

Q3FY22 Result Highlights

- **Preponement of sales, strong base, RM cost, weak E-Commerce impacted Q3FY22** – Stove Kraft Ltd (SKL) posted sales growth of +1.1% YoY/-17.9% QoQ to ₹2.97bn in Q3FY22 as growth in offline (+20% YoY;69% of Q3FY22 revenue) was offset by sharp decline in E-Commerce (-27% YoY; 26% of revenue) and exports weakness. Additionally the impact in revenue was on a strong base of Q3FY21,preponement of sales to Q2FY22 with weak E-Commerce as large customer undergoing transition; restocking did not take place post seasonal offers in Oct'21,RM cost inflation (400bps YoY/-50bps QoQ) company did not pass on as it expected reversal, increasing staff strength for expanding categories/distribution and negative operating leverage. Gross margins compressed 401bps YoY/52bps QoQ to 31.7% (below management medium term guidance of 33-34%) with rising commodity prices. Employee costs rose 43% YoY as it hired staff for expanding categories/distribution and backward integration of outsourced products and one time payment to factory staff on festival. A&P spends reduced to 3% of sales in Q3FY22 v.s 3.5% in Q3FY21. As a result, EBITDA margins compressed 829bps YoY to 6.2% (against management guidance of 13-14% for FY22). EBITDA declined ~57% YoY to ₹185.5mn with tax provision reversal resulting in PAT at ₹111.1mn, ~-67% YoY/~52% QoQ.
- **Taken 4% blended price hike across categories** – The management continues to believe into cost plus model and hence bets for sustainable margins of 33-34% (earlier guidance of 34-35%), Q3FY22 came in at 31.7% given it did not effect any price hike as it expected reversal of commodity prices. However, it has now taken 4% blended price hike across categories and hence it expects atleast 150bps improvement in margins for Q4FY22, provided costs do not inch up further.
- **Exports impacted due to logistics challenges but order book is robust** – While pressure cooker/induction cooktop and non-stick cookware grew 2%/32%/35% QoQ, LED (-15%), small appliances (-25%) and Gas cooktops (-47%) offset the growth. Offline (including general trade and modern retail) grew at robust 20% YoY, E-Commerce witnessed sharp decline (-25% YoY) during Q3FY22 as one of the large retailer is undergoing transition. However, E-Com is coming back in Q4FY22 and growing at 15-20% YoY. Offline (General Trade+ Modern Retail) continues to do reasonably well. It had not seen any significant weakness in demand, exports momentum impacted Q3FY22 due to logistical challenges (especially on the despatch front for the non- stick cookware as the customer could not arrange for the same). However, it has robust ₹700-750mn orderbook for exports, providing significant visibility, according to the company. SKL added 18,634 retail outlets in 9MFY22 and now it stands at 70,610. This is across its product categories and brands.
- **New Acquisition augers well for the core business support** – Recent SKL announced acquisition of business of **SKAVA Electric Pvt Ltd** which will enable SKL entry into the business of manufacturing *low voltage switchgear solutions like electrical switches, sockets, distribution boxes, switch boards, M.C.B, bulb holders, etc.* SKAVA had sales turnover of ₹104mn/₹179mn/₹304mn in FY21/FY20/FY19 respectively. SKL will acquire the business and IPR rights from **SKAVA Electric Pvt Ltd** on a slump sale basis for total consideration of ₹40mn in cash. The company also announced foray into **Modular Kitchen** as it signed MoU (Memorandum of Understanding) with **METSMITH Innovations Pvt Ltd** for the purchase of Fixed Asset at purchase price valued at ₹83mn. The company will focus on value for money segment.

Important Statistics

MCAP (₹bn)	₹20.7
52 Week H/L (₹)	1135/400
NSE Code	STOVEKRAFT
BSE Code	543260

Shareholding Pattern	Dec'21 (%)
Promoters	54.0
FIIIs	9.8
DIIIs	7.1
Public	29.1

Financials

Particulars	(₹ mn)			
	FY19	FY20	FY21	9MFY22
Revenue	6,409	6,699	8,590	8,750
EBITDA	298	338	1,130	793
EBITDA Margin (%)	4.7	5.0	13.2	9.1
Net Profit	6	32	815	476
EPS (₹)	0.3	1.3	25.0	14.6
P/E (x)	2,466.2	493.1	25.2	
EV/EBITDA (x)	79.1	71.6	18.7	
P/BV (x)	(19.0)	(19.8)	4.0	
RoE (%)	(1.0)	(5.3)	27.1	
RoCE (%)	4.1	4.5	17.3	

Source: Company Filing, Way2wealth Research

View

For SKL, Q3FY22 was a poor quarter on account of strong base as Q3FY21 was exceptionally strong due to pent up demand, preponement of sales to Q2FY22 (early festivals), weak E-Commerce, restocking did not take place post seasonal offers in Oct'21, RM cost inflation which the company did not pass on, high employee cost increasing staff strength for expanding categories/distribution and negative operating leverage. But it has grown faster than competition in the last 7 years. It has now taken 4% blended price hike across categories with expected 150bps improvement in margins for Q4FY22, provided costs do not inch up further. With opening of new stores, vaccination coverage at highest levels and gain in market share from unorganised players, we view it as **ACCUMULATE** stock trading at **P/E 17x FY24E EPS of ₹37.2.**

Financial Performance

(₹ mn)								
Particulars	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
Operating Revenues	2,979.8	2,946.8	1.1	3,628.4	(17.9)	8,750.3	6,235.2	40.3
Cost of Matl	2,066.5	1,446.7	42.8	2,173.7	(4.9)	5,531.8	3,047.1	81.5
Stock Purchases	398.9	454.5	(12.2)	323.8	23.2	907.7	1,069.2	(15.1)
Inventory Changes	(429.1)	(5.6)	7,576.6	(36.7)	1,068.6	(534.6)	(75.6)	606.8
Gross Margin (%)	31.7	35.7	(401)	32.2	(52)	32.5	35.2	(268)
Employee Exps	334.8	235.9	41.9	302.6	10.6	875.8	548.4	59.7
Other Exps	423.2	387.7	9.1	459.1	(7.8)	1,176.4	770.2	52.7
EBITDA	185.5	427.6	(56.6)	406.0	(54.3)	793.2	875.8	(9.4)
EBITDA Margin (%)	6.2	14.5	(829)	11.2	(496)	9.1	14.0	(498)
Other Income	0.6	0.8	(26.7)	1.4	(59.3)	6.3	6.5	(4.3)
Depreciation	56.1	38.1	47.1	47.9	17.1	145.1	106.1	36.7
Interest Cost	29.6	55.5	(46.8)	38.9	(23.9)	98.0	156.5	(37.4)
PBT	100.4	334.7	(70.0)	320.7	(68.7)	556.4	619.7	(10.2)
Tax	(10.7)	-	NM	91.4	(111.7)	80.8	-	NM
Minority Interest	-	-	-	-	-	-	-	-
Net Profit	111.1	334.7	(66.8)	229.3	(51.5)	475.6	619.7	(23.3)
EPS (₹)	3.4	13.5		7.0		14.6	25.1	

Source: Company, Way2Wealth

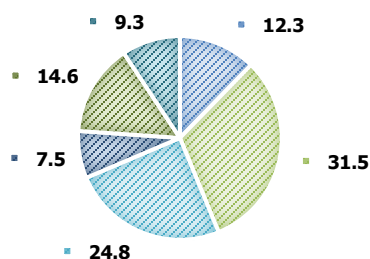
Segmental Volume Performance

(₹ mn)								
	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY(%)
Pressure Cookers	1,110,000	1,230,000	(9.8)	1,090,000	1.8	3,490,000.0	2,470,000.0	41.3
LED	2,630,000	2,890,000	(9.0)	3,090,000	(14.9)	7,390,000.0	5,740,000.0	28.7
Induction Cooktop	410,000	280,000	46.4	310,000	32.3	930,000.0	560,000.0	66.1
Gas Cooktop	160,000	220,000	(27.3)	300,000	(46.7)	570,000.0	530,000.0	7.5
Non-Stick Cookware	1,500,000	2,200,000	(31.8)	1,110,000	35.1	6,910,000.0	6,320,000.0	9.3
Small Appliance/Others	2,250,000	2,910,000	(22.7)	3,000,000	(25.0)	7,150,000.0	5,780,000.0	23.7
TOTAL	8,060,000	9,730,000	(17.2)	8,900,000	(9.4)	26,440,000	21,400,000	23.6

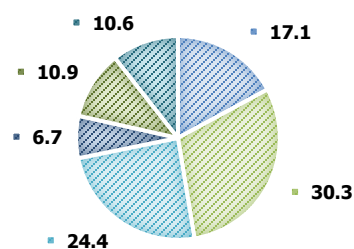
Source: Company, Way2Wealth

Segmental Performance - Revenue breakdown

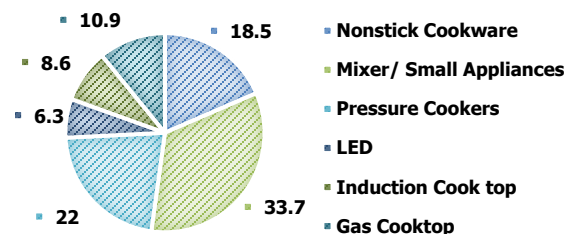
REVENUE BREAKUP (%) Q3FY22



REVENUE BREAKUP (%) 9MFY22



REVENUE BREAKUP (%) FY21



Source: Company, Way2Wealth

Past Performance & Forecasting

(₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	5,290	6,409	6,699	8,590	11,165	13,398	15,731
EBITDA	100	298	338	1,130	1,027	1,401	1,845
<i>EBITDA Margin (%)</i>	<i>1.9</i>	<i>4.7</i>	<i>5.0</i>	<i>13.2</i>	<i>9.2</i>	<i>10.5</i>	<i>11.7</i>
Net Profit	(127)	6	32	815	615	897	1,211
EPS (₹)	(5.2)	0.3	1.3	25.0	18.9	27.5	37.2
RoE (%)	7.1	(1.0)	(5.3)	27.1	18.8	21.4	25.1
RoCE (%)	(0.5)	4.1	4.5	17.3	16.9	25.1	28.9
P/E (x)	(122.3)	2,466.2	493.1	25.2	33.4	22.9	17.0
EV/EBITDA (x)	248.3	79.1	71.6	18.7	21.6	15.4	11.2
P/BV (x)	(6.7)	(19.0)	(19.8)	4.0	5.9	5.0	4.1
Net D/E (x)	(2.3)	(4.7)	(5.9)	0.1	(0.1)	(0.2)	(0.1)
Cash Balances	38	315	194	373	273	811	994
Debtors Days	48	49	56	36	41	39	36
Inventory Days	76	70	64	66	62	60	56
Payables Days	86	80	82	75	86	92	92

Source: Company, Way2Wealth

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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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