

**Q2FY24 Result Highlights**

- **Revenue declined 6.4% YoY (+27.4% QoQ) due to rural demand slowdown and inflationary pressures** – Stove Kraft Ltd (SKL) witness sales decline of 6.4% YoY (+27.4% QoQ) to ₹3.79bn in Q2FY24 as there was a sharp decline in Pressure Cooker (down 15.3% YoY), LED (down 36.6% YoY) and Gas Cooktops (down 21.3% YoY). Demand from rural areas were under stress due to uneven rains and inflationary pressures. Furthermore, value decline by ~4-5% led to compression of topline. The company passed on input price softening benefits to consumers and took price cuts of ~4-5% in Q2FY24. Sales from new categories like OTG, Air Fryers, etc. witnessed strong growth (albeit on a small base). As per the management, there was sales impact of ₹500mn due to the deferment in the festive season. While gross margin expanded by 297bps YoY due to softer input costs and a better product mix, higher staff costs and operating expenses led to EBITDA margin contraction of 67bps YoY (+ 239bps QoQ) to 10.4%. PAT declined 36.2% YoY and grew 141.3% QoQ to ₹165.3mn.
- **Channel sales mix Q2FY24** – The management highlighted that E-Commerce, OEM Exports, Institutional, Exclusive Retails Stores and Modern Retail witnessed healthy growth. GT/MT/Institutional/Ecommerce/Export/Retail channel mix stood at 33-34%/12%/3%/33.5%/14%/2.4% at the end of Q2FY24.
- The company introduced Stainless Steel Bottles, Kettles, Nutri Mixer 900 and Electric Rice Cookers. The management expects new product launches to drive growth. It also expects appliances to grow faster than other categories because of a low base. Traditional mixer grinder is undergoing a portfolio revamp. Air Fryers category witnessed strong growth. Air Fryers currently contribute 6% to sales. The company is currently building more capacities to cater to Air Fryer demand.
- The company has commissioned a new plant in 1HFY24. It will manufacture Electric Rice Cookers (capacity -2.4mn/yr), Air Fryer (capacity -1.2mn/yr), Stainless Steel Cooker (capacity -1.2mn/yr), Kettle & Bottle (capacity - 4.5mn/yr) and Iron Plant (capacity – 15mn/yr) It has also commenced its warehouse facility, which will take care of warehousing needs for the next three years
- The management stated that the company has been incurring capex for setting up manufacturing facilities for backward integration (capex for FY24 is pegged at ~₹750mn). This has aided gross margin expansion (+297bps YoY). Gross margin is expected to remain at ~36% going forward.
- As per the management, Q2FY24 saw a decline in both topline and margins as festive sales shifted to Q3FY24. Since the festive quarter is the main driver of overall annual growth targets, any miss in the same shall remain a key monitorable. In addition, broader slowdown in demand for Kitchen Appliances also poses a risk.
- The company has hired staff across various levels for its new manufacturing facilities. Going forward, staff cost is expected to remain elevated at ~12% of topline (FY23 avg was ~10.5%).
- **The Company plans to add 7-8 stores per month going forward.** SKL added 29 stores in South India under the COCO model, taking the store count to 106 at the end of Sept'23. The management highlighted that COCO

**Important Statistics**

<b>Nifty</b>	19,380
<b>Sensex</b>	64,741
<b>MCAP (₹ bn)</b>	16.7
<b>52 Week H/L (₹)</b>	659/354
<b>NSE Code</b>	STOVEKRAFT
<b>BSE Code</b>	543260
<b>Bloomberg Code</b>	STOVEKRA:IN

<b>Shareholding Pattern Sep'23 (%)</b>	
<b>Promoters</b>	55.9
<b>DIIs</b>	2.4
<b>FIIIs</b>	0.5
<b>Public</b>	41.2

**FINANCIALS**

Particulars	₹mn		
	FY20	FY21	FY22
<b>Revenue</b>	6,699	8,584	11,342
<b>EBITDA</b>	338	1,132	927
<b>EBITDA Margin (%)</b>	5.0	13.2	8.2
<b>Net Profit</b>	32	812	562
<b>EPS (₹)</b>	1.3	24.9	17.1
<b>P/E (x)</b>	527.1	20.5	29.6
<b>EV/EBITDA (x)</b>	59.8	15.1	19.8
<b>P/BV (x)</b>	(27.5)	5.5	4.6
<b>RoE (%)</b>	(5.3)	26.8	15.4
<b>RoCE (%)</b>	4.5	17.3	10.0

Particulars	₹mn		
	FY23P	FY24E	FY25E
<b>Revenue</b>	12,796	14,264	16,734
<b>EBITDA</b>	948	1,398	1,741
<b>EBITDA Margin (%)</b>	7.4	9.8	10.4
<b>Net Profit</b>	358	628	872
<b>EPS (₹)</b>	10.8	19.0	26.4
<b>P/E (x)</b>	46.6	26.5	19.1
<b>EV/EBITDA (x)</b>	19.4	12.0	9.8
<b>P/BV (x)</b>	4.1	3.6	3.0
<b>RoE (%)</b>	8.9	14.2	16.8
<b>RoCE (%)</b>	7.0	13.3	15.1

Source: Company, Way2Wealth

**Relative Performance**

Return (%)	1 Yr	3Yr	5 Yr
<b>SKL</b>	<b>(20.7)</b>	<b>NA</b>	<b>NA</b>
<b>Nifty 50</b>	7.5	53.4	81.4
<b>Sensex</b>	6.8	49.6	82.6

Source: Company, Way2Wealth Research

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10<sup>th</sup> November 2023

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 View – **ACCUMULATE**

stores have achieved operational breakeven at revenue run-rate of ₹300k/month. At the current revenue run-rate of ₹400k/month, contribution margin is ~₹15k/month the stores turn profitable after the 3rd month of operation. The cost to run any store is ~₹125,000-300,000. Normalised capex is ~₹1.5-1.8mn per store. The management expects to reach revenue run-rate of ₹500k-600k/month going forward.

- The management plans to take the COCO model pan-India over the next few years. It has started on-boarding franchisees and expects to take 10 COCO stores under the franchise model in FY24.
- Exports are expected to grow by +20% and the management expects exports to contribute ~20% to sales over the next few years. Currently focusing on building the retail network in the US.
- The management is planning to increase GILMA store count gradually (from 68 currently). It highlighted that Black & Decker sales were impacted by supply chain issues. It is also planning to manufacture Black & Decker products and is currently in discussion with Black & Decker design engineers for the same. The management expects Black & Decker and Gilma to contribute ~10% to overall sales (from 5% currently).
- The management expects topline growth of 10-12% in the current demand environment. It highlighted that growth can revert to historic levels (~18-20%) if demand rebounds. Gross margin/EBITDA margin likely to reach 35%/+11% for FY24.

## VIEW

For SKL, Q2FY24 was impacted due to uneven rains and inflation pressures resulting in muted demand. Sales from new categories like OTG, Air Fryers, etc. witnessed strong growth (albeit on a small base). While gross margin expanded YoY due to softer input costs and a better product mix, higher staff costs and operating expenses led to EBITDA margin contraction. The company expects the current festive season should bring in new demand with new appliances to grow from a lower base. The new manufacturing plant and warehousing facility augers well from the next 2-3 yrs demand. Focus on building new retail networks in USA will contribute to the topline going forward. Hence, we continue to view it as an **ACCUMULATE** stock trading at **P/E 19.1x** **FY25E EPS** of **₹26.4**.

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 View – **ACCUMULATE**
**FINANCIAL PERFORMANCE**

(₹ mn)								
Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	1HFY24	1HFY23	YoY (%)
<b>Operating Revenues</b>	<b>3,794.3</b>	<b>4,051.6</b>	<b>(6.4)</b>	<b>2,977.5</b>	<b>27.4</b>	<b>6,785.2</b>	<b>6,783.6</b>	<b>0.0</b>
Cost of Matl	2,276.4	2,151.8	5.8	1,826.9	24.6	4,103.2	3,850.1	6.6
Stock Purchases	192.7	513.8	(62.5)	266.6	(27.7)	459.3	741.9	(38.1)
Inventory Changes	(12.6)	77.8	(116.2)	(215.2)	(94.2)	(227.7)	(3.3)	6,863.9
<b>Gross Margin (%)</b>	<b>35.3</b>	<b>32.3</b>	<b>297</b>	<b>36.9</b>	<b>(166)</b>	<b>36.1</b>	<b>32.4</b>	<b>376</b>
Employee Exps	412.6	361.8	14.1	389.4	6.0	802.0	676.4	18.6
Other Exps	529.0	496.5	6.6	470.1	12.5	999.1	871.0	14.7
<b>EBITDA</b>	<b>396.1</b>	<b>450.0</b>	<b>(12.0)</b>	<b>239.7</b>	<b>65.3</b>	<b>649.3</b>	<b>647.6</b>	<b>0.3</b>
<b>EBITDA Margin (%)</b>	<b>10.4</b>	<b>11.1</b>	<b>(67)</b>	<b>8.0</b>	<b>239</b>	<b>9.6</b>	<b>9.5</b>	<b>2</b>
Other Income	6.6	2.1	217.8	2.7	144.8	9.3	6.1	53.1
Depreciation	115.8	73.1	58.6	102.7	12.8	218.6	139.2	57.0
Interest Cost	63.6	34.2	85.7	42.4	49.8	106.0	63.8	66.2
PBT	223.3	344.8	(35.2)	97.2	129.8	334.1	450.7	(25.9)
Tax	58.1	85.8	32.3	28.7	102.1	86.8	110.9	21.7
<b>Net Profit</b>	<b>165.3</b>	<b>259.0</b>	<b>(36.2)</b>	<b>68.5</b>	<b>141.3</b>	<b>247.2</b>	<b>339.8</b>	<b>(27.2)</b>
EPS (₹)	5.0	7.9		2.1		7.5	10.3	

Source: Company, Way2Wealth Research

**SEGMENTAL PERFORMANCE – REVENUE BREAKUP (%)**

Revenue Breakup	Q2FY24	Q1FY24	FY23	FY22	Q4FY23	Q3FY23	Q2FY23	Q1FY23
<b>Nonstick Cookware</b>	21.0	21.8	17.9	16.9	13.5	15.1	19.0	23.1
<b>Mixer/ Small Appliances</b>	32.0	36.5	30.8	30.2	35.8	33.5	29.7	24.1
<b>Pressure Cookers</b>	23.0	20.1	23.5	24.1	25.6	23.1	25.4	21.5
<b>LED</b>	4.0	5.7	6.1	6.9	4.1	6.5	5.9	7.5
<b>Induction Cook top</b>	12.0	8.5	12.5	11.6	11.4	13.7	10.5	13.4
<b>Gas Cooktop</b>	8.0	7.3	9.2	10.4	9.6	8.1	9.5	10.4

Source: Company, Way2Wealth Research

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 View – **ACCUMULATE**
**FINANCIALS & VALUATIONS**

(₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Revenue</b>	<b>5,290</b>	<b>6,409</b>	<b>6,699</b>	<b>8,584</b>	<b>11,342</b>	<b>12,796</b>	<b>14,264</b>	<b>16,734</b>
<b>EBITDA</b>	<b>100</b>	<b>298</b>	<b>338</b>	<b>1,132</b>	<b>927</b>	<b>948</b>	<b>1,398</b>	<b>1,741</b>
<b>EBITDA Margin (%)</b>	<b>1.9</b>	<b>4.7</b>	<b>5.0</b>	<b>13.2</b>	<b>8.2</b>	<b>7.4</b>	<b>9.8</b>	<b>10.4</b>
<b>Net Profit</b>	<b>(127)</b>	<b>6</b>	<b>32</b>	<b>812</b>	<b>562</b>	<b>358</b>	<b>628</b>	<b>872</b>
<b>EPS (₹)</b>	(3.9)	0.2	1.0	24.6	17.0	10.8	19.0	26.4
<b>RoE (%)</b>	7.1	(1.0)	(5.3)	26.8	15.4	8.9	14.2	16.8
<b>RoCE (%)</b>	(0.5)	4.1	4.5	17.3	10.0	7.0	13.3	15.1
<b>P/E (x)</b>	(130.7)	2,636.5	527.1	20.5	29.6	46.6	26.5	19.1
<b>EV/EBITDA (x)</b>	208.3	65.7	59.8	15.1	19.8	19.4	12.0	9.8
<b>P/BV (x)</b>	(9.3)	(26.5)	(27.5)	5.5	4.6	4.1	3.6	3.0
<b>Net D/E (x)</b>	(2.3)	(4.7)	(5.9)	0.1	0.5	0.4	0.1	0.1
<b>Cash Balances</b>	38	315	194	373	121	198	387	401
<b>Debtors Days</b>	48	49	56	36	31	40	36	35
<b>Inventory Days</b>	76	70	64	66	70	69	70	68
<b>Payables Days</b>	86	80	82	77	72	75	75	74

Source: Company, Way2Wealth Research

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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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