



RESEARCH REPORT

17th April 2021

STOVE KRAFT LIMITED

BSE : STOVEKRAFT

Sector: CONSUMER DURABLES B2C SEGMENT

BSE: 543260

View - BUY

CMP : Rs. 486

Target Price: Rs 600 (In next 12 to 18 mths)

Suggested Buying Range (Between Rs 470 to Rs 500)

BUSINESS BACKGROUND

Incorporated in 1999 by Mr. Rajendra Gandhi, SKL is involved in the manufacture and retail of a wide range of kitchen solutions under Pigeon and Gilma brands. It acts as an exclusive partner for kitchen appliances of the BLACK + DECKER brand. SKL's products comprise cookware and cooking appliances across brands, while the home solutions constitutes of various household utilities, including the recently introduced LED bulbs, oxymeters, etc. SKL markets its products under flagship brands Pigeon (86% of FY20 sales; pressure cookers, non-stick cookware, LPG gas stoves, induction cooktops and LED products), Gilma (2.5% of FY20 sales; chimneys, hobs and cooktops) and licensed 'Black and Decker' brand (2.7% of FY20 sales).

INVESTMENT HIGHLIGHTS

Steady Financial Performance for FY20 & first 9months of FY21 –

SKL reported a steady set of FY20 numbers in a difficult year with net sales at Rs 670 crs as compared to a revenue of Rs 640 crs last year, with EBIDTA placed at Rs 34 crs from Rs 29.80 crs last year with the PAT placed at Rs 3.20 crs from Rs 0.80 crs

For SKL for the first 9 months of FY21 Revenue totalled Rs 623.50 crs against Rs 515.90 crs in the same period last year while EBITDA stood at Rs 87.29 crs vs Rs 35.59 crs in the same period last year with the PAT at Rs 61.72 crs vs Rs 13.41 crs in the same period last year

SKL enjoys a strong product basket across the Kitchen Appliances segment –

SKL has moved from being a single brand LPG stove manufacturing company since 1999, & has diversified its product portfolio and now offers a wide range of products from cookers, cookware to kitchen appliances unlike its peers like Hawkins (limited to Cooker and cookware)

SKL is also amongst the top 3 players in Cooker and cookware (after TTK Prestige and Hawkins) with an estimated market share of around 10% as on FY20

It has also forayed into the home with the launch of its Pigeon LED products – bulbs, battens, down lights and panels (5% of FY20 sales)

KEY DATA

FACE VALUE	Rs	10.00
DIVD YIELD %		NA
52 WK HI/LOW		547/407
NSE CODE		STOVEKRAFT
BSE CODE		STOVEKRAFT
MARKET CAP		RS 1489 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	55%
BANKS, MFs & DIs	-	10%
FIs	-	11%
PUBLIC	-	24%

KEY FUNDAMENTALS

YE	FY21	FY22	FY23
Rev Gr%	23	20	15
EBIDTA Gr%	232	22	17
PAT Gr%	2384	53	-14
EPS Gr%	1788	53	-14
EPS (Rs)	24.46	37.54	32.31
ROE %	66	34	23
ROCE %	20	21	21
P/E(x)		12	14

Stove Kraft is a one stop shop for well recognized, portfolio of kitchen solutions brands with a diverse range of products across consumer preferences –



SKL has grown from a single brand small LPG stove manufacturing company to become one of India's leading manufacturers of kitchen appliances & enjoys a presence in 27 states and five Union Territories of India and 14 countries across the world

Its brand portfolio, comprising of the Pigeon, Gilma and BLACK + DECKER brands caters to the value, semi-premium and premium customer segments in the kitchen solutions industry, and allows its customers to engage with the brand specifically designed for their budget and lifestyle

As a result of its co branding initiatives of over eight years with LPG companies such as Indian Oil Company Limited and Hindustan Petroleum Corporation Limited to utilize their sale and distribution channels, the Pigeon brand has enjoyed a wide customer outreach and continues to have a high brand recall value

In this regard, the Pradhan Mantri Ujjwala Yojana, which is a scheme of the Ministry of Petroleum & Natural Gas, GoI for providing LPG connections to women from BPL households, has enabled it to increase volume sales and reach the interior regions of the country

The existing market presence and strength of the Pigeon brand has been instrumental in enabling it to successfully enter into home solutions vertical

Strong Manufacturing capability & focus on inhouse component facilities –

SKL has two backward integrated manufacturing facilities at its Bengaluru facility (installed capacity of 38.4 mn units per annum as of Sep'20) with 12 manufacturing units is used to produce pressure cookers, non-stick cookware, hard anodised cookware, mixer grinders, induction cooktops, LPG stove, glass cooktops, IR thermometer and handy vegetable chopper

It is also one of the few facilities in India to have a fully automated roller coating line for the manufacture of non-stick cookware and its Baddi facility (annual installed capacity of 2.8 million units per annum) is used to manufacture LPG stove and glass tops

SKL's manufacturing facilities are fully backward integrated with ability to manufacture components such as Bakelite Handle, Sheet Metal Components, Moulded parts, Die Cast parts, Mould Dyes and fixtures in-house for the manufacture of its finished products. This backward integration of manufacturing facilities has reduced its dependence on third-party suppliers and OEM for such components. SKL has increased its in-house manufacturing from 70% in FY19 to around 80% in 9MFY21 and intends to increase it further

Another big positive for SKL is its widespread, well connected distribution network & presence across multiple retail channels and a strong dedicated after-sales network –

The integration of SKL's supply chain and distribution network with its manufacturing facilities provides it with a competitive advantage over other players in the Indian kitchen appliances industry

Additionally, SKL has 651 distributors in 27 states and five union territories of India and 12 distributors for its products that are exported as of September 30, 2020. As of September 30, 2020, the C&F agents and distributors are, in turn, connected with a dealer network comprising of over 45475 retail outlets, which are driven through a sales force of 566 personnel

It has entered into commercial arrangements with retail chains such as Metro Cash And Carry India Private Limited for the sale of its Pigeon branded products from several of their retail outlets in India

Further, SKL has also entered into agreements with ecommerce platforms such as Flipkart India Private Limited for the sale of its products on their portals. Outside of India, it exports its products which are manufactured by it to retail chains in the United States of America and Mexico

SKL's Gilma brand products are sold through exclusively branded outlets owned and operated by franchisees. As of September 30, 2020, there were 65 such stores spread across four states and 28 cities and towns, with a presence in the urban market in south India

Further, SKL has a diverse portfolio across price points with its Pigeon brand catering to 'Value for Money' segment, Gilma in the semi-premium segment and 'Black and Decker' brand in the premium segment

Over the last 10 years SKL has focused on curbing the OMC Co-branded business and increase distribution of its Pigeon brand which forms lion's share of SKL's business accounting for 86% of FY20 revenues

Going ahead, the company intends to focus more aggressively on the Gilma brand which accounts for 2.5% of FY20 revenues by expanding beyond South India where it has a strong foothold (all 65 outlets in South India) & increase traction and begin manufacturing Black & Decker brand products accounting for 2.7% of FY20 revenues. where it has a strong portfolio with a presence in 9 states across 1000 retailers

One of the hallmarks of SKL is its consistent focus on quality and innovation –

Quality is a pre-requisite for a positive consumer experience and long-term brand loyalty. This philosophy has formed the foundation of the expansion and diversification of its product portfolio since its inception

Its focus on quality is maintained at all stages – right from the sourcing of raw materials, which is undertaken from manufacturers to the product development and manufacturing stage, which is subject to a rigorous review and monitoring process undertaken at its Bengaluru Facility. For products which are sourced by SKL from third party OEMs, it has a dedicated sourcing team and quality assurance team based out of China, which closely monitors the quality of such products

To further its efforts in innovation, in the past, it has also entered into tie-ups with foreign companies for technology enablement and tech knowhow agreements with them from Fiscal 2013 to Fiscal 2015. As a result of its focus on innovation, SKL developed the 'Super Cooker' which has a registered design and is customizable into products with multiple utilities. It has also developed the 'Super Storm Advanced' mixer grinder, with forced aircooling technology, and the 'Infinity' glass cooktops with a fastener free body

Exports to grow steadily ahead but the main focus continues on the domestic market –

SKL does OEM exports to 14 countries and to retail chains in the USA and Mexico. It also undertakes OEM manufacturing for retail chains in the USA under their brands

It focuses on exporting non-stick cookware and is the largest exporter in the segment according to management, given its manufacturing and technological competency

SKL is cost competitive given its unique technology and management expects this to lead to organic growth in exports going ahead

Exports contributed to 10% of SKL's sales (OEM export at 7-8% of sales) and management expects exports to form 10-15% of sales going ahead

SKL has a strong market presence in the E-Commerce segment also –

SKL has a first mover advantage in e-commerce (9% of domestic sales in FY17 itself) where it tied up with leading players like Flipkart

During this period, it invested on digital marketing and customer service, to promote its products on e-commerce. This is also evident on the ratings for its products on e-commerce platforms

Further, SKL's e-commerce presence helps it overcome the limitations on distribution front in non-south markets where it still expanding. SKL has also benefited significantly from the value positioning of its pigeon brand on e-commerce platforms as customers look for trusted brands at lower price points

As of 3QFY21, 30% of SKL's sales came from e-commerce channel, SKL's strong e-commerce presence also helped it navigate the pandemic which is evident in its 9MFY21 sales growth both on a YoY and QoQ basis

The Kitchen Appliances market is a Rs 11000 crs plus market which is expected to grow to Rs 25000 crs in the next 3 years ahead –

Indian Kitchen appliances industry is expected to grow at 11% CAGR over FY20-25, with uptick in consumption based on improving macro fundamentals (rising disposable income, rising urbanisation) increasing rural electrification & advent of online sales

As per current GST structure, the lower tax brackets of '5%', '12%' and '18%' are the standard rates for commonly used Indian kitchen items. The highest tax slab of 28% will be applicable to items, which were earlier taxed at 30-31% (excise duty plus VAT). GST places Large Domestic Appliances and Consumer durables category in the highest tax slab of 28%

Key Drivers for the Indian Kitchen Appliances Market –

Lifestyle Changes –

Industry experts believe the most important current market trend is the stylizing of cookware in order to transform the product from a functional kitchen tool to making it a part of an aspirational lifestyle, especially for affluent, urban consumers. Consumers moving into new houses or remodelling their existing home often prefer the latest collections to match the interior of their kitchens

Growing need for better space utilization –

In earlier times, cookware used in the kitchen used to require a lot of space, it was difficult to handle and heavy; thus emerged the concept of 'modular kitchen'. Manufacturers have now introduced compact designs and portable cookware especially for small homes, apartments and traveling purposes. Minimalism is the latest trend, the appearance of minimalism sleek design, neutral colours, matte finishes also appeals to consumers because it veils the appliances' convoluted interiors, making the complex look simple

Change in cooking approach –

Apart from the cookware, there has also been a change in the cooking approach. Cooking is no more restricted to women. Earlier women were considered as the synonym for home cooks, but the picture has changed today; the role of the cook is played by men as well and it is equally accepted in the society

Technological advancement –

The kitchen appliances industry is increasingly becoming a technology driven market. Very often there are new innovations and updates expanding the industry. Technological evolution is transforming the supply of products such as hoods or hobs, which become more and more hi-tech and connected

In addition, manufacturers of major and small appliances have conceived new devices that meet the need of consumers to live better

Growth of E-commerce and easy financing options –

Current market trends are reflective of what's on the customer's mind as they choose how to equip and furnish their homes. It all started with Non-stick cookware and 50 years later, the cookware market has kept on developing

This market has advanced on the back of rising disposable income, growing sales infrastructure in the form of specialist stores and innovations, coupled with e-commerce players, increasing popularity of modular kitchens and convenience associated with such appliances

More than just satisfying the functional needs of the Indian consumer, modern retail in this sector has emerged to cater to the diverse needs of the customer – convenience, fashion or price

Effect of Mass Media on consumer buying patterns –

Consumers are now more aware of cookware through reality programs and cooking shows on Television, and modern format retail chains today provide a wide range of alternatives at each value point in variety of consumer appliances

Increasing number of cooking based shows on television is also encouraging people to buy food preparation appliances and to try out new recipes. Mass manufacturing has also empowered cookware to be delivered at lower costs, which in turn has extended the range of customer choice

Influence of Social Media also impacting kitchen appliances sales positively –

To take this approach at the global level, social media also played a very important role. In this technological savvy world, people have started experimenting and with the help of media taking it viral. Latest apps have also acted as a key support to help people across the world to promote their various ideas, recipes, innovations, methods and style of cooking digitally and reaching out for the maximum exposure possible

Property developers and builders also have acted as big influencers –

Developers are increasingly providing built-in kitchens (Sometimes as an option) in order to have a competitive edge. If not built-in kitchens, developers are providing the modularity to have a built-in kitchen

Also there has been an increase in the number of Kitchen specialty stores, Premium retailers and Multi branded outlets which have been a great influence in the growth of kitchen appliances, especially large, built-in appliances

Presence of large Cooking Appliances choices for consumers –

Large cooking appliances include Cooker Hoods, Cooking Hobs (either built-in or freestanding) and Cooktops. Retail Volume sales of Large Cooking Appliances category as a whole, has witnessed a growth at a CAGR of 6.0% through 2015-2020, to reach sales of 14.2 million units in 2020

In terms of Retail Sales 'Value' growth, the category has grown at an even higher CAGR of 9.2% through the same period, to reach sales of about Rs 111 billion in 2020

The overall growth momentum of the 'Large Cooking Appliances category' Retail sales is expected to continue the forecast period of 2020 to 2025. In terms of Retail Volume, the category is expected to grow at a CAGR of about 8.7% through 2021-2025, to clock 21.7 million unit sales by end of 2025. Retail Value sales, also is expected to continue on its higher growth trajectory, at a CAGR of 12.5% through 2021- 2025, to reach Rs 250 billion by end of 2025

In 2020, Stove Kraft Ltd. sold about 0.77 million non-stick cookware. It sells 'Non-stick cookware' mainly through its 'Pigeon' brand route. In terms of Retail Sales value, Stove Kraft Ltd. registered total sales of INR 776 million for its 'Non-Stick Cookware' category through brand Pigeon

Most popularly used Non-stick cookware includes Tawa, followed by Kadai and frying pan. The latest trend-setting Hard anodized and ceramic non-stick cookware register prominent usage in Southern India, along with regional cuisine-making cookware like 'Appachetty' and 'Paniyarakkal'

Nirlep Appliances Limited, established in 1968, marked the launch of Non-Stick technology in India. Today, Nirlep and Stove Kraft Limited are the only players to have a roller coating line. While Stove Kraft Limited's roller coating line is completely automated, that of Nirlep is only partially automated

In South India, TTK Prestige dominates the market, followed closely by Stove Kraft Limited, both having very strong brand equity in the region Stove Kraft Limited enjoys a prominent position in the Non-Stick cookware market, especially in the Southern region

SKL also offers a special range of non-stick cookware which is induction cook-safe. The range includes the usual Pans, Tawa, and Pots and also offers special cookware like Appachetty and Paniyarakkal, focussed on catering to the regional cuisine of Southern India

In its continuous bid for innovation aimed at product efficiency and user convenience, Stove Kraft Limited's latest offerings include a new MIOTM non-stick cookware range, which is developed using latest Italian technology that ensures high durability and smoothness of the products

The cookware in this range has 5 layer 'Scandia' coating, comes with 1 year Warranty and includes Tawa, Kadai, Appachetty, Square Griddle as well as 2, 4, 6 and 8 piece gift sets

Going ahead SKL plans to focus more on its LED products business to increase its market share going ahead –

Going ahead SKL is planning to increase numeric/ geographic distribution for its pigeon products where it believes there is enough potential given its distribution reach

Additionally it plans to grow its LED products beyond the 6 states where it is currently present in. Given smaller retailers in LED space, it expects faster growth in numeric distribution along with geographical expansion

It is also planning a geographical expansion of its 'Black and Decker' products given its present only in 9 states currently and increase geographical presence of its Gilma outlets (all 65 outlets in South India currently). Further, the company has service franchisee agreements with 170 service providers to provide after-sales support here

What is SKL's moat and what we like about its business model –

As of now the entire capacity is being used to either manufacture white label products or for own brand retail

Currently the company has one of the lowest indigenous production costs in the cooker, stoves and the non-stick business. The non-stick business can even compete across the globe in terms of cost and quality

In any manufacturing concern, the key to healthy profits is to simply operate at levels higher than the break even point.

The SKL management has confirmed that they are already working at 2x of the BEP which is confirmation that the operating leverage will keep playing out

The company works on a simple COST + MARGIN model. Any price increase, it simply passes on. Irrespective of which way they sell, the minimum margin is guaranteed before the goods leave the factory. Channel margins are then added accordingly. You never have a case where the company is absorbing a cost, just out of the fear of losing market share or just to maintain relations with the suppliers

The company today sells about 90% of its production in India and about 10% is exported to big box retail. Of the sales in India about 30% is online. Though they have such a big business online, the online share will probably not cross 35% simply because the overall pie itself is growing rapidly

Stove Krafts business model is therefore pretty simple. Produce at the lowest cost and highest quality possible. Sell via its distribution channel and make sure the money comes back efficiently. All this has to be done by making sure they are innovating and upgrading all their products for efficiency and convenience.

Peer Comparison –

Company Rs Crs	TTK Prestige	Hawkins	Butterfly	StoveKraft
9months FY21 Sales	1478	525	665	623.5
9months FY21 EBIDTA	212	79	66	87.29
EBIDTA Margin %	14.34	15.05	9.92	14.00
9month FY21 PAT	153	56	27	61.72
FY22 EPS (Rs)	172.3	180	30	37.54
Market Cap	9883	2870	991	1483
Debt	14	16	57	20
ROCE %	18	54	22	21
OCF	182	75	118	98
P/E (x)	41	30	18	12

Source - Company, Our est

SKL enjoys a strong balance sheet with huge scalability potential going ahead –

SKL runs a strong business model covering multiple product segments across multi locations with a efficient working capital management while it continues to invest on a sustained basis largely from its internal accruals.

We expect that going ahead overall bottomline growth in the next 3 years starting FY20 onwards should easily increase at a CAGR of 18-20% and with capex funded largely from internal cash flows.

What is important is that going ahead CFO is expected to improve to around Rs 60 crs in FY21 and Rs 98 crs in FY22 while borrowings have reduced to Rs 20 crs as on Dec 2020.

Business Outlook & Stock Valuation –

On a rough cut basis, in FY21E, Topline is expected to touch Rs 823 crs, followed by Rs 988 crs in FY22E and Rs 1136 crs in FY23E.

On the bottomline level we expect the company to record a PAT of Rs 80 crs in FY21E which is expected to bounce back to Rs 122 crs in FY22 and Rs 105 crs in FY23. In FY23 the PAT is down as the company would be paying full tax from now onwards

Thus on a conservative basis, SKL should record a EPS of Rs 24.50 for FY21E. For FY22E and FY23E our expectation is that earnings traction for SKL would continue to be strong wherein we expect a EPS of Rs 38 and Rs 32.30 respectively (Down due to full tax rate paid by the company unlike no tax paid earlier for 2 years)

SKL is in a sweet spot given its manufacturing focus (80% of revenue from manufactured products) which helps in better supply chain management and quicker introduction of new range/product categories, diversified distribution model (separate distribution of Pigeon, Gilma, Black & Décor, Pigeon LED), strong E-Commerce presence (30% of revenue; among top 3 players in non-electric appliances categories), and value for money positioning.

All these variables have helped SKL gain market share rapidly in the year of supply disruption for smaller/import dependent players

The company management is confident of improving EBITDA margins in going ahead via operational efficiency and better product mix.

Looking at SKL's steady financial track record, strong product domain and dominant market share and strong promoters we expect the stock to get re rated in future.

Hence we believe that the SKL stock should be purchased at the current price for a price target of around Rs 600 over the next 18 months.

FINANCIALS

Source Company our Estimates

For the Year Ended March RsCr	FY19	FY20	FY21	FY22	FY23
Net Sales	640.90	669.70	823.00	987.60	1135.74
EBIDTA	29.80	33.80	112.00	136.29	159.00
EBIDTA %	4.65	5.05	13.61	13.80	14.00
Interest	17.90	20.90	20.00	10.00	5.00
Depreciation	12.30	12.40	14.50	16.00	17.00
Non Operational Other Income	1.70	3.10	2.00	3.00	3.00
Profit Before Tax	1.30	3.50	79.50	113.29	140.00
Profit After Tax	0.80	3.20	79.50	122.00	105.00
Diluted EPS (Rs)	0.32	1.30	24.46	37.54	32.31
Equity Capital	24.70	24.70	32.50	32.50	32.50
Reserves	-87.00	-84.00	268.00	380.00	470.00
Borrowings	320.00	337.00	33.00	25.00	15.00
GrossBlock	204.00	224.00	250.00	275.00	310.00
Investments	0.00	0.00	0.00	0.00	0.00

KEY CONCERNS

The company's profitability remains exposed to volatility in raw material prices, mainly aluminium and steel. Moreover, it is exposed to forex fluctuations as it imports traded goods and raw materials and is also an exporter

SKL's sales, profitability and cash accruals are closely linked to the macro-economic conditions, consumer confidence and spending patterns, particularly considering the nature of its products. Besides, its sales remain vulnerable to the consumers' changing tastes and preferences.

Nevertheless, the long-term domestic demand outlook for this segment remains favourable.

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