

Q3FY23 Result Highlights

- **Revenue declined 20.1% QoQ to ₹3.25bn** – Stove Kraft Ltd (SKL) witness sales growth of ~9% YoY but declined 20.1% QoQ to Rs3.25bn in Q3FY23 with volume in excess of 15%. Growth was led by non-stick cookware and small appliances, which grew by 34% and 16% YoY respectively. Induction Cooktop/ Pressure cookers grew by 2%/ 1% YoY while Gas Cooktop and LED revenues fell 5%/ 6% YoY. Gross margin expanded by 180bps YoY to 33.5% (+100bps QoQ) as some of the cost reduction and back integration benefits were retained while most of it was passed on to the customers. EBITDA grew by 37% YoY to ₹254.4mn. Margin expanded by 161bps YoY to 7.8%. However, PBT growth moderated to 1% YoY to ₹102mn impacted by ~49%/ 35% YoY increase in depreciation/ interest cost to ₹83.3mn/ ₹40mn respectively while other income turned negative ₹29mn on forex losses (forex loss of ₹39mn). PAT fell ~30% YoY to ₹78mn on higher tax incidence YoY (+23.4% vs. -10.6%).
- **EBITDA margin likely to be at 11% in coming years as per the management** – Demand environment remains soft (especially after the festive season) on weak consumer sentiment due to inflationary environment. In order to stimulate demand, SKL offered schemes/ discounts (e.g., Combo offers), which enabled it to register 15%+ volume growth. However, with demand continuing to be soft, SKL is expected to miss its 11% EBITDA margin guidance for FY23. Notwithstanding this FY23 miss, the management has reiterated their guidance of maintaining at least 11% margin in the coming years (earlier guidance of 11-13%), which we believe is a tall ask given the significant employee cost ramp-up (+22% 3-year CAGR vs. +17% revenue) and initiatives on backward integration, distribution expansion/category expansion and brand building.
- **Opens 12 new COCO retail stores in Q3FY23** – SKL opened another 12 new COCO stores (in Bengaluru) in Q3FY23, taking the total store count to 31 stores as on 31st Dec'22 and remains on track to open 40 stores by Mar'23. Each store is currently doing monthly run rate of ₹10-12mn in revenue. As per the management, each new store is breaking even within 2 months of opening.
- **SKL continues to strengthen its offline presence and has added over 15,367 retail outlets in Q3FY23**, taking the total count to 121,000+ retail outlets. **Channel-wise revenue contribution:** General Trade: 45%, Modern Trade 10-12%, E-Com 28-30%; Exports 10%.
- New organisational structure to include Chief Revenue Officer, Chief Growth Officer, Chief Operating Office and Chief Human Resource officer. This is in addition to Chief Financial Officer. The company has identified the location for its Bengaluru City office from where the sales/marketing and corporate finance team will operate.
- Of the cumulative provisions appearing in the balance sheet worth ₹270-280mn (₹250mn booked in FY22), ~₹140-150mn pertains to Future Retail. Employee cost to be steady at these levels. To incur capex of ₹700-750mn in FY23 and ₹500-600mn in FY24.

Important Statistics

| | |
|------------------------|------------|
| MCAP (₹ bn) | 14.8 |
| 52 Week H/L (₹) | 901/436 |
| NSE Code | STOVEKRAFT |
| BSE Code | 543260 |

| Shareholding Pattern | Dec'22 (%) |
|-----------------------------|-------------------|
| Promoters | 56.2 |
| DIIs | 9.7 |
| FIIIs | 5.5 |
| Public | 28.7 |

Financials

| Particulars | ₹ mn | | | |
|--------------------------|---------|--------|-------|--------|
| | FY19 | FY20 | FY21 | FY22 |
| Revenue | 6,409 | 6,699 | 8,584 | 11,342 |
| EBITDA | 298 | 338 | 1,132 | 927 |
| EBITDA Margin (%) | 4.7 | 5.0 | 13.2 | 8.2 |
| Net Profit | 6 | 32 | 812 | 562 |
| EPS (₹) | 0.3 | 1.3 | 24.9 | 17.1 |
| P/E (x) | 2,345.2 | 468.9 | 18.3 | 26.4 |
| EV/EBITDA (x) | 59.5 | 54.3 | 13.5 | 17.8 |
| P/BV (x) | (23.7) | (24.6) | 4.9 | 4.1 |
| RoE (%) | (1.0) | (5.3) | 26.8 | 15.4 |
| RoCE (%) | 4.1 | 4.5 | 17.3 | 10.0 |

| Particulars | FY23E | FY24E | FY25E |
|--------------------------|--------|--------|--------|
| Revenue | 13,008 | 15,168 | 17,432 |
| EBITDA | 1,108 | 1,337 | 1,689 |
| EBITDA Margin (%) | 8.5 | 8.8 | 9.7 |
| Net Profit | 478 | 694 | 933 |
| EPS (₹) | 14.5 | 21.1 | 28.4 |
| P/E (x) | 31.0 | 21.4 | 15.9 |
| EV/EBITDA (x) | 13.7 | 10.8 | 8.6 |
| P/BV (x) | 3.7 | 3.2 | 2.9 |
| RoE (%) | 11.6 | 15.4 | 18.6 |
| RoCE (%) | 8.8 | 9.7 | 11.3 |

Source: Company, Way2Wealth

View

For SKL, Q3FY23 revenue grew by 9% YoY best among peers with volume growth in excess of 15%, as per the management. Notwithstanding the near-term miss, the management downgraded its guidance of maintaining margins at least 11% in the coming years from earlier guidance of 11-13%, which we believe is a tall ask given the significant employee cost ramp-up and initiatives on backward integration, distribution expansion and brand building. Go forward lower than expected margin is likely to be a key risk. Hence, we continue to view it as an **ACCUMULATE** stock trading at **P/E 15.9x** **FY25E EPS** of **₹28.4**.

07th February 2023

CMP – ₹451/-

 View – **ACCUMULATE**
FINANCIAL PERFORMANCE

| (₹ mn) | | | | | | | | |
|---------------------------|----------------|----------------|---------------|----------------|---------------|-----------------|----------------|---------------|
| Particulars | Q3FY23 | Q3FY22 | YoY (%) | Q2FY23 | QoQ (%) | 9MFY23 | 9MFY22 | YoY (%) |
| Operating Revenues | 3,245.3 | 2,979.8 | 8.9 | 4,062.0 | (20.1) | 10,057.9 | 8,750.3 | 14.9 |
| Cost of Matl | 2,000.3 | 2,066.5 | (3.2) | 2,151.8 | (7.0) | 5,850.4 | 5,531.8 | 5.8 |
| Stock Purchases | 223.1 | 398.9 | (44.1) | 513.8 | (56.6) | 965.0 | 907.7 | 6.3 |
| Inventory Changes | (64.2) | (429.1) | 85.0 | 77.8 | (182.5) | (67.5) | (534.6) | 87.4 |
| Gross Margin (%) | 33.5 | 31.7 | 180 | 32.5 | 100 | 32.9 | 32.5 | 39 |
| Employee Exps | 387.6 | 334.8 | 15.8 | 361.8 | 7.2 | 1,064.0 | 875.8 | 21.5 |
| Other Exps | 444.0 | 423.2 | 4.9 | 496.5 | (10.6) | 1,315.0 | 1,176.4 | 11.8 |
| EBITDA | 254.4 | 185.5 | 37.2 | 460.4 | (44.7) | 931.1 | 793.2 | 17.4 |
| EBITDA Margin (%) | 7.8 | 6.2 | 161 | 11.3 | (349) | 9.3 | 9.1 | 19 |
| Other Income | (29.3) | 0.6 | (5,434.5) | (8.4) | 251.0 | (52.3) | 6.3 | (935.9) |
| Depreciation | 83.3 | 56.1 | 48.6 | 73.1 | 14.1 | 222.6 | 145.1 | 53.4 |
| Interest Cost | 40.0 | 29.6 | 35.2 | 34.2 | 16.7 | 103.7 | 98.0 | 5.9 |
| PBT | 101.8 | 100.4 | 1.4 | 344.8 | (70.5) | 552.5 | 556.4 | (0.7) |
| Tax | 23.9 | (10.7) | (324.1) | 85.8 | (72.2) | 134.7 | 80.8 | 66.8 |
| Net Profit | 77.9 | 111.1 | (29.8) | 259.0 | (69.9) | 417.7 | 475.6 | (12.2) |
| EPS (₹) | 2.4 | 3.4 | | 7.9 | | 12.7 | 14.5 | |

Source: Company, Way2Wealth

SEGMENTAL PERFORMANCE - REVENUE BREAKUP (%)

| Revenue Breakup | Q3FY23 | Q3FY22 | 9MFY23 | 9MFY22 | Q2FY23 | Q1FY23 |
|--------------------------------|--------|--------|--------|--------|--------|--------|
| Nonstick Cookware | 15.1 | 12.3 | 20.9 | 17.1 | 19.0 | 23.1 |
| Mixer/ Small Appliances | 33.5 | 31.5 | 29.6 | 30.3 | 29.7 | 24.1 |
| Pressure Cookers | 23.1 | 24.8 | 21.7 | 24.4 | 25.4 | 21.5 |
| LED | 6.5 | 7.5 | 6.5 | 6.7 | 5.9 | 7.5 |
| Induction Cook top | 13.7 | 14.6 | 12.1 | 10.9 | 10.5 | 13.4 |
| Gas Cooktop | 8.1 | 9.3 | 9.2 | 10.6 | 9.5 | 10.4 |

Source: Company, Way2Wealth

FINANCIALS & VALUATIONS

(₹ mn)

| Particulars | FY18 | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|--------------------------|----------------|----------------|---------------|--------------|---------------|---------------|---------------|---------------|
| Revenue | 5,290 | 6,409 | 6,699 | 8,584 | 11,342 | 13,008 | 15,168 | 17,432 |
| EBITDA | 100 | 298 | 338 | 1,132 | 927 | 1,108 | 1,337 | 1,689 |
| EBITDA Margin (%) | 1.9 | 4.7 | 5.0 | 13.2 | 8.2 | 8.5 | 8.8 | 9.7 |
| Net Profit | (127) | 6 | 32 | 812 | 562 | 478 | 694 | 933 |
| EPS (₹) | (3.9) | 0.2 | 1.0 | 24.7 | 17.1 | 14.5 | 21.1 | 28.4 |
| RoE (%) | (164.5) | 3,318.0 | 663.4 | 25.8 | 37.3 | 30.9 | 21.3 | 15.8 |
| RoCE (%) | 251.5 | 80.2 | 72.5 | 18.9 | 24.5 | 13.7 | 10.8 | 8.6 |
| P/E (x) | (116.3) | 2,345.2 | 468.9 | 18.3 | 26.4 | 31.0 | 21.4 | 15.9 |
| EV/EBITDA (x) | 189.8 | 59.5 | 54.3 | 13.5 | 17.8 | 13.7 | 10.8 | 8.6 |
| P/BV (x) | (8.3) | (23.7) | (24.6) | 4.9 | 4.1 | 3.7 | 3.2 | 2.9 |
| Net D/E (x) | (2.3) | (4.7) | (5.9) | 0.1 | 0.5 | 0.1 | 0.0 | 0.0 |
| Cash Balances | 38 | 315 | 194 | 373 | 121 | 78 | 359 | 417 |
| Debtors Days | 48 | 49 | 56 | 36 | 31 | 31 | 30 | 30 |
| Inventory Days | 76 | 70 | 64 | 66 | 70 | 68 | 66 | 65 |
| Payables Days | 86 | 80 | 82 | 77 | 72 | 72 | 76 | 73 |

Source: Company, Way2Wealth

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Disclosure of Interest Statement Stove Kraft Ltd. as on 07th February 2023

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| Name of the Security | Stove Kraft Ltd. |
| Name of the analyst | Jayakanth Kasthuri |
| Analysts' ownership of any stock related to the information contained | |
| Financial Interest | |
| Analyst : | No |
| Analyst's Relative : Yes / No | No |
| Analyst's Associate/Firm : Yes/No | No |
| Conflict of Interest | No |
| Receipt of Compensation | No |
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