



August 08, 2022

To,

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

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

Dear Sir/Madam,

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

Pursuant to Regulation 30 (6) of SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, please find enclosed the Transcript of Earnings Call held on August 04, 2022.

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

Kindly take the same on the record.

Thanking you,
For Stove Kraft Limited

Elangovan S.
Company Secretary



Stove Kraft Limited

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“Stovekraft Limited
Q1 FY 23 Earnings Conference Call”

August 04, 2022



MANAGEMENT:

**MR. RAJENDRA GANDHI - MANAGING DIRECTOR,
STOVEKRAFT LIMITED**

MR. RAJIV MEHTA - CEO, STOVEKRAFT LIMITED

MR. BALAJI AS - CFO, STOVEKRAFT LIMITED



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Moderator:

Ladies and gentlemen, good day and welcome to the Stovekraft Limited Q1 FY23 Earnings Conference Call. This call may contain some of the forward-looking statements, which are completely based on our beliefs, opinions and expectations, as of today. These statements are not a guarantee of our future performance and involves unforeseen risks and uncertainties.

As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rajendra Gandhi, MD. Thank you and over to you, sir.

Rajendra Gandhi:

Thank you. Good afternoon, everyone. I hope that all of you and your families are safe and healthy. On behalf of Stovekraft Limited, I extend a very warm welcome to all participants on the Q1 FY23 financial results discussion call. Today on the call, I'm joined by Mr. Rajiv Mehta, our CEO; Mr. Balaji AS, our CFO; and Orient Capital, who are our Investor Relations Advisor. We have uploaded our investor deck and earnings press release on the stock exchanges and the company's website. I hope, everybody had an opportunity to go through them.

In Q1 of this financial year, we have seen a good growth of 28% year on year in top line despite a slow start. Ours is a seasonal business with the first and the last quarter being smaller than the second and the third quarters. During the current quarter, we took a price hike of between 3% to 4% across product categories. The raw material prices are no longer as volatile as they were last year. We are hoping that they will continue to be at reasonable levels for us to be able to improve our margins without any further price hikes for the festive season.

We still maintain our annual guidance on EBITDA margins, which is to protect the 11%. As you would have seen by our recent filing that we have forayed into physical retail, and I am pleased to announce that we have opened our first company owned and company operated retail store for the Pigeon brand in Frazer Town, Bangalore. Since then, the company has opened four additional stores in Bangalore, taking the total count to five stores. The stores will offer the entire range of products, including cookware, cooktops, small appliances, and the LED products sold under the Pigeon brand. It is an important milestone in the growth journey of Stovekraft, and will make us more accessible to the consumers. Over the next 12 to 18 months, we expect the total store count to be around 40 stores spread across the state of Karnataka.

Now I will discuss the Q1 performance. The consolidated revenue stood at INR 275.1 crore versus INR 214.2 crore in Q1 FY22 registering a growth of 28% on the year-to-year basis. EBITDA for Q1 FY23 stood at INR 22.4 crore versus INR 22.5 crore in FY 22. The EBITDA margins reported was 8.1% as compared to 10.5% in the corresponding quarter last year. Profit After Tax for the quarter stood at INR 8.1 crore versus INR 13.5 crore in the current corresponding quarter last year. PAT margins for the current quarter the Q1 FY23 stood at 2.9%.

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

Moderator:

The first question is from the line of Praveen Sahay from Edelweiss Wealth. Please go ahead.

Praveen Sahay:

So, the first questions are related to the gross margin. As you had already mentioned that 3% to 4% of the price hikes you had taken and there is a no further price hike you will take with the stabilization and raw material prices. So, do you believe this from this current level the current quarter, somewhere around 33% of gross margin to improve from here, go back to FY21 level?

Rajendra Gandhi:

So, if the current trend continues and if the prices continue to be as soft as they are or further correct on this, obviously this will contribute to additional gross margins. They already have



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seen an improvement in the first quarter. It's not that at the beginning of the quarter all this softening had happened, they've been gradually happening. So, we believe of course if the price continue -- the input costs continue to be at the levels that they are or if they go further down, there could be definitely improvement.

- Praveen Sahay:** The second question is about the channel mix, sales channel mix, like how much is in e-commerce versus offline contribution this quarter? And what your sales for an entire year? And is there any margin differential between these two channels?
- Rajiv Mehta:** On your last question, we are actually - our margins are same across channels. We price our products on a cost plus basis like we had maintained. So, for us terms of contribution e-commerce for the Q1 FY23 stand at around 25%. General trade and modern retail put together is close to 50%, 20% is exports. And then, the rest of 5%, 6% are the other brands like Gilma and Black Decker.
- Moderator:** The next question is from the line of Vidith Trivedi from ULJK Financial Services. Please go ahead.
- Vidith Trivedi:** My first question is, could you please give us a guidance on the top line for the coming years? And second thing is that the employee benefit expenses are not even for the year, at some quarters its 9% of the revenue at some quarter its 11%, some quarter its 8%.
- Rajiv Mehta:** So, in terms of demand, I think we see that demand is back. We are expecting the year to have a good double digit growth for us as a company.
- Vidith Trivedi:** Any specific guidance on that like any number on that?
- Rajiv Mehta:** We'll be doing slightly better than the industry average. And in terms of your second question was on employee expenses, right?
- Vidith Trivedi:** Yes, exactly.
- Rajiv Mehta:** So, you should look at it on an annualized basis, because we have all our employees, as a Stovekraft as a family, they are all part and we don't have a single employee who's on contract as a result of which our employee count, employee expenses are more or less even across all quarters. So, depending on the revenue in the quarter, the percentages fluctuate, if that is what you were referring to.
- Moderator:** The next question is from the line of Deepak Lalwani from Unifi Capital. Please go ahead.
- Deepak Lalwani:** Sir, I missed your comments on the channel mix, so if you could give?
- Rajiv Mehta:** So, on Q1 FY23, e-commerce was about 25%, general trade was about 38%, modern retail was about 10%, export was about 20%.
- Moderator:** And the next in line is Mr. Ashish Urganlawar from InvesQ Investment Advisors Private Limited. Please go ahead, sir.
- Ashish Urganlawar:** Sir, wanted to understand, I mean, directionally how we are looking at things because on one side, we just had very hyperinflation, then we had some channel issues probably on the e-commerce side also. And we have certain new ventures also adding to the cost plus the retail expansion you're talking about. So, how confident are you on the 11% EBITDA margin? And how does the top line look like in terms of growth because there will be lot of price increase related top line contribution till I think Q1. So, going forward, if the prices that you get adjusted what kind of top line growth on a YoY basis are we looking at? So, if some qualitative plus quantitative answers can be given, it will help us.
- Rajiv Mehta:** Sure, Ashish. So, Ashish, like we said demand is back, we are seeing that the markets have opened up. All channels for us are doing reasonably well. We can confidently say that we



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will do double digit growth for this FY, and double digit is like I said a little better than the industry average.

- Ashish Uppanlawar:** So, that will be what 10%, 12% growth or is it going to be higher than that?
- Rajendra Gandhi:** That's asking specific number. Of course, the business has its own intricacies but currently you would have already gone through our numbers for the last quarter, we have grown at 28%. So, we don't want to say that we will grow at the minimum at the number that we have grown but we are seeing similar kind of growth. So, we believe that we will be double digit growth so it could be anything between 15% to 20%, if you want a specific number like that. And if all those initiatives that we've already initiated all start contributing obviously, the growth rate can be higher.
- Ashish Uppanlawar:** Sir, what is the price related contribution this 28% growth that we have this quarter?
- Rajiv Mehta:** For all the 28 times, 17% is volume and 13% roughly is because of the price on YoY basis.
- Ashish Uppanlawar:** And regarding the cost, I mean they have increased on at least on a quarter on quarter basis, I can see that there's a decent inflation on the cost, especially in employee one. So, any specific reasons for that?
- Rajendra Gandhi:** Yes, we have actually increased all our production capacities to meet the business plan for this year. And for us the employee costs more or less is the same for every quarter. So, there is a increase both in the number count and of course there is inflation when increase in what we price our employees. And little more detail I think, Balaji, can give you little more numbers that will give you insight.
- Balaji AS:** Ashish, on the employees cost, you see Q4 we had the cost above INR 248 million and in the last quarter's call it was explained that that was also impacted by a annualized reversal of excess provisions, that we had to the extent of over INR 25 million. So, when you adjust that, the adjusted number for Q4 would have been INR 273 million. From there, given that our operating cycles was in April, we've had a average 8% increment on the top line as part of the briefing up for the season in Q2 our labor count had gone up where there was an additional cost of about INR 15 million and the rest INR 4 million, INR 5 million is other recruitments across the company per se, so that was INR 314 million that you're seeing.
- Ashish Uppanlawar:** And despite the increases for the full year we are confident 11% EBITDA should be there?
- Balaji AS:** Yes, so there again, what I want to highlight is that if you see, like we've been stressing upon in terms of that top line seasonality's Q1 and Q4 are typically only about 20%. So, our topline and the margins for Q1 on an annualized basis is only 20%. So, which means that that's a 5x number that we're looking at what the full years story. As far as the fixed costs are concerned, what you see in Q1 would largely remain. Of course, in the larger quarters, it'll be slightly higher, but it's not going to again, go in proportion to the sales. So certainly for the year we stick to our guidance of 11% EBITDA.
- Moderator:** The next question is from the line of Deepak Lalwani from Unifi Capital. Please go ahead.
- Deepak Lalwani:** Sir, on the export order book, if you could give that number?
- Rajendra Gandhi:** Yes, so there was a pending order that we are executing in the first quarter. So we are closer to; we have executed almost 50 crore in the first quarter. And we continue to have good orders. Definitely we foresee good growth this year over the last year on the export. If you want to know what is the pending orders, I can say in this quarter we have about 40 crore of pending orders that we are executing.
- Deepak Lalwani:** So on an annualized basis, it would be 160 crore, right, pending orders?



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- Rajendra Gandhi:** No, it does not work exactly like that. So, of course we have manufacturing capacities. And these are limited capacities. It's not that we have to also have to cater to -- if there is a very high growth in the domestic market, not necessarily particularly that Q2 and Q3, there's a lot of demand from the domestic trade itself. So, I cannot say that that could be the exact number but there will be a very good growth from what we did last.
- Deepak Lalwani:** Right, sir. Got it. And so, on our margin since the raw material basket has corrected quite a bit, are we setting on any high cost inventory from before which might be liquidated in the next two quarters?
- Rajendra Gandhi:** So there is two types of inventory that we carry, raw material and finished goods. On an average the company always will have between within 55 to 60 days of inventory. So, we continue to have the inventory. But this price corrections are both ways it keeps happening. If the real impact of both either the price hike or the price if goes down, I can say its is a lag of two months, that you can see.
- Deepak Lalwani:** So, that way the gross margin will still be defended at 33%, 34%?
- Rajendra Gandhi:** We hope if the price, don't go up, if there is again no change in the trend that currently we are seeing then definitely the current margins are sustainable there could be improvement.
- Deepak Lalwani:** And sir, what explains the negative numbers in the other income and what is the size of the ESOP cost in this quarter?
- Balaji AS:** On the other income side, the negative numbers that you're seeing is largely on the Forex restatement emanating from a mark to market valuation that we have done for the forward covers that we have taken. So, looking at the way the rupee has been moving against the dollar, we have taken some long term forwards. So, these forwards are not necessarily you know, due to expire they say in immediate quarter. These are anywhere between six to 12 months range forwards that we have been taking, but however on the 30th June we are supposed to mark them to the market rates and given where the rates were as on 30th June against the forward dates that we have taken, there is an mark to market loss of roughly 11 million that is sitting inside the other income and plus the regular Forex retracement on the payable side that you've had that is what you're seeing as the negative number on the other income side. What was the other question, sir?
- Deepak Lalwani:** And the ESOP cost in this quarter?
- Balaji AS:** It'll be roughly about 2.7 million.
- Deepak Lalwani:** And sir, for the forward contract, like what are these forward foreign exchange contract for?
- Rajendra Gandhi:** So, it is based on our receivables, we have sold the dollars, progressively, whenever we were seeing that the dollar was something we have progressively sold these dollars, but as on 30th June want the deeper tune dollar was higher than at the price that we are sold. Maybe today it is corrected, but we have then corrected, I mean provided for the difference, that is accounting standards required.
- So, the net exposure that we have, whether it is net of imports and exports, then either we hike the dollar or we sell the dollar. So based on that, we'll have to account for this. So, maybe it is -- if the dollar again, -- if the rupee become stronger then we will have a positive of this quarter.
- Deepak Lalwani:** Right, sir. As a general policy, what percentage of our receivables, do we usually hedge from..
- Rajendra Gandhi:** We will hedge only, the net of -- see there are two types of imports we have either its the dollar import or it's a CNY. So, CNY we separately hedge and the net of the dollar because



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we are a positive export around dollar, in terms of dollars, we hedge -- I mean we sell the dollar.

Deepak Lalwani:

So, we completely hedge the receivables?

Rajendra Gandhi:

Yes, for the next quarter. At least in this case, it is a little longer than the quarter because they were seeing the dollar appreciating a lot so, it's little more than a quarter otherwise we generally have pending orders for six months, about six months and minus the likely import where we require the currency to pay this dollar, I mean imports, the net of that hedge.

Deepak Lalwani:

Sure, understood. And sir, lastly on your provisions which we have taken in this quarter, is it largely done with for the large retail account we used to cater to?

Balaji AS:

Yes, so as far as the provisions relating to the large retailer that you're referring to is by 31st March itself we had provided 100%, you will see 7.5 million provision that you have created in the current quarter, this is more from the standard model of the expected credit loss which we keep providing that is -- so you will see that whenever, as the sales increases and my receivables increases, there will be a small provision that we create because the model requires us to provide for receivables right from the first day of the billing even before the credit period is due. So that's how the model works. So, these are small numbers that we're providing more as a matter of prudence and whatever that is relating to that larger retail that is all provided 100% by 31st March itself.

Moderator:

The next question is from the line of Harshil Shethia from AUM Funds Advisors LLP. Please go ahead.

Harshil Shethia:

Sir, how do you see the demand ramping up in the e-com channel for us?

Rajiv Mehta:

For e-com demand is back to normal. This is the part of the festive season. We expect that the second quarter should catch up for the whatever shortfall we saw in the first quarter. We have had good discussions with both the platforms and we hope to recover whatever we did short in the first quarter.

Harshil Shethia:

And going ahead with our whole exclusive brand outlets that we are planning so what module will all the models be COCO model or we will go for franchisee auditions also?

Rajiv Mehta:

So, in the immediate basis we see that we would like to first establish the model ourselves. We want to do COCO stores and like we mentioned we will open 40 COCO stores in and around Bangalore in Karnataka and once we are proven the models, we are open to discussing with partners but as of now we believe that we want to COCO stores.

Harshil Shethia:

And you know with the acquisitions that we did last year with SKAVA, how are we ramping up the acquisition?

Rajiv Mehta:

For both SKAVA, SKAVA has been well integrated, that thing is now part of the StoveKraft team. And you should see it is going to have the same front end as the LED, it will have the same channel, we believe that it will complement the current led sales. And as part of that from Q2 you should see some traction in SKAVA.

Harshil Shethia:

As of now, are we seeing any meaningful number from SKAVA or is it very initial?

Rajiv Mehta:

No, no, its very initial. We have just started manufacturing; you should see something from Q2.

Moderator:

The next question is from the line of Saurabh Surendra Shah from AUM Fund Advisors. Please go ahead.

Saurabh Surendra:

Question for Mr. Gandhi, you know, as the acquisitions have been, you know, kind of invested in last year and also in terms of, now you're investing in the workforce, so that your



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full plans, your salaries are being done that slightly ahead of the output coming in over the next year, maybe not FY23 or before FY24, do you see a slightly higher growth rate at all? How much should we go for once you see better levels of utilization, both for expansions and the acquisition?

Rajendra Gandhi: So the overall business that we plan is for a long term growth is not that for the short term immediate plans, of course, the business the existing business takes care of the current books, all the investments that we have done, whether it is in our manufacturing or the channels that we are expanding, or the acquisitions, I can tell all of these are for the long term for the three to five years and you will start seeing results in August.

Saurabh Surendra: So from next year onwards -- just to get a sense, maybe not FY20 programs, slightly fuller level of utilization, what kind of top lines should we expect from your current investments?

Rajendra Gandhi: Its a continuous activity, its not that the whole investment plan is over. We keep on investing for the near future. So, the current -- all the investments that we have already done now can take us to INR 2,000 crore, but then it is not that we have stopped this, there is continuous activity on extending our capacities or on adding new lines.

Saurabh Surendra: Right. And then just linked to that once you know you have fuller utilization of what you have, say invested just now and you know for the moment not considering what you'd invest further, what kind of normalized margin level should be see. I know you've been guiding 11% in the last two quarters. But given that now you're slightly over the investment phase and next few years, we should see more utilization versus investment. How much kind of margin should we sustainably expect?

Rajendra Gandhi: Actually, the way you should understand this is, we have always been guiding that we will protect post that heavy, what you call, disruption that happened in the previous quarters. We have been guiding that we will protect this 11% margin, its not that we have guided the margin will be 11%. Our business we want to protect at a 31% gross margin and so, that it will live with 11% EBITDA margin, annualized. This is what we want to protect. Of course, as the top line grows, and if the costs remain constant, then definitely the margins will be better than this what we want to protect. What we want to assure you that we will do all that that is required to protect this margin.

Saurabh Surendra: So, last question. Any other areas you're looking to add now, given that you've made a fair amount of additions in the last one year in terms of your mindset of what portfolio, the company should have. Are there any other major pieces missing now or you think now you are okay and you know, it should be more of a volume growth from here on?

Rajendra Gandhi: So we keep -- like I said there are -- see as a strategy, there are categories of products that we are in either we innovate on them and add a range or we add some categories of products, which we currently are maybe trading or too, and whenever we believe there is enough scale and size in the country then we want to get to leadership in that category. So, then we keep investing on the manufacturing.

So currently, of course we are focused on all the categories that currently we are already on but there are a line of innovations that have been lined up and you will see products being rolled out in every quarter. So, but completely diversified lines, we don't have any plans for diversification at the moment, we don't have anything like the SKAVA or the modular kitchens that we have done in the recent past, but within our categories there is a lot of innovation that we are working on.

Moderator: The next question is on the line of Arpit Agarwal from Electrum Capital. Please go ahead.

Arpit Agarwal: I have a couple of questions. First is, if you can explain us on the rise of other expenses, I think they look to have increased on both quarter on quarter and year on year, so is there any one off or is there any specific reason why the other expenses have gone up? Because you know we've improved the gross margin but the EBITDA seems to remain same year on year



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and even after improving top line EBITDA is lower quarter on quarter, if you can explain on the other expenses, please?

Rajiv Mehta:

So, if you look at year on year, last year in the same time there was a lockdown as a result of which our billing to e-commerce was much higher and large part of the billing was in the south, because of which the freight cost last year was lower, similarly, travel cost was practically lower, zero, people were not traveling as much. Related to that, again, service costs were lower and because factories are also not working fully, maintenance cost was lower. So that is largely due to the last year and another chain was that last year in the same quarter, export number was lower and freight for export is slightly higher, in our case compared to domestic.

As a result to which, all of this came from INR 270 million to about INR 367 million. And the last part was that the sales commission itself was higher because of exports. Similarly, if you look at Q1, Q4 FY22 to Q1, travel cost is now back by about INR 1.2 crore. We had savings from reversal of provisions in March 22, which is another INR 2 crore. And then of course like I said export proportion. So, all of this added so INR 32.5 crore went up to INR 36.7 crore. That is on the fixed expense.

Arpit Agarwal:

So, that is something so, for our purposes this would be provided by run rate roughly, right, obviously and percentage that?

Rajiv Mehta:

Correct. It would be the run rate, for fixed expenses, this is the typical run rate.

Arpit Agarwal:

Another question from my side. So, like as a company, we have always mentioned that we have focused on manufacturing in house, and we've been increasing the manufacturing which obviously lowers our asset term, because we have done a lot of CapEx on the capacities. My question is why it should not get reflected in slightly better gross margins than your competitor, because your other fixed costs are higher, otherwise your OC will always be lower than the competitors. So, if you can just give me a broader understanding of what is the thought process, how eventually the leverage will play out because of your own manufacturing?

Rajiv Mehta:

So, I can only say that the volume will justify for all this, the revenue growth will justify for this and the ROCE will also in our opinion will be as good as what in past it has been. You should not look at our numbers in isolation with the first quarter because all these capacities and the fixed cost the way manufacturing works, the costs are kind of fixed, but the business is seasonal and like Balaji said, the first quarter and the last quarter, are only 40% of the business. The majority of the business happened in the second and third quarter. When you overall -- I mean -- and we are not in the business of maximizing the margins, we want to protect our current position where we are and we will want to excite the target customers that we are addressing too.

So we would still want to protect our 31%, it does not mean that we are -- our business is done on 31%. There are vagaries in this business there sometimes the margins can move either ways. To protect that 31% obviously, your margin levels have to be a little higher than the 31% and if there are any advantages that are coming out of this manufacturing capability or any other initiatives that we do, we pass on to the consumer and that's we would want to have a higher market share, rather than on the higher margin, which we believe if we protect this 31% is a reasonably good margin to get to the right ROCE.

Arpit Agarwal:

So that would mean that your top line growth will be much higher than the industry...

Rajiv Mehta:

We believe that definitely we have been growing at higher than the industry and we will continue to work higher than the industry.

Arpit Agarwal:

Correct. And sir, just last question on the stores, so, you have started going on your own Cocoa store as you mentioned some comments with the earlier participants. So, what kind of spends or do you plan to have about 40 stores in next 12, 18 months? What kind of spend will be there on those stores because on the both CapEx and inventory side?



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- Rajiv Mehta:** So of course, it carries our inventory and the CapEx I tell you, the investment on each store is between INR 15 lakhs to INR 20 lakhs, otherwise inventories all, I mean it's moving very fast. So, it's not very, very large.
- Arpit Agarwal:** So, it's not large?
- Rajiv Mehta:** No.
- Moderator:** The next question is from the line of Kunal Shah from Carnelian Capital. Please go ahead.
- Manoj:** So just a couple of questions. As you mentioned in response to the question of last participant, that the current level of other expenses, as well as the fixed expenses have come back to the normalized level and this quarter like despite of you making around 33% kind of gross margin, your EBITDA margin is at 8%. Now, if you have to means deliver a yearly average of 11% kind of margin, I think your top line growth has to be significantly higher. And in terms of run rate for remaining three quarter, it has to be significantly higher top line growth if the gross profit margin remains at this level. So just wanted to understand, like with this kind of expenses and gross margins, if you can help me a walk through, from 8% to 11% kind of margin, which you would -- as a company, which you would like to protect while focusing on the top line growth. So, if you can give some insights into that?
- Rajendra Gandhi:** So, we believe that our overall expenses for the company is in the range of 20% for the AOP that we have a plan for. And see the difference -- the moment there is a growth from this 275, even INR 50 crore growth from here will bring us to that 11%. So, when I say 32% of the 50% would add to the bottom line or the EBITDA.
- Rajiv Mehta:** So, Manoj, just a simple math, like we said Q1 is equal to 20%. So, if you take the gross profit of 91 and multiply it by 5, that will give you about 455 and you take the fixed expenses, which is about 68. Let's take 75 as the fixed expenses and multiply it by 4. So, even if you come to 300, that will give you an EBITDA of 155 and you do a 275 times 5, so you will get 1,375. And if you do divide you will get 11.2.
- Manoj:** No, that is helpful, Mr. Mehta. So, the other thing I wanted to understand, like last couple of quarters, say if I see the kind of impact which we had on our margins and if I compare that with vis-à-vis your peers, larger peers who are there in the similar industry, they didn't have this kind of shock where means when they were also dealing with this kind of commodity volatility, means is there something, which has gone wrong specifically, with us like where our competition was not that much impacted in terms of the margin shock vis-a-vis?
- Rajiv Mehta:** For us there are three events. One, I can tell you is the combination of all these three. We had a larger write off compared to the revenue that we have, that we have to take on one of the retailer. The second thing was the inventory holding. Supposing you are holding inventory for a longer time than this volatility also relatively will vary from when it will impact. And the third most important thing is, we still took a price hike in the first quarter. I think there was a little lag in the -- we were expecting the prices to stabilize in the third quarter, I mean the fourth quarter, but we had to further take a price hike in the first quarter. So, this three, I mean majorly, if you will see, I you will add all these three, we had an exceptional INR 5 crore to INR 6 crore only for providing for the remaining portion of the unit.
- One was about INR 5 crore; we wrote off all the inventory that we are holding from the COVID. So, all this actually contributed to a lower margin.
- Manoj:** It was the write-off of receivables or inventory, Mr. Gandhi.
- Rajendra Gandhi:** Yes. We have provided for 100% of the inventory of COVID, which was about approximately INR 5 crore.
- Manoj:** Inventory. So, I could not understand like in a rising price scenario why there is a provision on inventory?



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- Rajendra Gandhi:** So, there was some certain inventory that we procured and we have both RM and FG. This was related to the COVID sales, COVID products., like thermometers, and we believe that we may not be able to realize all of that in the near future. So, we have provided for 100% of that inventory.
- Manoj:** Okay. So that was like, just a one-time thing, which has happened, which has impacted your margins. Right?
- Rajendra Gandhi:** Yes.
- Manoj:** One more question I have, if you can help me understand like your broader strategy in going through means going to your own stores and now spending and managing those stores. So, if you can help me understand on that and like in two, three years scenario whether you will be having this Pan India stores or you will be having your stores in particular regions, how you are going to expand this?
- Rajendra Gandhi:** See we are a Pan India brand only because we are closer to the place where we operate from, is where, we want to learn. So, the initial phase is that we would want to set up these stores closer to the place that we are so that we learn from any of these experiences. And obviously, then the rollout will be much faster and we would definitely want to reach out across the country ASAP. On being COCO, without doing this COCO we believe that the learning will be limited. So, of course the initial stores, all the stores that we have initially planned, we want to do, company-owned company operated, then obviously we will evaluate all the possibilities and also explore all. I mean, the other formats of the branch stores.
- Moderator** Next question is from the line of Rahul Ranade from GSM.
- Rahul Ranade:** Just one question. Most of them answered. Just on this company-owned company-operated stores that we are talking about. So, what kind of products will be kind of sold. Will it be the higher end of even within the Pigeon brand that will be sold through the stores that we own or what product offering will be there?
- Rajiv Mehta:** So, this entire range of Pigeon products what we make, whether it is with the lower end or the premium end of course as we progress we would also want to have some exclusive range to be sold to this exclusive stores but today it is regular range for the entire product same that we manufacture and sell it through our various channels, is also the advantages that we are able to -- the customer is that we access all these products in one place at one store.
- Rahul Ranade:** And just to understand pricing, how would it work versus if you sell the same product online versus in your store and there would be a difference. Right? How would that be kind of looked at?
- Rajiv Mehta:** We continuously work to manage the channel conflict. I think to a major extent, we have been very successful as a brand to manage all the, I mean the channel conflicts. So, we try to bring uniformity in many of the channels, it includes the retail channel that we are building, it will have similarity across for the consumer, the acquisition cost for the consumer, whether he buy from a modern retail, e-commerce, general trade, or these stores, it will all be the same.
- Rahul Ranade:** But just for a conceptual understanding, would this exercise be more of a brand awareness exercise or let's say in the medium term, are you looking at driving,.
- Rajiv Mehta:** It is to address that channel we did not have this channel in our distribution -- in the business channel, just to address this channel, and, of course, this also adds to the brand building exercise, but it is not limited to only the brand building, it is also a business for us and the initial insights are its quite profitable.
- Moderator:** Next question is from the line of Ashish Uppanlawar from InvesQ Investment Advisors Private Limited.



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- Ashish Uppanlawar:** So, continuing on this COCO format. If we are going at that. So, what is the kind of top line contribution targeted from this our existing try to right now and as you said, the profitability kind of view having that so, is it a model where you're still experimenting thing or you have decided that we'll kind of go in this reasonably higher numbers?
- Rajendra Gandhi:** So, while both are correct, it's not that we have firmed up on everything but we have a plan on which we are setting up these stores. And we believe that there could be some learning but it is panning out the way we have worked on these stores. And so, it depends on the size of the store and location. So, the variables are the rentals and the people cost. If it's a very large store, we'll have more people and of course, the rentals will be higher, if it is in a very prime place, the rentals will be higher and it will demand for higher revenue. So, the initial insights I said it's very short time is closer to a month that we would have started our first store and maybe one or two weeks when we have started the remaining stores. So, the initial insights are when we do our math, it is quite profitable.
- Ashish Uppanlawar:** So actually, it won't be a burden on the overall P&L, that's what..
- Rajendra Gandhi:** Under the CapEx there is no harm, on the P&L it will be a positive.
- Ashish Uppanlawar:** Okay. So, the economics will be maintained that the company has worked to, whatever the company has right now?
- Rajendra Gandhi:** Yes.
- Ashish Uppanlawar:** Okay. Secondly, I wanted to understand, given the guidance on the top line that you check INR 1300 crore plus you might be able to do this. So, an 11% EBITDA margin would take us to maybe INR 150 odd crore of EBITDA and we are going to be full-tax this year. So, is it right assumption to make that we might be around INR 75 crore, INR 80 crore of net profit this year as we did in FY21, that's the math that I'm thinking, right now?
- Rajendra Gandhi:** So historically, our first quarter has been 20% of the annual year and the demand side, so far has been as normal, every year we see for the second quarter, we are seeing very good demand from all the channels. So, if everything goes as normal as it is of course all those assumptions fall in place. And with that, of course with an EBITDA of INR 150 crore we'll have all the -- I mean we are almost at full tax regime, I can say, all the tax set off that was there is already over last year.
- Ashish Uppanlawar:** So, roughly, the numbers are correct INR 75 crore, INR 80 crore of PAT that comes with INR 150 crore of other tax.
- Rajendra Gandhi:** Yes, that's around that it is.
- Ashish Uppanlawar:** And sir, any qualitative comments on different channels, how we are seeing the traction in exports and domestic distribution, in e-commerce, something on that side, just to understand the qualitative aspects of the growth?
- Rajendra Gandhi:** We have seen very high growth in the first quarter in our GT because also the -- again, in the Q1 last year we had some in the general trade and modern trade stores were closed and all that but we have seen very high growth in the general trade, they are all little set back on the e-commerce side because they were also correcting their inventories and that. And we had higher growth in the export business. If you want more detail, I can tell Rajiv.
- Rajiv Mehta:** So, e-commerce was about 24% contribution on the sales side, general trade was 38% modern retail was 10% and export was 20%.
- Ashish Uppanlawar:** And the growth numbers will be?
- Rajiv Mehta:** Growth numbers if you see, compared to last year, the general trade grew by 70%, e-commerce had a de growth of about 20%, because last year general trade was off, and e-



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commerce was on. So, while e-commerce as a channel de grew, we maintained and gained market share in most of our categories. Exports grew by about 40% and modern retail grew by about 100%.

- Ashish Uppanlawar:** Okay. And the e-commerce, is the aspires it to mostly the phenomenon of COVID type of -- and this is not something, which is due to the disturbance of the time, so that's sorted right now?
- Rajiv Mehta:** Yes. That has nothing to do.
- Moderator:** Next question is from the line of Praveen Sahay from Edelweiss Wealth.
- Praveen Sahay:** Thank you for the follow-up question. So, related to the channel your inventory for the e-channel is also on the similar line or is there a difference like e-commerce general trade, modern, how's that?
- Rajiv Mehta:** Inventory for us, typically, if you look like Mr. Gandhi said that inventory for us in the channel you're talking or you are talking about at the company level?
- Praveen Sahay:** At the company level, like e-commerce, do you have a higher inventory level or?
- Rajiv Mehta:** No, nothing like that. We have about 30 days of inventory and 30 days of FG and 30 days of RN typically anywhere between 50 to 60 days of inventory we have.
- Praveen Sahay:** And that's a whatever the mix in the channel, it's a similar?
- Rajiv Mehta:** Yes. Yes, it doesn't vary too much.
- Praveen Sahay:** Okay. And the second question related to the inventory write-off for how much is the amount for the COVID product, you said our inventory write-off?
- Rajiv Mehta:** That INR 5.5 crore for Q4 FY22, nothing in Q1 FY23.
- Praveen Sahay:** Okay. And like earlier year also we had seen related to some other issue, but there is an inventory write-off. So, I can understand about the COVID product, but the earlier year also there is a write-off of inventories, why write off?
- Rajiv Mehta:** No. There was no write-off of inventory earlier, if you are referring to receivable provision for a large retailer that was only in Q1, Q2, Q3, Q4 of FY22, every quarter, we took provisions but inventory write-off was only due to the COVID related products in Q4 of FY22.
- Praveen Sahay:** Nothing in FY21?
- Rajiv Mehta:** No.
- Moderator:** Next question is from the line of Kunal Shah from Carnelian Capital.
- Manoj:** This is Manoj here. So, Mr. Mehta, as you explained that this quarter 1 is only 20% of your revenue, so you've to multiply revenue by 5 and then that will give you a 11%, but I'm sure that even in your expenses especially other expenses, some portion even in the employee expenses, like as your sales grew, some portion of those expenses also will be variable. Like you mentioned, freight costs coming back, traveling costs coming back, all that is variable, so will it be proper to do that math like just multiplying all expenses below GP by 4 and taking everything fixed? So, just wanted to get some more color on that our journey from 8% to 11%. If we consider some of that expenses as variable, whether we'll be able to achieve that level or not?



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- Rajiv Mehta:** So, the variable expenses are freight and marketing, both are roughly 3%, between 2.5% and 3.5% depending on. And of course, this math was a rough calculation. I think we are fairly confident running the business that we will protect our 11%. And as we go along the different quarters, you will see that.
- Moderator:** Thank you. As there are no further questions, we have reached the end of question-and-answer session. I would now like to hand the conference over to Mr. Rajendra Gandhi, for closing comments.
- Rajendra Gandhi:** Thank you, everyone for patiently listening to us. And we hope that we are able to answer to all of your queries. But if you have any queries, you can always reach us out, or to our investor relations team at Orient Capital. Thank you.
- Moderator:** Thank you. On behalf of Oriental capital, that concludes this conference. Thank you for joining us. You may now disconnect your lines.