05 November,2024

To,

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai-400 001
Scrip Code:543260

National Stock Exchanges of India Ltd.
Exchange Plaza, Plot no.C/1,G Block,
Bandra-Kurla Complex,
Bandra(E),Mumbai- 400 051
NSE Symbol: STOVEKRAFT

Dear Sir / Madam,

Subject: Intimation under Regulation 30 - Transcript of Earnings Call

Pursuant to the Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings call held on 29 October 2024.

Please also note that the transcript of the Earnings call will also be made available on our website https://stovekraft.com/investors/.

Request you to kindly take the same on record.

Thanking you,

Yours faithfully
For Stove Kraft Limited

SHRINIVAS PRANESHACHARYA HARAPANAHALLI
Digitally signed by SHRINIVAS PRANESHACHARYA HARAPANAHALLI
Date: 2024.11.05 16:56:24 +05'30'

Shrinivas P Harapanahalli
Company Secretary & Compliance Officer

“Stove Kraft Limited

Q2 FY’25 Earnings Conference Call”

October 29, 2024

MANAGEMENT: **MR. RAJENDRA GANDHI – MANAGING DIRECTOR – STOVE KRAFT LIMITED**
MR. RAMAKRISHNA PENDYALA – CHIEF FINANCIAL OFFICER – STOVE KRAFT LIMITED

MODERATOR: **MR. RONAK JAIN – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to Stove Kraft Limited Q2 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ronak Jain from Orient Capital, their Investor Relations. Thank you, and over to you, sir.

Ronak Jain: Thank you. Good afternoon, everyone. On behalf of Stove Kraft Limited, I extend a warm welcome to all participants on Q2 FY '25 financial results discussion call. Today on the call, we have Mr. Rajendra Gandhi sir, Managing Director, and Mr. Ramakrishna Pendyala, Chief Financial Officer.

Before we begin the call, I would like to give a short disclaimer. This call may contain some of the forward-looking statements, which are completely based upon our belief, opinion, expectation as of today. These statements are not guarantees of our future performance and involve unforeseeable risks and uncertainties.

And with this, I would like to hand over the call to Gandhi, sir. Over to you, sir. Thank you.

Rajendra Gandhi: Thank you, Ronak. A very good afternoon, ladies and gentlemen. And thank you very much for attending our Q2 FY '25 earnings call today. Let me take this opportunity to wish everyone in advance, a very happy and safe Diwali. A detailed presentation and press release of our quarterly performance has been uploaded on our website. And I hope, everybody had an opportunity to go through them.

We closed the first half of the year on a positive note, with robust performance in the last quarter, which confirm our belief of setting up manufacturing facilities to overcome supply disruptions. We achieved revenue growth of 33% quarter-over-quarter and 10% year-over-year, driven by enhanced operational efficiencies due to our own manufacturing that has boosted both the gross margins and operating profits.

With the start after the festival season in the Indian market and the geopolitical situation with China, we are confident in our ability to maintain our strong and established market position in the Kitchen and Home Appliances segment, supported by our diverse range of products in various categories.

As you know, the second and third quarters are typically stronger for our business. I am pleased to report growth in both volumes and realization this quarter. Also, the balance festive season looks promising, which was started with a strong monsoon, favourable economic conditions and government policies. We have consistently met consumer expectations by expanding our product offerings across all categories and introducing new categories to acquire new and young customers.

Our strategy of own manufacturing has started reflecting on our numbers in Q2 FY 2025. Stable raw material costs and operational leverage mainly due to own manufacturing contributed to an improvement in our margins. With government introducing quality control order for different small appliances will help us to boost our revenue and margins in coming quarters as we have already created the required infrastructure for manufacturing these products and avoiding the supply chain disruption. This will serve us, as an added advantage over competition.

The company is steadily expanding its footprint in the COCO and COFO retail models for the Kitchen brand. During the quarter, we added 22 new stores overall. We now have 213 stores in 13 states and 54 cities. Our efforts in marketing and launching Pigeon brand retail stores are beginning to yield dividends in terms of enhanced brand visibility. Over the last few quarters, we have concentrated on strengthening our presence across diverse regions nationwide. We are confident that these consistent efforts will have a lasting positive impact on the Pigeon brand as we drive forward with our pan-India expansion strategy.

Channel mix in Q2 was 28% from general trade, 40% from e-commerce, 13% from modern trade, 5% from corporate sales, 4% from our own retail. All the major channels reported double-digit growth over year-on-year basis, indicating strong widespread demand and successful brand traction. This robust broad-based growth across channels implies consumer acceptance of our products.

Now moving on to Q2 FY '25 financial performance. In Q2, consolidated revenue reached INR418 crores, up from INR379 crores in Q2 FY 2024, representing a year-on-year growth of 10%. EBITDA for Q2 FY '25 was INR49 crores compared to INR40 crores in Q2 FY 202, with EBITDA margins improving by 120 basis points, that is 7.7% in Q2 FY '25 from 10.5% in the same quarter last year.

Profit after tax for the quarter was INR16.7 crores up from INR16.5 crores in the corresponding quarter last year, resulting in a PAT margin of 4%, which is slightly lower than the Q2 FY '24, mainly due to the notional impact of indirect lease accounting.

Moving to H1 FY 2025 performance. The consolidated revenue in H1 FY 2025 stood at versus INR732.8 crores versus INR677.5 crores in H1 FY 2024, registering a growth of 8.2% on year-on-year basis. EBITDA stood at INR80.7 crores versus INR63.9 crores in HY FY 2024. EBITDA margin reported 11% as compared to 9.4% in the corresponding period. H1 FY 2025 profit after tax stood at INR24.9 crores versus INR24.7 crores in H1 FY 2024. PAT margins for the period stood at 3.4%.

Now I'll request the moderator to open the floor for question and answers. Thank you.

Moderator: Thank you very much sir. We have the first question from the line of Omkar Rane from Emkay Global Financial Services. Please go ahead.

Omkar Rane: Yes. Sir, I just wanted to know that we were quite ambitious about reducing our working capital loan as we mentioned in our Q1 call. Just wanted to know what is the status with that because I can see that our working capital loan has increased and impacted on the margins.

Rajendra Gandhi: On the overall basis for the year, we are continuously working on reducing our inventory and receivable days and also the flow from the cash flows. But this -- the year-end -- half year-end coincides with the festival season. And so relatively, our inventory and receivables also are in line with the business trends. But overall, for the year, we believe that we will be able to reduce it and bring it very close to 0. It may not be absolute 0, but we believe that we can bring down our borrowings considerably.

Omkar Rane: Okay, sir. My second question is around our COFO strategy. I can see in our PPT that we have mentioned that we have 2 new models under the FOFO model, which is franchisee operated and owned. So just wanted to know, if there's a change in strategy or just wanted to get a better glance of it?

Rajendra Gandhi: We have two models -- all the stores are company-owned. And we have a company-owned franchisee operated model. A very small 2 stores, which we are trying, and these are on franchise and franchisee-owned and franchisee-operated model. But the number is really small, it is only 2 stores. We are trying this model.

Moderator: We have the next question from the line of Khush from InCred Asset Management.

Khush: Sir, first, I wanted to understand what would be your depreciation number ex and interest cost number ex of the lease accounting for the quarter and first half?

Rajendra Gandhi: You want the total value of our depreciation?

Khush: Yes, so out of depreciation of INR17 crores for the quarter, how much would be on account of lease liabilities -- for the stores that we have put?

Rajendra Gandhi: For the lease -- see, there are 2 assets under the lease liabilities. We have our retail stores, and we also have some capex that we have funded through lease liability. And the overall depreciation for this is INR4.77 crores.

Khush: And what would it have been in same quarter last year?

Rajendra Gandhi: Last year was INR 1.87 crores, that is a difference of INR3 crores.

Khush: And also sure, and in the interest cost?

Rajendra Gandhi: Interest cost only on that is INR2.78 crores and corresponding period last year was INR1.1 crores.

Khush: Got it, sir. And sir, we have also taken some others, there is some INR2.7 crores other loss. Could you explain what is that? Is there -- there is some provisioning around this number?

Rajendra Gandhi: So there is a onetime provision, or we have written off, see we acquired a brand called Skava and we want them to strengthen the LED business, but as a strategy, now we have decided but the LED business remains where it is. And so since we are not using this brand, we have provided for that, and we have written off. And there is also a suppliers credit, we had bought some machines during 2021. See, it was in Swiss franc. And though we paid a little prepaid 2 of those. Otherwise, we'll end up paying next year.

So there was a forex loss because these were suppliers to it. And at that time, we have not hedged these Swiss franc, So to an extent of INR1 crore was that. So this is about INR2.2 crores is only towards that. And the normal forex plus overall, there is an impact of INR2.5 crores.

Khush: Got it. Sir, also, if I look at your product mix, in the induction cooktops in this quarter, we saw volume growth of 16.3%, but value growth is only 3.2%, and first half of the year has also remained like that only where with 13.5% volume growth, 2% value growth. So is there a need discounting happening?

Rajendra Gandhi: No. There is a considerable improvement in cost from induction cooktop. See induction cooktop, there was a volatility in the -- particularly the glass that input of glass has gone up. It was very volatile in the last 2 years, that has come back to normal. And the second thing is most of these are electronic parts that go into the manufacture of induction cooktop.

There is substantial improvement in our cost. Generally, as a strategy, we -- most of the costs we pass on, while we retain our margin. So definitely, there is a lower cost, lower realization in the induction cooktop by unit value. That's why you see that volumes have gone up and value has reasonably gone up.

Khush: And same would be the case for gas cooktops as well?

Rajendra Gandhi: No. Gas cooktop. We are actually the premium, and we have sold more of the lower-end gas stoves in this period, and we are augmenting our capacity down the premium end. So there has been a sales loss in the premium end. So overall, you will see -- that will come back. That is not a problem.

Khush: Got it, sir. And last question is, sir, how many stores, what is the final count for the year end -- for the full year for the stores that you're adding -- so right now, we would be at 213 stores. So by end of the fiscal year, where we would view this number?

Rajendra Gandhi: Generally, we are able to open between 25 and 30 stores. So assuming for the next 2 quarters, you can safely assume another 50 stores. So we begin in the third quarter, I think 260, 270 stores is where we should end up.

Khush: Okay. And for the next 2 years, you would continue to continue to aggressively add these stores, or this will plateau somewhere?

Rajendra Gandhi: I think the next 2, 3 years, we will be at least at big space, if not accelerate this. We are seeing very good outcome of this channel. And all those things that we wanted to learn, I think the learning, we did enough learning. And so we will continue to be aggressive on opening the stores. And at the time being, we believe that we will continue to we'll expand the stores at about 25, 30 stores every quarter.

Moderator: We have the next question from the line of Sharan Shankarnarayan from Yes Securities.

Sharan Shankarnarayan: Yes, as I have one question regarding the channel mix. Could you just please share that?

Rajendra Gandhi: So -- can you please repeat? I'm not able to understand what you told?

Sharan Shankarnarayan: Could you, I don't know, if I missed it, but could you please share the channel mix?

Rajendra Gandhi: Channel mix, yes, so 28% approximately is our general trade for the last quarter. E-com is just a minute, 40% is e-com, 13% is modern trade, 5% is corporate sales, 4% is our own retail then we have exports at 10%.

Moderator: Next question is from the line of Varun from Equitree Capital.

Varun: A couple of questions from my side. Firstly, the volume growth has been really subdued at around 6%, last quarter to about 9%. So where do you see this? And is there any challenge across products or channels?

Rajendra Gandhi: So it also depends on the base. I think we had a reasonably good base in the second quarter of last year. And so the volume growth is and also, the value also. So in terms of both volume value, I think we have grown at 10%. So there is also a value improvement in the product in the mix that we offer.

Varun: And where do you see this for the full year volume growth?

Rajendra Gandhi: We believe that there is opportunity for growing better than what -- because we are seeing the good demand for the festive season continuing post quarter end.

Varun: And where can we see the depreciation and interest cost stabilize going forward since most of your...

Rajendra Gandhi: Are capitalized for the capex. And for the store count, as we improve the number of -- I mean, increase the number of stores, this will go up. Otherwise, for the overall, the capex plan is almost at the fag end.

Varun: So this -- for the full year depreciation, can we continue this run rate or it will increase quarter-on-quarter?

Rajendra Gandhi: No, I think this is -- the current run rate is there. I think it's step basis.

Varun: Okay. And the other expenses had a sharp jump this quarter of around INR64 crores and INR65 crores as somewhere to INR45 crores last quarters. So what has impacted that?

Rajendra Gandhi: I can give you a breakup of the other expenses. Of course, because of the larger revenue, we have also invested -- I mean, comparably INR10 crores more on the marketing spend. And the rest of the other expenses are in line with the revenue growth.

Varun: INR10 crores?

Rajendra Gandhi: Sorry.

Varun: In the marketing spend, you mentioned is how much?

Rajendra Gandhi: I mean, INR10 crores. Okay. If you want exactly I will tell you, other expense, marketing spend, INR3 crores over and above the normal. Freight, there is an increase of INR3 crores, it's linked to the revenue. Regional salaries also is about INR1.7 crores is linked to the revenue. And there is extra job and charge is about INR1.2 crores, this is also linked to revenue. So those are -- the increment is in line with revenue growth.

Varun: Understood. And last question. I missed on the write-off part in the other income loss, which you mentioned?

Rajendra Gandhi: So major items in that. One is we have written off the brand costs that we had paid when we acquired this business of Skava. And the second is we had imported some machinery from Switzerland, and it was in Swiss franc. This is about 3 years back, but it was on a supplier's credit. And we have prepaid it a little. And there was a variance in the cost of Swiss franc. That is there's a forex loss and accounting of this capital -- capex. We have charged it to our P&L to that extent.

Varun: Okay. And for the full year, do you see the revenue growing at around 12% to 15%?

Rajendra Gandhi: We are very confident of better growth than the current 10%.

Moderator: The next question is from the line of Natasha Jain from Nirmal Bang.

Natasha Jain: My first question is just broadly to understand how the industry is doing in terms of kitchen appliances as a category now. How has been the demand pickup especially in October? And how do you see the rural demand picking up in comparison?

Rajendra Gandhi: So first, let me tell you that as a company, we believe that we'll be able to grow faster than the industry. And that is our overall objective. And regarding the demand continuing after the quarter, I can say the season has panned out very well, festive season, and we are continuing to see better demand than the quarter itself. So we believe that overall for the industry, the demand should be good.

Natasha Jain: Sir, could you call out any number in terms of how the industry is expected to grow value-wise for kitchen appliances as a segment in the third quarter?

Rajendra Gandhi: We will grow at least a delta of 10% over and above the industry growth. So we believe that the industry would have not grown to the extent that one would aspire in the first half. But then going forward, I think there is -- we are seeing good demand. So probably the industry also should be growing better than what it was in the first half.

Natasha Jain: Understood. And sir, can you give us a little bit colour in terms of how the corporate bookings have been for Diwali, how your air fryer has done?

Rajendra Gandhi: No, if you only talk about the air fryer, of course, we missed planning, we did not plan enough. And so we were a little bit stocked out for this item. But overall, I want to convey one that the demand has continued post the quarter and the season has panned out so -- I mean, the festive season has panned out well so far. This would have been very good demand.

Natasha Jain: Understood. Sure. And sir, would it be fair to say that air fryer as a category for you would be a high-margin product compared to your overall branded margin?

Rajendra Gandhi: For us, we are agnostic on margins, whichever product or category of product cities and also the channel. But when we move to this completely manufactured status that if we do an introduction of new products in 3 stages. Initially, we trade and then we manufacture, and we complete it. So air fryer is one category where, we fully make the whole product. And obviously, it will be a little relatively higher than our general business margin.

Natasha Jain: Understood, sir. And sir, you mentioned that exports as a revenue contributor, it's 10% to your consolidated revenues. So can you call out what has been the export growth on a Y-o-Y for 2Q?

Rajendra Gandhi: For the quarter, it was subdued because we are actually developing new products in line with the global trends. So for us, exports majoritily contribute from the nonstick cookware category and -- but the nonstick cookware is moving to a different coating category now. So we have equipped ourselves based on the consumer discussions that we have had. And we have set up new lines catering to this new type of cookware.

And we also have good orders, but all these will start delivering from the third -- I mean, I can say revenues -- will start recognize revenues from the fourth quarter of this year, particularly in the cookware category. So there would have been muted growth in the export business in the last quarter.

Natasha Jain: Understood. And sir, how many stores would you have converted from the COCO to COFO model in second quarter?

Rajendra Gandhi: We have 12 stores -- only in the second quarter. See of 213, I can say 35 stores [inaudible 0:24:30] 38 stores COFO stores. We have 35 COFO and 3 FOFO, 38 stores, we have converted.

Natasha Jain: Okay. And the remaining would be your COCO?

Rajendra Gandhi: Yes remaining 170 are COFO. So we would want to cap this at 171. So the way it works is we continue to open stores under the COFO model and stores that have matured moved to the FOFO model.

Natasha Jain: Got it. And sir, one last question before I get back in the queue, sir, what is your current touch point in terms of your distributor dealer and retailer count?

Rajendra Gandhi: I don't have exact numbers, but we have about 75,000 retailers on the Pigeon brand through the distribution GT channel. And we have about close to 600 distributors. But these are not exact numbers. These are approximate numbers that I'm giving you.

Moderator: We have the next question from Mr. Yash Dedhia from Maximal Capital.

Yash Dedhia: Sir, I just wanted to first ask you about the volume growth that we are projecting for the -- your guidance was around 14%, 15% for the volume to grow. And incrementally, 3% to 4% would come from pricing, which is not in our hand, but sir, in at least our first half and my first half, it includes Q2, which is a strong quarter for us. The volume growth has not been great where we could project that 14%, 15% volume growth is still significant for the entire year?

Rajendra Gandhi: So as our guidance for the whole year change or we still maintain that and are confident of achieving growth more than 15% in second half to compensate the whole year. So we believe that the demand continues to be stronger than even the second quarter. So we are very confident of delivering better than the growth that we were able to do in the first half. And definitely, we'll beat the industry growth by 17% definitely.

Yash Dedhia: Okay. Okay. And sir, second question on the retail store side? What is our SSSG for stores which are now older in 1 year on this quarter?

Rajendra Gandhi: They are definitely performing better than the new ones. Currently, our average -- I mean for the last H1 the average is INR3.56 lakhs. Of course, it is improving. But our greater than 1-year stores are delivering upwards of average of INR5 lakhs.

Yash Dedhia: Okay. So it has definitely grown from where they were...

Rajendra Gandhi: Yes, yes.

Yash Dedhia: And so incrementally, are they becoming EBITDA positive for us?

Rajendra Gandhi: For us, the whole retail channel is EBITDA positive.

Yash Dedhia: Even the new one. The COCO side. On the COCO side?

Rajendra Gandhi: So if we find any store, which is not only EBITDA positive, I can say, net cost positive beyond 6 months, then we relocate. We would not want to continue that location.

Moderator: We have a question from the line of Chirag Jain from Emkay Global.

Chirag Jain: Fairly a strong set of performance in a challenging environment. I just wanted your thoughts. I think in the media interview, you mentioned that our business could be in the range of -- the EBITDA margins would be in the range of 11% to 14% over the medium term. If you can share some thoughts around this, and so how we see, let's say, our business progressing, especially on EBITDA margins over the next 3 to 5 years, that would be very helpful.

Rajendra Gandhi: Thank you, Chirag. Of course, very challenging question. But I'll tell you where we are heading to. We are improving both as the operating leverage gets in, our cost will get spread over the overall revenue. So operating leverage, we see that improvement coming from that. And of course, on our gross margins because more and more products are now being manufactured within the facilities of Stove Kraft. Our gross margin also, we believe will also improve. So with these 2 both totaling up, so the average number will hover between that 11% to 14%. We believe definitely in the medium term between 3 to 5 years, we'll definitely hit that 14%.

Chirag Jain: Okay. And in terms of your current set of manufacturing infrastructure, what kind of revenues we could do, let's say, assuming there is enough demand over the next 2, 3 years?

Rajendra Gandhi: Revenue?

Chirag Jain: Yes, revenue potential that we have from the current manufacturing setup?

Rajendra Gandhi: There's no new addition it is only operational, what I call maintenance capex. We should be able to get to double the revenue of this year's revenue.

Chirag Jain: Okay. So there is a big scope for operating leverage ahead in terms of the infrastructure investments that we have done over the past few years?

Rajendra Gandhi: Yes.

Chirag Jain: Yes. Also, on the export front, you mentioned that it would be 16%, 17% of the revenues over the near term and especially with the addition of new players. Can you throw some light over here? I think we already supply to Walmart. So any new customer addition, major addition that is happening are already in the process, if you can share some thoughts over there?

Rajendra Gandhi: Chirag, I want to tell you that Walmart has publicly announced that they would want to buy more and more from India from the current 3 billion to 10 billion. They consider us also there one of their strategic and important supplier. They have also given us new lines for which I mentioned that we are setting up -- we have set up rather facilities for the new coating lines. And with that, revenues will start flowing in from the -- I mean Q4 of this financial year. And we are also in talks with a very -- it is a very advanced stage, it's now that we have closed the agreement with them, in a very advanced stage of discussion with a large global retailer.

And we are very confident that with these two additions and with the growth that is already happening, we'll be able to on an increased revenue base hit 16%, 17% contribution from our exports.

Moderator: We have a question from the line of Mr. Hitesh from Kosha Capital.

Hitesh: Sir, on the demand front, would it be possible for you to give a sense how the demand is across different product categories like the cooker, the cookware, small appliances. If you can give some sense on how this demand has been in the festive across categories?

Rajendra Gandhi: So primarily, for us, these are three categories. The cookware contributes out the pressure cooker and non-stick cookware. The cooktop contributes gas stove and induction cooktop. And then is the rest of the appliances. The appliance is definitely, it's growing faster for us because of the strategy that we have adopted. We have started manufacturing these.

Most of the appliances are completed -- has got to the stage of complete manufacturing within the facilities of Stove Kraft. So what used to be the largest category, the cookware category is now replaced by the appliances category, followed by cookware because pressure cooker is of course, we have again started growing now in absolute numbers, we are already getting to the leadership now.

And the cookware both with the new lines for our exports and the cook -- completely automated line for our cast iron foundry, we will again -- we will see good growth coming from our cookware categories as well. On the cooktop, we have completely exited the co-branded business with the company. So today, we only cater to the consumers who are directly buying these gas stoves, but our induction cooktop, we had by absolute numbers we are at leadership position. Both the -- the third category that is contributing to our revenue is the cooktop category. To answer your question, the highest contribution, highest growth will come from our appliances category.

Hitesh: Sure. And does this have anything to do with the BIS standards, which have kicked in? And if you can also comment how the industry is trying to cope up with the standard? Are there a lot of inventory that has already been built up by players and hence, the impact of this could come with a lag or do you see this benefit coming to you in the near term itself?

Rajendra Gandhi: I can tell you that we have fully equipped today. We don't have to depend for any of these product categories that we wanted to be, or we already are dealing in, would depend on any completed build unit for our -- for importing of this. So today, we have beginners' licenses for across all the product categories that we operate in. Definitely, I'm sure it's not only about getting advantage because of the supply disruption, but there is also an advantage that because we have the capability to make it within the facilities of Stove Kraft and with the aggressive price point that we operate in, definitely, we have an edge over competition.

There are some categories that we have again in the recent times, started manufacturing. I will name one that is OTG that we used in the import and sell. We are already doing more than 10x of the business that we were doing in the past just because we started manufacturing them. So there are -- many of these categories, like you said, maybe people would have stopped them and all that. But as -- in the days to come with the QCO orders strictly being implemented, definitely, Stove Kraft has advantage of manufacturing them, and we have a ready consumer various channels to operate to cater to the consumer requirement.

Hitesh: Sure. And sir, my last question is, if you can also touch upon how the demand is for the premium vis-a-vis the mass economy segment, any change in the trend -- any different trends that you're seeing across the 2 segments, premium vis-a-vis the mass?

Rajendra Gandhi: Stove Kraft makes premium products; the pricing is not premium. We make products with completely stacked features, high quality, we don't compromise on them. It is definitely not priced at the level of generally what so-called premium brands price them. But the products are not -- so we make example is on air fryer, or our new vacuum cleaners or the electric pressure cooker that we make or any of those products, they are all feature wise, quality wise, premium products.

So today, the Indian consumer is very -- I mean, we still believe the Indian consumer for a long term will be cost conscious. And if they see value in these products, they are the larger category will opt for this category of products. And so we actually make premium products. These products are not sub-premium.

Hitesh: Okay. Sure. And sir, this whole export strategy that you are around, would this be sold under Stove Kraft's name, or would it be white label products that will be supplying to Walmart and the other retailer that you were mentioning?

Rajendra Gandhi: The current exports to retailers like Walmart, these are all white label. We also have our brand exports this referring to the Indian diaspora, but it is relatively small. Maybe in the future, when we start our exports e-commerce play, the brand exports will start contributing. But today, the arrangement with these retailers like Walmart is all white labelled.

Moderator: We have the next question from the line of Mr. Pritesh from Lucky Securities. Please go ahead.

Pritesh: Sir, my question is with respect to the other expenses. So first of all, congratulations for taking the GP up on the last 12 quarters that I see you have obviously moved your gross margin from 32% to 38%. But it is surprising that nothing of it has flowed to the EBITDA. So on the other expense line, if you could tell us on a Y-o-Y basis, the key cost item and what is the movement? And why is it that the 600 basis point is not flowing through the EBITDA and this observation is not for this quarter, let's say, 12, 13 quarters, I'm trying to assess and then ask you?

Rajendra Gandhi: Thank you, Pritesh. Of course, as you have well understood, we have improved on our gross margins. The impact to -- there is improvement in EBITDA. Definitely, there is an improvement from EBITDA. We were at about 8.4%. We have moved to 10.7%, but it's not reflecting on our PBT or PAT. Three major reasons. One, of course, in this quarter, we have had some one-off costs that were linked to both some capex derailment, I can say, I mean, not capex, brand derailment and one forex loss on the capex that is approximately INR2.6 crores.

The second expense as we continue to open stores, and we did some lease financing of our capex to the extent of about INR32 crores. So this gets written off completely in -- during the period of the payment of this lease. So this is less than 5 years. So this is a little pre-ended cost, I can say. To that extent of about INR5 crores what you see, there is an additional marginal cost that is being incurred in the post EBITDA number.

Pritesh: No, I'm asking you everything pre-EBITDA, nothing post-EBITDA. So pre-EBITDA if you could tell me the other expenses movement from INR52 crores to INR65 crores, same quarter in 2 years.

Rajendra Gandhi: Yes, Ramakrishna...

Ramakrishna Pendyala: See the other end expenses have gone in line with the sales growth. So basically, we have spent some additional marketing spend of about INR3 crores, and then that the outward freight had gone up by INR3 crores compared to Y-o-Y basis. And then we also have -- we are increasing the retail stores and then the retail stores had this salaries and expenses to the extent of INR1.7 crores, there is increase. And then as per the standard -- as on a standard -- accounting standards job of charges are reported as other charges, with that there is an increase in line with the sales growth. So overall, about INR10 crores of expenditure has gone up. But those are all, we see that it is in line with the sales growth.

Pritesh: Sir, your expense is up 25%. You are making the account all the expense in line with sales growth. So there could be something which is not -- which is outside the sales growth, right?

Ramakrishna Pendyala: The marketing expenditure, which we spent may have not be for the month, of course, that the sales step realized in the subsequent months as well. Of course, yes, I agree with you that it is not in proportion to the sales growth. But yes, these are all the expenses directly related to the sales.

Pritesh: So should I conclude this way that there is no operating leverage in your model at all?

Rajendra Gandhi: No, no, no, no. I think the understanding is not correct. There is an operating leverage in the model. There has been front-ended costs. Most of it will reflect in people costs because we have fully now -- fully all the manufacturing facilities will get fully operational, but we have invested on all of them. So definitely, there is a front-ended costs on the people cost.

What Ramakrishna said is some investment has happened in marketing, additional marketing spend, but that is for the future. And in the one-off item is that to INR2.6 crores additional cost that has come in this quarter.

Pritesh: Okay. Sir, you have beautifully managed your growth for all these years. You have created a very good backward integrated capacity. You have gone through the good round of gross margin expansion. The only thing which is probably left is to get operating leverage in the model. You're far ahead in terms of competition in your thinking. I think the last thing is that these things should now translate into operating numbers and operating leverage. So in your opinion, when should it start getting fully reflected?

Rajendra Gandhi: I think you will start seeing immediately from this quarter, but this is not that it will be the complete stack that we want to do. If you really want to see that, I think you'll have to have patients for the next 4 to 6 quarters. But you will start seeing that operational leverage panning out immediately from this quarter, Q3.

Moderator: We have the next question from the line of Naitik from NV Alpha Fund.

Naitik My first question is on similar lines from the question of an earlier participant. So when I look at your EBITDA margins, which is close to 11%, 12% for this quarter. And when I look back in 2Q '23 and the 2Q '22, you had done similar margins, but which was on a much lower gross margin base, say, 33%, 34% gross margin base. So now I want to understand this cost structure better below gross margin from gross margin to EBITDA margin. So if you could just explain why are we not seeing this flow through? Because on 32%, 33% gross margin we have done 11% of EBITDA margin already. And now at even 38% gross margin, we are still at 11% to 12% EBITDA margin.

Rajendra Gandhi: So on the same line but let me repeat. So there is a one-off cost in this quarter. Definitely, that is giving you some drag on the EBITDA margin. Second is we have fully equipped the whole manufacturing facility. And that has -- that while the capex is done, all that will start reflecting in increased revenue and increased gross margin. So that has to start, it is started, but is not that completely it is reflecting in our numbers. So there is a people cost increase. It is not in proportionate -- proportion to the growth in business, but that business growth is ahead of our costs.

Naitik: Right. Okay. Two follow-ups on the same. So can you just explain what percentage of your other expenses would be variable in nature, which would be linked to sales?

Rajendra Gandhi: See, almost you can consider as we go forward, 2% improvement in our overall expense after the gross margin.

Naitik: No, sir, my question is what percentage of your cost other than the employee cost is variable or is linked to sales?

Rajendra Gandhi: Variable cost is not only the employee cost. In fact, employee costs...

Naitik: No, I'm saying except, except employee cost, all other costs. What percentage of that would be, say, variable in nature? And what would be fixed in nature?

Rajendra Gandhi: 20% is variable.

Naitik: Only 20% is variable. Okay. And my second question is in terms of employee costs, are we done with hiring, whatever employees we had to hire, or we are still looking at hiring more and this cost us?

Rajendra Gandhi: We have the complete team in place both for our manufacturing and other operations, corporate operations of the company.

Naitik: So this should not increase x of just let's say yearly increment that happens, the employee cost?

Rajendra Gandhi: We believe that there is no other increase other than the inflationary increase that every year we will have to.

Naitik: Okay sure. That’s it from my side. Thank you.

Moderator: Thank you. ext question is from the line of Harsh Shah from Reera Holdings. Please go ahead.

Harsh Shah: Can you give us the absolute volume data for current quarter, preceding quarter and Y-o-Y quarter?

Rajendra Gandhi: You want absolute numbers? Or do you want that...

Harsh Shah: Absolute numbers...

Rajendra Gandhi: You want the absolute value?

Harsh Shah: Not volume, million units -- the volume which we have sold?

Rajendra Gandhi: Okay. While it is very competitive, sensitive still, I'll share it with you. There is no problem. For the quarter, we were at 14.8 lakh units for pressure cooker. For cookware, we were at 26.75 lakh units, for gas cooktops, we were at 2.5 lakh units, for induction cooktops, we are at 4.99 lakh units. For all the small appliances put together, we were at 55 lakh units. And of course, the LED, we were at -- sorry, and correct the small appliances it was at 31 lakh units. And for LED, it was INR14 lakh units.

Harsh Shah: Okay, sure. And sir, can you elaborate it a bit more on the gross margin, 13% peak margin or can we improve further from here? You said that will you do more in house manufacturing, but we are already around 90% to 93%.

Rajendra Gandhi: Your voice is tracking. Can you please repeat?

Harsh Shah: Is this better?

Rajendra Gandhi: Yes. It is better now.

Harsh Shah: So my question was in terms of gross margin, can we take the 38%, 38.5% is the peak gross margin or we can improve from here on as well because we mentioned that we will be doing more in-house manufacturing, but they're already at 90% to 93%?

Rajendra Gandhi: Yes. So we -- when I say complete manufacturing to manufacturing, there is a difference. Most of the products we are getting to complete manufacturing. And we -- our endeavor is to improve from here. This is where we wanted to first get to. And I think we have achieved what we wanted to. But there is a scope for improvement, and we are confident to improve from here.

Harsh Shah: Okay. And sir, have we taken any price hikes or price cuts during the quarter? I joined the call late, so why I might have missed that.

Rajendra Gandhi: We have been continuously trying to adjust our price to get to the gross margin that we aspire to. So I think we are there. But we also believe that there is scope without actually penalizing our consumers, we can still have better margins. So we are working on that. I'm sure we -- in the quarter ahead, you will see little improvement gradually on our gross margins.

Harsh Shah: Okay. And sir is there any element of manpower cost that sits in your other expenses?

Rajendra Gandhi: No.

Harsh Shah: Because you mentioned that...

Rajendra Gandhi: Small portion, one small portion. So the retail sales team, which are not directly on the roles of the company, this gets into the other costs, yes.

Harsh Shah: And roughly how much that would be?

Rajendra Gandhi: I'll give you a number exactly just a minute. INR1.7 crores for the quarter.

Harsh Shah: So is that incremental in this quarter? It's been there always, this INR1.7 crores number?

Rajendra Gandhi: Yes, it's incremental for the quarter.

Moderator: We have next question from Resha Mehta from Green Edge Wealth. Please go ahead.

Resha Mehta: Sir, the first question is on the general trade channel. So -- have you seen the pressure on this channel having eased or any change there because this channel has been under pressure for quite some time now. So how are you reading it and especially in light of the current festive season panning out?

Rajendra Gandhi: Yes. For the period that we have reported, we were seeing pressure on the channel, but I think the channel has come back strongly in the festive period post the reporting period also. So I think that is getting back to normal. It was experiencing some pressure it has actually a lower contribution. So our GT contribution for the period reported is only 28%. Normally, it used to be about 30% in the range of 32% to 35%, but we believe that as the festive season is panning out well, the GTs will -- general trade channel is also contributing well. So the -- I think the pressure is off now.

Resha Mehta: And what about the rural MFI channel?

Rajendra Gandhi: The MFI channel is going through -- because of restrictions or pre and post-election period, it has to come back to the normalcy. It is not at the level it used to be.

Resha Mehta: Got it. And then exports, we want to enter the U.K. market in this financial year? So has that happened?

Rajendra Gandhi: So we have started working. We are working with the largest retailers there already.

Resha Mehta: Okay. So we have started exporting there. And on the balance sheet side, so I just wanted to understand that how many of our partners will now be covered under channel financing?

Rajendra Gandhi: Majority of the business, both for terms of safety, all our channel financing arrangement is without INR3 crores. And almost all of our business where, I mean, our -- are covered through channel financing. There could be some players -- I mean, there -- we are very confident that we do business directly. But in the course of the business in the quarters to come, 100% of our domestic business will move to channel financing.

Resha Mehta: And what would that be at current level, we're not yet at 100% so?

Rajendra Gandhi: No. So there are two types of customers that we were very short-term credit, like 7, 15 days, we have prepared that we catered to them directly. And so that could be almost, say, 50% of our business.

Resha Mehta: Okay. On the debt side, so I think I missed this. So we want to reduce our fund-based debt almost...

Rajendra Gandhi: All of the capex so far, all of the capex has been funded from the balance sheet for the company. And so the contributions have been utilized for this. But we have -- in spite of the growth in the overall size of the business, we have maintained the debt at the level. We will start seeing reduction the fund-based debts in the quarters ahead.

Resha Mehta: And about the BIS certification, can you just elaborate, I mean, in terms of the industry, the entire industry's readiness towards this compliance and how can it benefit us? And how can we leverage that? Because my understanding is that for a lot of the product categories that we are already in, there's not much high import.

Rajendra Gandhi: No. And most of the appliances in this country, which would not have a very large scale, most of them, it was easy to import, and sell is more of a kind of a trading commodity Several of them were 100% imports. Most of them had both domestic and import content. Today, if somebody has to be serious in that category, the only way is they have to manufacture in the worst case, at least assemble the product within the country only then they can have that BIS certification and so...

Resha Mehta: So how would you say is the industry readiness, the local small manufacturing units or the smaller brands that are there, they already have these certifications in place?

Rajendra Gandhi: Not all the categories, there are some categories where very less manufacturing existed in that country. To just name some of them I'll tell you, and there are hardly any air fryer manufacturer. There was hardly any chimney manufacturer. There was hardly any OTT manufacturer. So it is not only these, limited to this, but there are several of these categories, which they of course when they believe that as the need is arose now, there will be more and more manufacturers. But today, we are ahead of the curve. It's not that we'll be the only one to be manufacturing this product. And when we get into manufacturer, we get into the company.

Moderator: Sorry to interrupt. The line for management has been disconnected. Please give us a moment while we connect them. Ladies and gentlemen, we have the management on line with us.

Resha Mehta: Yes, I was asking on the BIS certification part. And just this last one there that why is this expected to be enforced?

Rajendra Gandhi: So there are different products at different stages. It's not that all of them are. But at the moment, the way it looks, unless it is extended in the next 6 months, all of these products, any of the kitchen appliances have to be under the BIS.

Resha Mehta: Right. And lastly, I just wanted to understand our sales model. So -- is it that the same salesman actually goes to a GT channel and sell all the products that we have in our portfolio? Or have we defined some categories across our sales personal?

Rajendra Gandhi: So for us, all these categories fall under the same channel and the salesperson who is for that area, whichever area he is catering to will go to all the stores that are dealing with our products, not necessarily every dealer will deal with the complete range. There could be different dealers dealing with different products, but for the region he will be the salesmen. We don't have multiple salesmen for different products. At the moment, we don't have that so much.

Moderator: Thank you. We have the next question from the line of Shreyans from Svan Investments. Please go ahead.

Shreyans: Festive greetings to the team. Yes, sir. Sir, my first question is you spoke about improving gross margin, but I'm just trying to understand, sir, we are already at 92% in-house manufacturing. And we're not increasing any capacity going forward. So how will our gross margins improve?

So, I think there are only two ways out either you improve your product mix, or you take price increases of premiumization, as you call it. But I think you've not spoken on those 2 lines. So how will we improve our gross margin, sir?

Rajendra Gandhi: Obviously, we definitely intend to improve -- I mean, improve our price structure because we feel there is a lot of flexibility there. We are very aggressive in our pricing. We would definitely not want to tax our consumers too much, but a very small increase in our prices in whichever categories, we feel we have bottomed out on the cost. So we definitely have price increase there. And when we say 92% is manufactured. There is -- these are just -- we are getting there now about the there's still improvement in getting to 97%, 98%. But as we manufacture more and more of that product within the facilities of Stove Kraft, our gross margins will also see improvement.

Shreyans: But sir, because of these efforts, what kind of improvement can we build in? Like do you think we can improve from 38% to 42%, 44%?

Rajendra Gandhi: I don't want to guide you to 42%, 44%, today in the short -- in the next 4 to 6 quarters, you can definitely expect us to deliver 40% if not better than that, but 40% is what you should expect us to deliver.

Shreyans: Okay. And my second question is for the CFO. If you want to see your notes to accounts, Note number 3, can you explain what does that mean derecognized INR132 crores I'm not sure if it's INR13 crores, AS, 109, so can you explain that note?

Ramakrishna Pendyala: That is we are doing channel financing with the one of our channel financing partner. So that sale which whatever we discounted through them, that is not part of the receivables. So that's what it's called a channel financing.

Shreyans: So you -- what -- does it impact the P&L in anyway?

Ramakrishna Pendyala: No, it's a balance sheet item. So to this extent the receivable was [inaudible 63:07] channel finance.

Shreyans: Okay. All right. Thank you so much and all the best.

Moderator: Thank you so much sir. Ladies and gentlemen, in the interest of time, we take this as our last question for the day. I would now like to hand the conference over to Rajendra Gandhi sir for closing comments.

Ramakrishna Pendyala: Thank you, all of you for your patience for listening to us. I hope we have addressed all your questions, but if you have any further inquiries, please feel free to reach out to us directly or contact our Investor Relationship partner, Orient Capital. Thank you. Wishing you all a very, very safe and Happy Diwali. Thank you again.

Moderator: On behalf of Stove Kraft Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.