

July 31, 2023

RESULT REPORT Q1 FY24 | Sector: Consumer Durables

Stove Kraft Ltd

Resilient performance in seasonally weak quarter; re-iterate BUY

Result Synopsis

STOVEKRAFT has delivered inline revenue growth, while it has surprised positively on the margin front, with gross margin surpassing management guidance of 35% during the quarter. Increased in-house production, lower commodity costs, price corrections and increased ASP's has led to higher margin. Management is now confident of achieving its full year gross margin guidance of 35% given the strong performance of Q1 in seasonally weak quarter. Company also expects double digit revenue growth with focus on value segment and passing benefits of the increased efficiency by means of lower pricing, while maintaining gross margins at 35%. Company in its endeavor to build its retail network is continues to add company owned company operated stores with addition of 25 stores in Q1. Costs dynamics of these stores are very low and 90% of the company owned company operated stores are breaking even on an average basis in 3 months of time. The company is looking to launch new products in the market and maintain the growth rates in double digits with aspirations to clock 11% EBITDA margin in FY24. We continue to maintain BUY as current risk-reward is favorable and the stock is trading at P/E of 15.4x on FY25 earnings.

Considering strong growth opportunities and growth in the value segment and management growth guidance of double digit in terms of revenue. We estimate STOKRA to deliver revenue CAGR of over FY23-25E of 15% which looks achievable given the expansion in distribution and new product launches. We have estimated EBITDA margin of 10% in FY24 is lower than management guidance of 11% factoring for some volatility in commodity prices. With strong growth potential and improvement in EBITDA margins, we remain positive on the stock and reiterate our BUY rating with TP of Rs631 valuing the company at 20x FY25E EPS. We have lowered our multiple to 20x from 25x incorporating risk of management changes that have been prevalent in the past.

Result Highlights

- Quarter summary** – Q1 revenue growth was inline with estimates as there was demand from the appliances segment particularly from the new products like electric kettle and Air-Fryers.
- Gross margins** – Pricing actions along with lower commodity prices and increased inhouse manufacturing have resulted in expansion in gross margins. Gross margins at 36.9% have seen improvement of 400bps, which is higher than the management guidance of 35%.
- Volume growth** – Volume growth remains strong in small appliances and induction cooktop, while volumes were subdued in cookware and cooker categories.
- Distribution expansion** – The company is focusing on expanding its offline presence and with increased thrust on company owned company operated stores. The company has added 25 new stores in Q1.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	2,977	3,007	NA	-1.0	NM	Pricing actions and lower commodity prices coupled with increased inhouse manufacturing has resulted in margin beat
EBITDA	240	202	NA	+18.4	NM	
EBITDA Margin (%)	8.0	6.7	NA	+130 bps	NM	
Adjusted PAT	82	54	NA	51.4	NM	

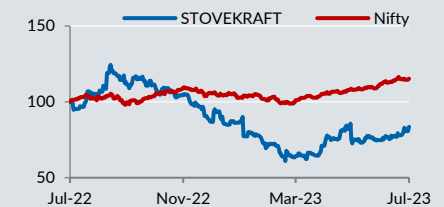
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 487
Target Price	: Rs 631
Potential Return	: +29.6%

Stock data (as on July 31, 2023)

Nifty	19753
52 Week h/l (Rs)	740/353
Market cap (Rs/USD mn)	15546/189
Outstanding Shares (mn)	33
6m Avg t/o (Rs mn):	108
Div yield (%):	NA
Bloomberg code:	STOVEKRA IN
NSE code:	STOVEKRAFT

Stock performance



	1M	3M	1Y
Absolute return	11.8%	17.5%	-16.5%

Shareholding pattern (As of Jun'23 end)

Promoter	55.9%
FII+DII	9.8%
Others	34.2%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	631	714

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	23.8	31.6
EPS (Old)	28.6	36.7
% change	-17.0%	-14.0%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	12,838	15,671	17,243
YoY Growth	13.0%	22.1%	10.0%
EBIDTA	1,012	1,567	1,914
YoY Growth	6.7	54.9	22.1
PAT	390	781	1038
YoY Growth	-30.6	100.1	32.9
ROE	10.2	17.7	19.5
EPS	11.9	23.8	31.6
P/E	41.0	20.5	15.4
BV	122.6	146.4	178.0
EV/EBITDA	15.8	9.9	7.6

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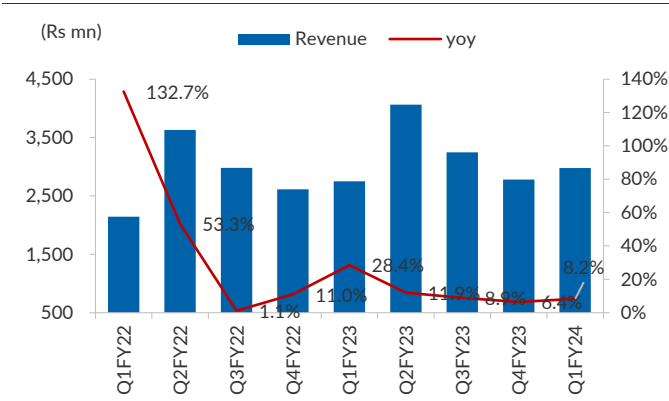
Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	y/y %	q/q %	FY23	FY22	y/y %
Sales	2,751	4,062	3,245	2,781	2,977	8.2	7.1	12,838	11,364	13.0
EBITDA	216	460	261	74	240	10.9	224.1	1012	948	6.7
EBITDA Margin %	7.9	11.3	8.0	2.7	8.0			7.9	8.3	
Depreciation	66.2	73.1	80.0	94.3	102.7	55.3	8.9	314	197	59.0
EBIT	150	387	181	-20	137	-8.7	-773.0	698	751	-7.0
EBIT Margin %	5.5	9.5	5.6	-0.7	4.6			5.4	6.6	
Interest charges	30	34	32	62	42	43.7	-31.1	157	110	42.9
Other Income	-15	-8	2	1	16	-210.8	1,186.5	-20	-16	26.0
PBT	106	345	151	-81	111	4.6	-237.2	521	625	-16.7
Tax	25	86	37	-20	29	14.5	-246.3	128	63	102.1
Effective Tax Rate (%)	23.7	24.9	24.3	24.3	26.0			24.6	10.1	
PAT	81	259	114	-61	82	1.5	-234.3	393	562	-30.0
PAT Margin %	2.9	6.4	3.5	-2.2	2.8			3.1	4.9	
EPS (Rs)	2.5	7.9	3.5	-1.9	2.5	1.5	-234.3	12	17	-30.0

Source: Company, YES Sec

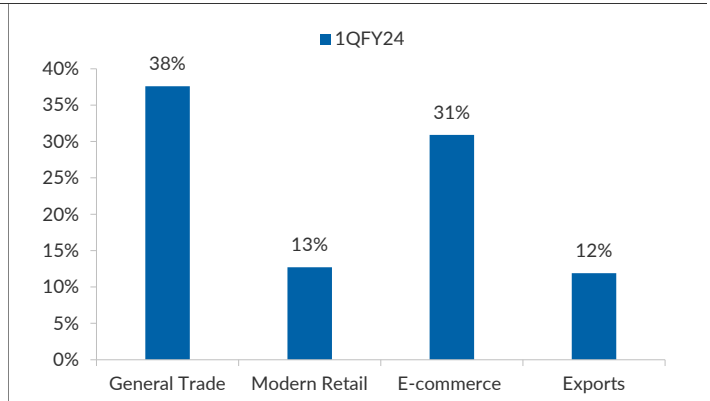
CHARTS

Exhibit 3: Revenue growth was inline with estimates



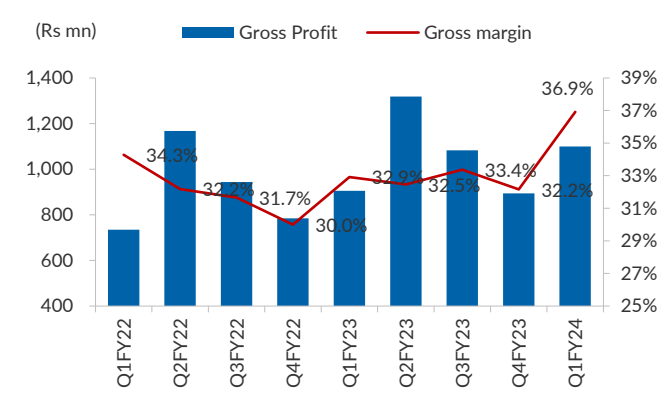
Source: Company, YES Sec

Exhibit 4: Contribution from e-commerce still continues to remain at elevated levels



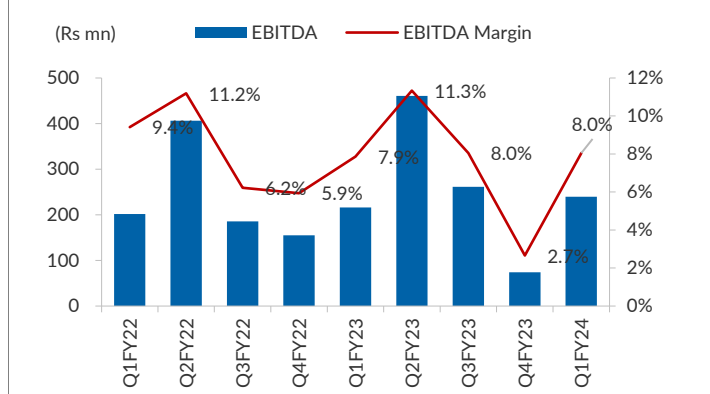
Source: Company, YES Sec

Exhibit 5: Lower commodity prices, increased in housing manufacturing have led to sharp improvement in gross margins



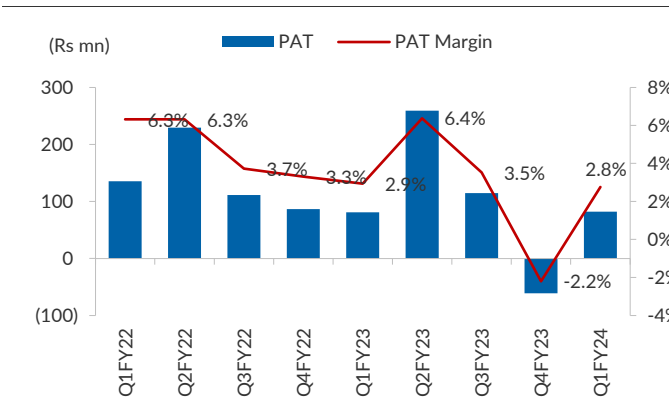
Source: Company, YES Sec

Exhibit 6: EBITDA margin has improved on back of higher gross margins



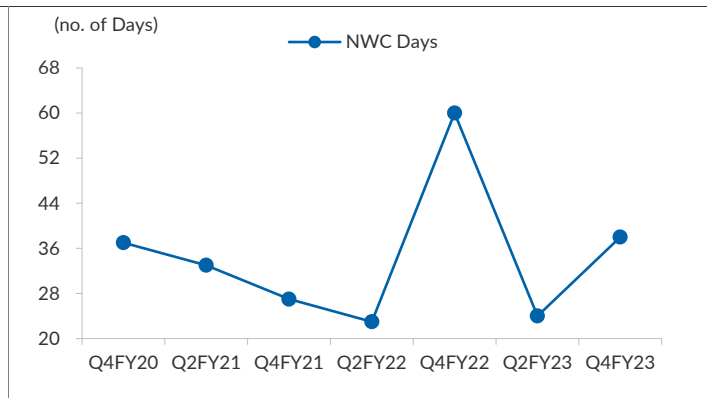
Source: Company, YES Sec

Exhibit 7: PAT margin has been lower on higher depreciation and interest expenses



Source: Company, YES Sec

Exhibit 8: NWC have remained under check



Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Business update** – The company is excited about the upcoming quarters as Q1 despite being a seasonally weak quarter performance has been resilient with revenue growing by 8% and gross profit growing by 21%. There could be some uncertainty in spending in coming quarters as floods across various parts of the country could result in lower spending.
- **Business focus** – The near term focus is to achieve higher growth and increase market share. The company will continue to focus on value segment.
- **Gross margins** – The company has taken some price increase this along with softness in raw-material prices has also helped in getting gross margin to more than 35%. Product mix and local manufacturing has also aided in improving gross margin. Business is designed to clock gross margin of around 35%. In-house manufacturing of certain products is helping in improving gross margin.
- **Employee and Other expenses** – The current level of employee and other expenses would be new normal as company has increased the employee head count. ECL of Rs30mn in 1QFY24 is on account of e-comm sales that has resulted in higher other expenses.
- **Volume growth** – The company saw marginal volume growth in pressure cookers, Induction cooktop saw volume growth of 15%. Volume growth for non-stick cookware is lower. There was strong growth in small appliances volume ranging from 20% to higher growth. .
- **Investment in company owned stores** – The company on an average basis has spent Rs17-19 lakhs per store and the company is seeing break-even in 3 months for the company owned store. Operating cost of 1.3-1.4 lakh per month per store. The company can breakeven with the revenue of Rs3 lakh per month.
- **E-comm channel** – The company has seen growth of 25% on the e-comm channel. Sale from E-comm in Q1 stood at 40%.
- **EBITDA margin aspirations** – The company has aspiration of getting to 11% EBITDA margin.
- **Channel mix** – The revenue from GT stood at Rs1120mn, company owned store Rs140mn, Modern trade revenue was Rs380mn, E-comm revenue was Rs920mn and other revenue comes from exports. Institutional sales stood at Rs60mn
- **Capacity** – The company can reach turnover of Rs20bn with the current capacity.
- **A&P spends** – Company expects A&P spends to be around Rs500mn in FY24.
- **Inventory**- On an average company will have 55-60 days of inventory. Company expects gross margins of 33% if current trend persist
- **Capex** – The company expects the capex for FY24 to be Rs750mn. Capex will be used for warehouse, new plant for cast iron cookware and expanding retail network.
- **Market demand** – Market demand is expected to pick-up closer to the festive season.
- **New innovative products** – The company is in verge of launching new products in cookware segment which new coating which will not have any health hazards. The company currently has 650 SKU's.
- **Small appliances** – Mixer grinders, electric kettle and Air-fryer is the key categories which has lead to strong growth in small appliances category.

FINANCIALS

Exhibit 9: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	326	329	329	329	329
Reserves	2,689	3,311	3,702	4,483	5,520
Net worth	3,014	3,640	4,030	4,811	5,849
Debt	505	784	865	1,023	1,110
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	243	252	291	352	383
Total liabilities	3,762	4,676	5,187	6,186	7,342
Fixed Asset	2,387	3,216	3,509	3,709	3,675
Investments	0	0	0	0	0
Other Non-current Assets	155	323	360	432	472
Net Working Capital	926	1,134	430	499	538
Inventories	1,560	2,174	2,307	2,816	3,099
Sundry debtors	847	967	1,611	1,966	2,164
Loans and Advances	5	0	0	1	1
Sundry creditors	1,766	1,274	2,645	3,229	3,552
Other current liabilities	148	1,281	1,447	1,765	1,942
Cash & equivalents	295	4	888	1,545	2,657
Total Assets	3,762	4,676	5,187	6,186	7,342

Source: Company, YES Sec

Exhibit 10: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	8,590	11,364	12,838	15,671	17,243
Operating profit	1,130	948	1,012	1,567	1,914
Depreciation	143	197	316	410	444
Interest expense	188	110	157	184	200
Other income	15	(16)	(20)	70	116
Profit before tax	815	625	518	1,044	1,387
Taxes	-	63	128	263	349
Minorities and other	-	-	-	-	-
Adj. profit	815	562	390	781	1,038
Exceptional items	-	-	-	-	-
Net profit	815	562	390	781	1,038

Source: Company, YES Sec

Exhibit 11: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	1,003	736	676	1,228	1,586
Depreciation	143	197	316	410	444
Tax paid	-	(63)	(128)	(263)	(349)
Working capital Δ	(337)	(208)	704	(70)	(39)
Other operating items					
Operating cashflow	809	662	1,568	1,305	1,642
Capital expenditure	(523)	(1,026)	(610)	(610)	(410)
Free cash flow	287	(364)	958	695	1,233
Equity raised	2,802	63	(0)	-	-
Investments	-	-	-	-	-
Debt financing/disposal	(2,766)	279	82	157	87
Interest paid	(188)	(110)	(157)	(184)	(200)
Dividends paid	-	-	-	-	-
Net Δ in cash	144	(290)	884	656	1,112

Source: Company, YES Sec

Exhibit 12: Du-pont analysis

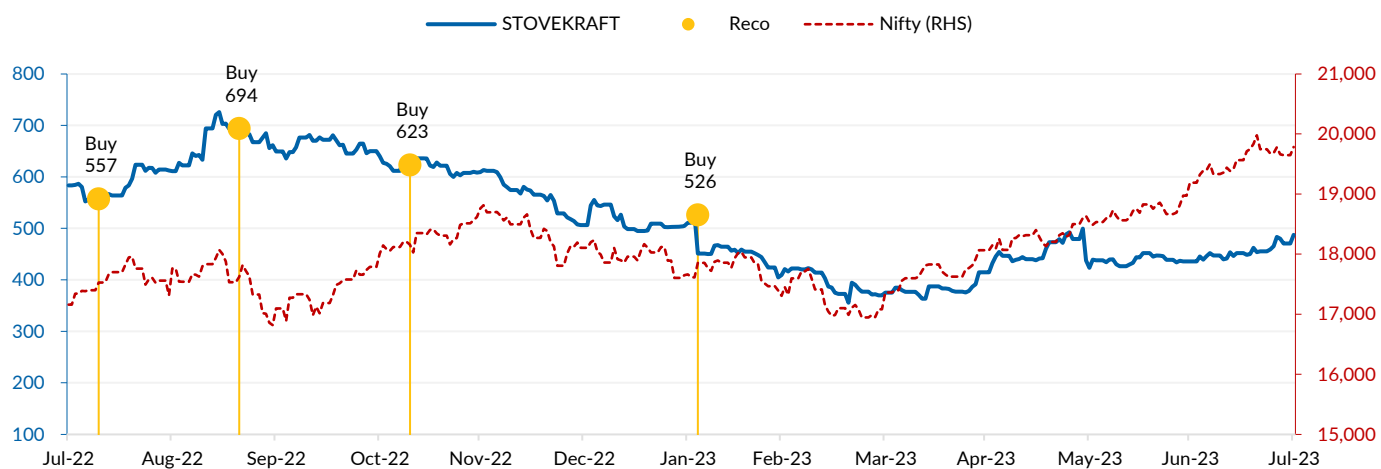
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	1.00	0.90	0.75	0.75	0.75
Interest burden (x)	0.81	0.85	0.77	0.85	0.87
EBIT margin (x)	0.12	0.06	0.05	0.08	0.09
Asset turnover (x)	1.65	1.75	1.54	1.52	1.43
Financial leverage (x)	4.31	1.95	2.17	2.33	2.27
RoE (%)	67.5	16.9	10.2	17.7	19.5

Exhibit 13: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Revenue growth	28.2	32.3	13.0	22.1	10.0
Op profit growth	234.5	(16.1)	6.7	54.9	22.1
EBIT growth	310.4	(26.7)	(8.1)	81.7	29.2
Net profit growth	2,468.8	(31.0)	(30.6)	100.1	32.9
Profitability ratios (%)					
OPM	13.2	8.3	7.9	10.0	11.1
EBIT margin	11.7	6.5	5.3	7.8	9.2
Net profit margin	9.5	4.9	3.0	5.0	6.0
RoCE	32.4	18.5	14.5	22.9	24.8
RoNW	67.5	16.9	10.2	17.7	19.5

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
RoA	15.6	8.7	4.7	7.6	8.6
Per share ratios					
EPS	25.0	17.1	11.9	23.8	31.6
Dividend per share	-	-	-	-	-
Cash EPS	29.4	23.1	21.5	36.2	45.1
Book value per share	92.5	110.7	122.6	146.4	178.0
Valuation ratios					
P/E	19.5	28.5	41.0	20.5	15.4
P/CEPS	16.6	21.1	22.6	13.4	10.8
P/B	5.3	4.4	4.0	3.3	2.7
EV/EBIDTA	14.2	17.7	15.8	9.9	7.6
Payout (%)					
Dividend payout	-	-	-	-	-
Tax payout	-	10.1	24.7	25.2	25.2
Liquidity ratios					
Debtor days	36.0	31.1	45.8	45.8	45.8
Inventory days	66.3	69.8	65.6	65.6	65.6
Creditor days	75.1	40.9	75.2	75.2	75.2

Recommendation Tracker



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