margin.
- Rajendra Gandhi:** Last quarter is an exception, please don't evaluate based on only the last quarter. Last quarter was a challenging quarter. I can say the industry itself has witnessed very weak demand. I can say that the company was able to grow in this challenging point. And the first and the last quarter

do not really reflect the true revenues of the company. 60% of the revenues are coming from the second and the fourth quarter.

**Harshil Shethia:** Okay. But even though for breakeven levels also what I'm trying to understand, just by annualizing the figures of last quarter full year revenues also, which is at around INR1,100 crores, and also that's a 55% utilization, not 60%. So it's not a major change in terms of utilization levels, where we are just doing breakeven kind of margins.

**Rajendra Gandhi:** At the peak, we can also go to INR600 crores, not even INR500 crores with the capacities that we have. There are 2 things. One is the business that is planned for a revenue and sometimes what we deliver. Of course, today, there have been -- particularly the last quarter, the mismatch between the expected revenue number and actually what we delivered. But the capacities that we currently have, we can actually stretch it to INR600 crores, if I say at full.

**Harshil Shethia:** Okay. Sir, secondly, not going into the margins to be per se. You said that overall, the whole demand environment was tepid, and we almost grew at a high single-digit, double-digit number. What I want to understand is going ahead with almost like 30% market share, being a brand like Pigeon and having pan-India presence, why aren't we able to pass on the price hike in terms of raw material?

**Rajendra Gandhi:** We did not have any challenges on passing on the price or there was actually, I can say that there was no price hike during the particular last quarter. It is not linked to the passing on the price or the input cost. It is more to do with the market scenario, the demand purchase. And if there would have been a price hike in the input cost, obviously, we would also had pass it on those price increase to the market. It is not a theme where we are not able to pass on the input cost hike. It is a different scenario. It is a scenario where the market demand and the sentiments are little weaker.

**Moderator:** Our next question comes from the line of Achal Lohade with JM Financial.

**Achal Lohade:** Just taking forward the earlier participant's question. With respect to -- you said basically the March quarter was very weak. We couldn't absorb the cost and then some margin impact. Now what I'm trying to understand from you is that where the mismatch was? Was it really sudden? Was it gradually the weakness was setting in. And if it was to repeat -- how do we deal with that now?

**Rajendra Gandhi:** Okay. To give you some numbers, Achal, if we had done a revenue of INR350 crores, we would have definitely had another say, INR22 crores flowing to our EBITDA. And then, this whole stack of numbers would totally look different. And in a normalized situation, like you'd already know, that we are going upwards in spite of this given slow growth in the last quarter.

The last 5 years, we have grown at 19%. And we believe the company, the way the system is built, the team, the capacity, the brand, the dynamics of our distribution network, all these are built for that kind of growth. Of course, that's certain cost. To simply answer you, if we had even been closer to our planned number, we would have been in the range of the EBITDA that we expected. Whereas any incremental over the breakeven even if you do a INR10 crores number, at least say, not less than INR2.53 crores to INR3 crores flow to EBITDA.

**Achal Lohade:** Okay. No, where I was coming from is that you said basically the margins got impacted because the 3Q and 4Q was lower than our expectations. Our costs were budgeted with certain revenues in to our mind. Now what I'm trying to understand is where the negative surprise was from? Was it from -- was it from a particular category, particular geography? Was it overall sluggishness. How do we appreciate that? And yes.

**Rajendra Gandhi:** So to tell you the fact of the matter is we have grown in all channels and all products, but for the e-commerce channel. And I can say that the numbers did not back, because we did not grow on the e-commerce channel. And this is just last time. But I also want to assure you that we are seeing growth again in the e-commerce channel now.

For the last year, we are either flat or I can say, we degrew by about 2% on the e-commerce. That revenue difference of what the company grew at, if we'd also continued to grow on the e-commerce, our overall growth at the company level would have been in the range of 17%, 18%. The difference of about INR100 crores, INR150 crores would have straight away flown to -- I mean, 30% of this would have more or less flown to our EBITDA number.

**Achal Lohade:** Okay. So if I understand you correctly, it is the e-com where the negative surprise was, and that is not corrected. Have I understood?

**Rajendra Gandhi:** Yes. Yes. Perfect. Actually, we have grown well on the general trade. We have done very well on the modern trade. Our exports have also done well. We have grown by 38% in export, about 14% on modern trade and 17.1% on general trade.

We have exactly degrew by 1.9% on e-commerce. We are very positive over the e-commerce channel, but there were multiple reasons over the different quarters that we had in the e-commerce. There also, I think some consumer behaviour also was a factor that, they were shopping offline. Apart from the operational challenges in the beginning of the year that we had in e-commerce. But all that is a part, I can say that we are seeing, again, good growth on e-commerce.

**Achal Lohade:** When you say good growth, is it double digit? Can we assume that?

**Rajendra Gandhi:** Yes, we believe that any growth effort in the double digit is only good growth. Ideally, we should be in the higher double digit. But yes, we are seeing good growth. At this point of time, I can say that we are seeing good growth.

**Achal Lohade:** Right. And you also mentioned that -- just a clarification. This is an extension, let me just finish, please. This April and May was weak. So given that context, a, what is the revenue growth and margin guidance we wish to have for FY '24 as a whole? And b, if there was, again, a surprise on whatever reasons in terms of revenue growth, how do we ensure that we still touch the double-digit?

**Rajendra Gandhi:** Yes. So, I can say that for the AOP of this year, we have capped our expenditure very close to what we have incurred in the last year. And we are very confident of delivering a growth even, of course, as you rightly have analysed in the status, there is a slowdown kind of a situation currently, but we are still growing. It's not that we are not growing.

And we believe that with the onset of the festival season, the growth, I mean, the demand is going to be back. And with all that, if we normalize, historically, we have grown at about 19%. And even under the challenging period of last year, we've grown at 13%. So I think we would be anywhere between this and in a good time, it could also exceed that.

**Moderator:** Our next question is from the line of Anand Mundra with Soar Wealth.

**Anand Mundra:** Sir, what is our guidance for capex for FY '24 and '25 since you have split the amount?

**Rajendra Gandhi:** So ideally, Mundra ji, we would want to spend not more than 25% of our PAT on capex along with adding up the depreciation that we have for the particular year. So it depends on how the year translates, we already have a capex plan, but we would want to defer it to the last quarter and between the last and first quarter of next year. That is the plan now.

**Anand Mundra:** Because, sir, earlier, we were thinking of INR60 crores, INR70 crores. In the absolute amount since you have deferred it, I was -- can we assume that you are doing INR30 crores capex for FY '24?

**Rajendra Gandhi:** No, no. So to say, an ideal situation would have been capex of about INR55 crores, INR60 crores. But there is some capex is ongoing. And some which is already paid off. And I mean, the advance have been paid off. I'm telling a major portion of our capex for this year is to set up this foundry for our cast iron cookware, which is already planned, but we want to take this investment in the last -- or in the first quarter of next year.

**Anand Mundra:** Okay. And sir, since you have taken a prudent decision on delaying the capex given the slowdown, is there any way you can rethink about your retail store expansion plan also? Can we delay that also because there is no growth and it's increasing the expenses below EBITDA also?

**Rajendra Gandhi:** No, no. So I want to, again, guide you on this. We are committed to expand our retail, but we have formed a new strategy where we are also onboarding franchisees, which will substantially bring our cash outflow to expand the stores down.

The model is already in place, and we are also seeing good interest. So as the year progress, you'll see a lot of our big stores from the existing stores and the new stores being company-owned, but franchisee operated, which will free up the cash investment into the stores.

**Anand Mundra:** Sir, can we assume that we will not be doing any funding of any retail stores from our balance sheet then, for this financial year? Or there can be some mix?

**Rajendra Gandhi:** At the rate that we would want to build the stores, which is closer to 100 stores for this year. And in normalized capex will be in the range of INR15 lakhs to INR18 lakhs. But I would say it will not be zero. It could be very, very substantially lower than otherwise what it would be. It will not be zero.

**Anand Mundra:** Can you give us guidance in terms of number of stores, say, 100 stores, how much we would be funding from our own balance sheet?

**Rajendra Gandhi:** 7 to 8 stores per month is what we would want to do. That is a run rate we are now doing.

- Anand Mundra:** So that I understood, sir. So I'm saying out of the 7, 8 how much would be franchisee?
- Rajendra Gandhi:** In all these 100 stores, we believe will be funded by the franchisees. It is not limited to the new stores alone. So there will be the stores that are already performing well and we will also move these to franchisees.
- Anand Mundra:** Okay. Sir, one more thing on gross margin, as Pritesh was asking you, what is our guidance on gross margin for FY '24? So since we have done 31.8%.
- Rajendra Gandhi:** So on the gross margin, we already improved about 0.8% compared to the previous year in this year. We believe that in a normal situation, unless there is any volatility on the input cost, we would be we will be able to get in the range of 33.5%.
- Anand Mundra:** So it would be minimum 33%, sir?
- Sir, one last statement I wanted to make. So below EBITDA, also, there are a lot of costs now. Depreciation is very high. Interest cost has gone up because of retail lease expenses. So I would request you to also increase the PAT, because we need to have minimum -- for 20% ROE, we need to have 11% EBITDA, otherwise, the PAT goes into single digits, very low single digits.
- Rajendra Gandhi:** Let me tell you something, that we are cognizant of this EBITDA number. And -- but for this, of course, we are discussing during a time when we are underperformed in the quarter, but the company's cumulative strength to deliver that 11% EBITDA is very much intact.
- Moderator:** Our next question comes from the line of Paras Bothra with Ashika India Alpha Fund.
- Paras Bothra:** So this is with regard to what you said that there has been a slowdown. So I wanted to understand what is it that is leading to the slowdown for the industry person and for you as well? And more particularly on the e-commerce side, when you say that this has been a real drag for us.
- So what is happening in the e-commerce space? Is it that the competitors are taking your place? Or what is it that is driving, if it is industry-wide phenomena as far as e-commerce is concerned. And why you are so confident that next season, things will pick up? So this is one question.
- Rajendra Gandhi:** Let me guide you to one thing, but we continue to lead in both the e-commerce platforms. The platform itself have business change in the base that was set during the COVID times, probably the base was high. And the way they were doing business, there was large sellers on the platform, which have moved out and the new ones are coming. So there was an operational issue in the beginning of the year, but it also set aside.
- And the consumer behaviour had impacted to a certain extent. But I can tell you that in the recent times, we have seen that the e-commerce channels are also performing as to earlier levels -- or growing at an earlier level. So we believe that the e-commerce business is again on the same trajectory of growth that we were witnessing in the earlier years.
- On the demand side, I can tell you that particularly during the festival season, there is always a good demand for the kind of products that we have. Starting the second quarter, all this festival seasons are kicking in starting from the South. So we believe the growth will be back to normal.

- Paras Bothra:** Okay. Got your point. Second is with regard to other expense. So when you say that you will cap your expense to what it was last year, say, for FY '23. So how do we look at it? Is it going to be as a percentage of sales that it will be capped? And what has been the reason or the components of it that the expenses have gone up, other expenses by 22%, whereas the top line was at 13%?
- Rajendra Gandhi:** You're right. So if you will see the number, we are closer to INR310 crores . So, if you'll, see for our expense, it also includes the manpower cost. We are at about INR310 crores of expense in the previous year. And we have added enough people to cater to all the demand that we envisage. So more or less, it is there. But for, say INR10 crores, INR15 crores, additional spend for this year, this is not going to exceed that number. There is a combined spend on both on the manpower and other expenses.
- Paras Bothra:** Okay. So last question from my side. And this is a basic question I wanted to just have a clarification on. With regard to the Pigeon brand, is it with -- Stove Kraft or how is it? It was registered with Stove Kraft, right?
- Rajendra Gandhi:** Ofcourse, it was registered, it has remained with Stove Kraft.
- Paras Bothra:** Okay, perfect. So that's all from my side.
- Moderator:** Our next question comes from Rusmik Oza with 9 Rays EquiResearch.
- Rusmik Oza:** Sir our strategy has been, you know, that we are backward integrated and manufacturing has been a forte and we sell on markup and very competitive in terms of pricing. So I just want to understand, as compared to FY '23, what kind of price realization increase you're looking at in FY '24, which could give a little leg up to the EBITDA margin?
- Rajendra Gandhi:** I can say that we are working towards increasing our gross margin by not less than 1% over the base of last year.
- Rusmik Oza:** Okay. So because in the morning in one of the TV channels, you had given some guidance of 11% EBITDA margin.
- Rajendra Gandhi:** The company has all the capability and they're strong enough to deliver this 11%, we believe with what all that we have already put in all the efforts to build a strong team, the manufacturing facility and the brand strength, we are confident that by the end of the first half, we should be able to be back there.
- Rusmik Oza:** Okay. Okay. So is it fair to assume that we have 7.7% EBITDA margin in FY '23 and its sort of go to 11%, you will need to increase the 330 bps out of which 100 bps will come from gross margin and around 230 bps will come from -- maybe because of static fixed cost, something like that?
- Rajendra Gandhi:** Yes, more or less, that should be the correct understanding.
- Rusmik Oza:** And sir, you have some targets of taking the exports to around 20% of revenue in the next 2 to 3 years. So just wanted to understand the path, is it just exports go from 10% to 20% in next 2

to 3 years. Does it impact the EBITDA margin positively, negatively or indirectly? Are the margins in the exports better off or better than the domestic business?

**Rajendra Gandhi:** At the EBITDA, both domestic and export margins are neutral, and at the gross margins and the export margins are lower. We have grown last year at 38%. We believe that, of course, last year was also good, but we still continue to see good demand from our export markets. So to answer your question, the EBITDA margins, it's neutral. Maybe 0.5%, 1% this way or that way, but EBITDA margins, both the businesses are at par.

**Rusmik Oza:** Sir, last question sir, for FY '24 to '25, '26 any guidance you are trying to give on the ROE or the ROCE, what kind of internal benchmark you have for return ratios for the next 2 to 3 years?

**Rajendra Gandhi:** We will get back to our ROCE, that in the past we were; we were closer to 18%, 20%. So we'll get back to the 20% This is what I can assure you at this point of time.

**Moderator:** Our next question comes from Arijit Malakar with Ashika Stock Broking Limited.

**Arijit Malakar:** My question is, sir, what gives you the confidence that demand scenario will improve and we will be able to clock high teen growth in FY '24? And my second question is what strategies actually we are taking to improve the margins going ahead?

**Rajendra Gandhi:** On the margin side, we have already taken -- see, it is, all our margins are linked to cost. We have consciously ensured that we achieve at least say 33.5% gross margin. And we have delivered about 32.5% -- 32.8% gross margin last year. So we are confident of the increase in the gross margin. What's the second question? You are asking for the gross margins and about the demand scenario.

**Arijit Malakar:** And the demand scenario. What gives you the confidence? And you mentioned demand scenario will improve...

**Rajendra Gandhi:** It's not that always that the markets are sluggish. And the category that we operate are actually having high replenishment; and we are actually addressing TG, which is particularly in the North Country, a lot of them are going to the affordable segment.

And we are the first brand of choice for them. This growth that we have witnessed in the last year, about 13% of growth is under very, very challenging circumstances. It's not that every time the markets are going to remain same. In a normal situation, normal scenario our growth rates, as I again want to reiterate that we have been growing historically in the last 5 years at a CAGR of 19%.

So we believe that we are actually the business that we have built and the company that, I mean, with all those capabilities that have, it can easily deliver that historic growth rate in a normal situation. And the 13% was delivered under very, very, I can say, weak demand scenario.

**Moderator:** Our next question comes from the line of Khush Gosrani with InCred Asset Management.

**Khush Gosrani:** A) I wanted to understand what would be the channel wise gross margins. Because as you highlighted, there was a negative surprise for e-com and hence, it has led to lower sales and



lower margins. So if you could just highlight what are the margins in the channel-wise state? How it has moved...

**Rajendra Gandhi:** I would want to assure you that, other than the export business, all the Pigeon brand, whether it is channel or products or margin agnostic, I can tell you the margins are the same, whether it is whichever channel that we operate or whichever products, see, at the mean number, they are all the same for us.

At the point of realization, net of all, what we call schemes or discounts that we provide to these various channels, the net realization, most of all are at the same number.

**Khush Gosrani:** Okay. And sir, if -- as you have highlighted, 54 retail stores were opened. So if you could highlight what kind of revenues they have generated and what kind of profitability levels we are at right now?

**Rajendra Gandhi:** The gross margin for these stores are in the range of 45% to 48%. And our cost to run any store is in the range of INR1.25 lakhs to INR3 lakhs. And on an average, these stores are delivering upwards of, INR4 lakhs a month. So, I can say that while the number of 54, this month, current month and just guide you to, we are able to get to a INR2.5 crores revenue. It's not 54. This 54 number was the end of the quarter. Subsequently, we added stores. We are at the rate of adding 7- 8 stores a month.

I'll tell you the other advantage with our stores. The 69% of the customers that visited the Pigeon stores are first time buyers of Pigeon stores. These are absolutely new to this brand. Then we also experienced that wherever our Pigeon stores are there -- and the regions where the Pigeon stores are there, our GT has starting performing better than in the past.

**Khush Gosrani:** I agree with the strategy, I just wanted to understand...

**Rajendra Gandhi:** We at the corporate level also, we are now making profits on our retail, but store level, even at INR4 lakhs, we make good profit.

**Khush Gosrani:** So in how much time does do these stores get profitable? Because initially, they will be impacting the margin.

**Rajendra Gandhi:** After the 2 months, first 2 months of operation, then all the stores that we have so far opened, they have been profitable after the 3<sup>rd</sup> month.

**Moderator:** Our next question comes from Akash Jain with Money curves.

**Akash Jain:** Yes. Thank you, sir. I think the message from all investors in this call has been quite consistent. I understand that the market is tepid beyond the point you have limited control over how demand will play out and our structure given the fact that it's very high fixed in nature, will always struggle on margins and on ROE, in environment where demand is not very strong.

And I think over the last 2 years, unfortunately the timing of additional cost in capex has been such, that we have run into a lower demand scenario -- in a time when we have actually put on a lot of cost in capex, unfortunately, from a timing perspective.

So the only thing I want to say, sir, is there a market? Even if you don't grow too much as compared to your competitors, but you are able to protect margins to some extent. I think that probably will play out better for us as investors. And in categories where our market share is already quite high, like in Pressure Cooker, etcetera. I don't see any reason why you should be at 25% discount to the market leader.

And I think at the category-wise level, some price hike is warranted as an investor and as someone who uses Pigeon product, I can tell you that is the product which is very good. I don't see any reason why I should be a 25% discount to the market leader.

In categories where we are not going to clock too much of additional market share. I don't see any reason why we should not take the chance of trying to increase pricing &, see what happens. Because even if you are not growing at 7% or 6% and growing at 2%, but we are able to protect our margins better. My sense is that we play out much better.

So my only request for you is, in a tepid demand scenario, it is not necessarily that we try and increase too much because it's anyway is not going to happen, because the tailwind is -- the headwind is there on demand. So let us also look at margins because if whatever scenario, if it grew a little bit, but it comes at the cost of ROE and margins, it's probably not something that investors and shareholders appreciate a lot. So I think that's the limited feedback.

I think that feedback is probably consistent from all investors. I thought that I'll just say my point to you because the margin is very important. So if you don't have margins and ROE, after 7%, 10% growth, it does not really help too much, because we have to protect margins and ROEs.

**Rajendra Gandhi:** First of all, thank you for the evaluation and observation on the quality. Point fully taken in whatever you have suggested.

**Moderator:** Our next question comes from Harshil Shethia with AUM Fund Advisors.

**Harshil Shethia:** One more last question. So what kind of price hikes are we taking in the first quarter to reach gross margins of 33%, 33.5%?

**Rajendra Gandhi:** So to say, I'll tell you while there would have been a higher price increase, we also, in the beginning of the year, offered some schemes to our general trade. So particularly in the GT, it's not that we recover all the price hikes that we take.

I can say that we have taken good price hikes in this current year. Again with the way that we believe that we are very confident of increasing our gross margin at least to a level of 33.5%.

**Moderator:** Thank you. Ladies and gentlemen, in the interest of time, that was the last question. I would now like to hand the conference over to Mr. Rajendra Gandhi for closing comments.

**Rajendra Gandhi:** First of all, I would like to thank each one of you for having the interest and confidence in the company and having spent your time to understand about the company and the challenging circumstances, the company could deliver good growth.



*Stove Kraft Limited*  
*May 30, 2023*

Of course, we have let down on the EBITDA and PAT numbers. But we would want to assure all our analysts here and the investor fraternity on the whole, the company is on a very strong footing, putting up high-growth and we'll be able to deliver the aspired EBITDA and the margin numbers in the coming quarters. Thank you for the patience today.

**Moderator:**

Thank you. On behalf of Stove Kraft Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.