February 08, 2023

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 of SEBI (Listing Obligations and Disclosure Requirements) Regulations,2015: Transcript of Earnings Call

Pursuant to the Regulation 30 of Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings call held on February 02, 2023

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

Request you to kindly take the same on record.

Thanking you,
For Stove Kraft Limited

RAJENDRA GANDHI Digitally signed by RAJENDRA GANDHI Date: 2023.02.08 17:28:36 +05'30'

Rajendra Gandhi
Managing Director

“Stovekraft Limited Q3 and 9M FY '23

Earnings Conference Call”

February 02, 2023

MANAGEMENT: **MR. RAJENDRA GANDHI – MANAGING DIRECTOR – STOVEKRAFT LIMITED**

MR. BALAJI A.S – CHIEF FINANCIAL OFFICER – STOVEKRAFT LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Stovekraft Limited Q3 and 9M FY '23 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 then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rajendra Gandhi, Managing Director. Thank you, and over to you, sir.

Rajendra Gandhi: Thank you. Good evening, everyone. I hope that all of you and your families are safe and healthy. On behalf of Stovekraft Limited, I extend a warm welcome to all participants on the Q3 and 9 months FY '23 financial results discussion call. Today on the call, I am joined by Mr. Balaji A.S, our CFO; and the Orient Capital team, who are our Investor Relations Advisors. We have uploaded our investor deck and earnings press release on the stock exchanges and on the company's website. I hope everyone had an opportunity to go through them.

As you may be aware from our previous press release, Mr. Rajiv Mehta, our CEO, has communicated his intent to move to pursue other opportunities. He played a key role in the growth and development of the company, including successful listing of the company's IPO. We thank him for his contribution and wish him great success in his future endeavor.

We would like to assure all our shareholders, employees, customers and other stakeholders that the company's operations are running normally. The company has implemented a new organization structure to help achieve its strategic goals and support future growth. The revised structure has 4 new executive positions with the Chief Revenue Officer, a Chief Growth Officer, a Chief Operating Officer and Chief Human Resource Officer in addition to the existing position of the Chief Financial Officer. And the team has already started working towards achieving the organization goals. We are actively evaluating candidates for our Chief Growth Officer to drive growth across our 3 brands and the products. And we are also in the process of onboarding the Chief Human Resource Officer.

Coming back to the financial results. I am pleased to report that the company crossed the INR 1,000 crores revenue milestone during this time in the 9 months FY '23. With another quarter of consistent performance wherein topline grew by 9%, largely driven by volume uptick. While the quarter encountered a slowdown in overall consumer demand, the company managed to grow faster than the industry. This growth was consistent in both the South and non-South markets. The prices of key raw materials continue to remain steady, which also reflects in our gross margin growth. The current gross margins have improved from 31.7% in Q3 FY '22 to 33.5% in Q3 FY '23. EBITDA margins for the quarter stood at 8.1%.

I'm excited to announce, the company is consistently adding company-owned and company-operated retail stores for the Pigeon brand. During the quarter, we have successfully added 12 more stores in Bangalore, taking the total count to 31 stores till 31st December '22, and with new stores being opened in AP, Telangana markets. We continue to expand successfully on the number of stores.

Now I will discuss the Q3 performance. The consolidated revenues for the quarter stood at INR 325 crores versus INR 298 crores in Q3 FY '22, registering a growth of 9% on a year-on-year basis. EBITDA for Q3 FY '23 stood at INR 26.4 crores to INR 21.5 crores in Q3 FY '22. Profit after tax for the quarter stood at INR 7.8 crores versus INR 11.1 crores for corresponding quarter. PAT margins for the quarter stood at 2.4%.

Moving to 9 months FY '23 performance. The consolidated revenues for 9 months FY '23 stood at INR 1,006 crores versus INR 875 crores in 9 months FY '22, registering a growth of 15% on a year-on-year basis. EBITDA stood at INR 95.9 crores versus INR 87.1 crores in 9 months FY '22. EBITDA margins reported was 9.5% compared to 10.0% in the corresponding period. 9 months FY '23 profit after tax stood at INR 41.8 crores versus INR 47.6 crores in 9 months FY '22. PAT margins for the 9-month FY '23 stood at 4.2%.

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

Moderator: The first question is from the line of Devansh Nigotia from SIMPL.

Devansh Nigotia: Just a couple of questions. So if you could just throw some light on the reason why -- what are the challenges that we are facing in retaining the top-level management? Because if you look at last 2 to 3 years, almost everybody has exited the company who have joined. Can you elaborate on what are the challenges that we are facing?

Rajendra Gandhi: I think the exit of the CEO is what I think your referring to.

Devansh Nigotia: Even during IPO we find the top-level management positions of what was, I think, 10 to 15 employees and even within that also, there has been exits, which includes the earlier CFO and also different business heads that have joined, including the recent exit of Rajiv Mehta. So the question is, overall, on the top level management churn -- high churn that is happening at the company level?

Rajendra Gandhi: Yes. These are 2 positions that we have experienced that we have changed. We have a very efficient CFO that has replaced Shashidhar. Shashidhar used to be our CFO. Of course, these are professional positions and if they believe that they would want to look at other opportunities and which sometimes are more exciting than what they are currently doing, and I don't think these are in the control of the company. And we continue to excite our team. We are a growing organization from what used to be in the last 2 years about, say, 2,500, today, we are a family of 4,500. Yes. But as in -- your question is valid. We have had 2 exits, both the CFO in the last 1.5 year and then the CEO now has decided to move. It is also both -- I can tell you, the company is also working to the next level of growth, and so we have broad-based this whole leadership team.

And as I mentioned that there are 5 executive positions to take over the current, what you call, the leadership team.

Devansh Nigotia: **Okay** so -- and we are not seeing any internal challenges for the company in retaining the top-level management, but we feel that these are all external challenges and opportunities that have come to these top level positions. Is that what we are trying to guide?

Rajendra Gandhi: Yes, I think that's the right way to look at it.

Devansh Nigotia: And can you also just elaborate more on the employee count? Because if I look at the employee cost, last 9 months, is INR 35 crores. And in FY '22, on an average per quarter, it was INR 28 crores. So that's like a 25% increase. And if I look at on a quarterly basis, on June '21, we started with INR 24 crores and December '22, within 8 quarters, we are at INR 38 - 39 crores.

So that's like I think 70%, 80% jump in employee cost from 8 quarters back to now. And on an average basis, it's almost 25%. So why there is such high employee cost increase? Can you elaborate also on the number of count and the average cost per employee, please?

Rajendra Gandhi: So there are 2 types. See, we are also a manufacturing company, apart from being a brand and a sales distribution network that the company has, and in the last 8 quarters that you mentioned, we have also continuously invested on backward integrating many of our facilities. You can see that during the preceding quarter, in spite of a slowdown in demand, we are able to grow and also increase our gross margins. It is to do with the kind of manufacturing facility that we have, we have added new lines and also backward integrated . That's it.

The count from what used to be closer to 2,500, we are closer to 4,500 people family, the number of people that have gone up. And also, you will see that in the last 8 months, there has been substantial growth on the revenues also. So from a INR 700Cr,--currently across the 9 months, we have crossed the INR 1,000 crores. So there is a substantial jump, 60%, 70% jump on the revenue and corresponding 50%, 60% jump on our HR cost.

Devansh Nigotia: Okay. Sir, because if I look at gross margin, they are actually around that range. It has been in the range of 33%, 34% only, even if I look at the June '21 quarter and in December '22 quarter. So the benefit of backward integration that you are mentioning is actually not very visible because now also the commodity deflation has also happened. So I'm not sure if -- how should we understand the benefit of backward integration flowing in gross margin.

Rajendra Gandhi: Let me explain to you, on the same time last quarter, we were at 31.7%. And relatively, the quarter that gone by, demand side was a little softer than what normally is, and we could achieve a 33.5% gross margin. It's close to a 1.8% gross margin improvement under, I can say, relatively testing times.

Devansh Nigotia: And the count that you mentioned from 2,500 to 4,500 employees, can you help us understand 2,500 is as of which date?

Rajendra Gandhi: Exact date -- I mean in the last 8 quarters more or less from -- I'll give you the exact number. March 2021, we were 2,338, and -- plus we had 854. So this is coming to 3,100 on March 2021. In the last 7 quarters, we have moved to 4,200. It's not 4,500, it's exactly 4,200.

Devansh Nigotia: And what is the kind of employee cost you are expecting in the next quarter and also for FY '24? Any estimates or any expectation on the cost?

Rajendra Gandhi: So in terms of percentage, we continue to maintain the same cost. It is only because of the revenue growth, the absolute number has gone up. In terms of employee costs or percentage to revenue, it remains the same.

Devansh Nigotia: So actually, if I look at the numbers, it's actually not seeing -- it used to be around 10% before, if I look at even March '22 or the 9 months -- 6 months before this and even historical numbers is around 10%, 10.5%, but this quarter is actually 12%. So that is why I'm trying to understand the employee cost percentage increase, and how it should be going forward?

Rajendra Gandhi: Yes. So for us, when you look at the employee costs particularly, you'll have to look at it at an annualized basis because the cost is annualized. The revenue are not the same every quarter.

Devansh Nigotia: Correct. True. So as a percentage, how much you're expecting...

Rajendra Gandhi: The percentage of our employee cost, but for the subdued cost during COVID, it is all in the same percentage. Currently, I can say, we are in the range of 10.5%. And historically also, we have been there, but for one year of the COVID times when the employee cost was low.

Devansh Nigotia: So we are expecting 10.5% for next year FY '24?

Rajendra Gandhi: Yes. I think we we'll remain in the same range.

Rajendra Gandhi: The absolute number will go up basis the growth of the company.

Devansh Nigotia: And what is the debtor & inventory amount as on December '22?

Rajendra Gandhi: One minute. I'll just request Balaji. Balaji, anything else?

Balaji A.S: Yes. So our working capital days, I think we opened this year at about 30 to 33 days. Q3 is typically a quarter where -- because we are exiting the festive season, which means that demand starts & whatever spike that we had in Q2, which means typically, we have seen that by end of Q3, the working capital looks slightly bloated. So we closed Q3 at about 37 days of working capital. By March, we expect the number to go substantially below 30 days.

Devansh Nigotia: Can you share the absolute amount of debtor and inventory?

Balaji A.S: Of inventory and debtor?

Devansh Nigotia: Debtor -- accounts receivables.

Balaji A.S: Yes. So receivables for us would be in the range of about INR 160 crores, INR 170 crores, including all the old -- including the FRL (15:40-15:50) numbers that we have. And inventories is in range of about INR 240 crores to INR 250 crores. This includes raw materials and finished goods together.

Devansh Nigotia: Okay. And how much capex we have done till date? And how much you're expecting for the year and capex you're expecting for next year?

Balaji A.S: This year, we should close between INR 70 crores to INR 75 crores. We had estimated between INR 65 crores and INR 70 crores. I think we are looking at doing between INR 70 crores to INR 75 crores for the full year. As of December, we have done about INR 62 crores of capex.

Devansh Nigotia: And next year, what is the guidance of capex?

Balaji A.S: It will be between INR 50 crores to INR 60 crores.

Devansh Nigotia: And we shared the revenue mix between export general trade and modern trade e-commerce? So can you share that number?

Rajendra Gandhi: You want for this quarter?

Devansh Nigotia: Yes, sir, for the quarter, the mix that you shared export general trade, modern trade e-commerce?

Balaji A.S: Yes. So for the quarter, general trade would have been about 45%. Q3 is typically a pretty heavy quarter for given, e-comm, the season is out and Q3 is also heavily, by the combisthat we do, so 45% of GT. E-comm would have been about 27% to 30%. Exports would be 10%.

Devansh Nigotia: And modern trade?

Balaji A.S: Modern trade would be12%.

Devansh Nigotia: And from our new outlets, how much is the sales?

Balaji A.S: The retail would, –be right now at the run rate of about INR 1 crores to INR 1.2 crores per month. We have currently -- as of December, we had 31 stores which are operational, including the ones that we got opened in December. So the run rate as of December was about INR 1.2 crores of revenue per month.

Devansh Nigotia: And what is the profitability from the new stores in December '22 month?

Balaji A.S: So from the retail stores, it's upwards of 45%, 46% constantly that we are seeing across all the categories that we are selling. And what we are seeing is that within the first 2 months -- while so far, the stores have been opened in and around Bangalore and recently, we have also gotten into AP, Telangana, but similar kind of markets. But we are seeing that within the first 2 months of operations, all stores are becoming profitable.

Moderator: We take the next question from the line of Lokesh Maru from Nippon India Mutual Fund.

Lokesh Maru: Sir, my first question is on the volume front. As in if you gave 9% growth in volume versus value or price hike, if you can guide how much was volume out of this 9%?

Rajendra Gandhi: Majority of that was from volume because this is a quarter when we offer substantial offers to our consumers, and there is not much of any price hike. We are not -- in the last 2 quarters, we have not taken any price hike. So this is all a volume growth majority. Less than 1% is coming from value.

Lokesh Maru: Sir, also given that the demand environment is tough, like we have grown, but major competitors have actually de-grown. What is the strategy going ahead into the new quarter and the new fiscal? As in are you expecting any price cuts going forward? How much of the inventory is flushed -- high-cost inventories flushed out? And how much of that growth are you expecting from any new product launches? If you could throw some light on the growth going forward.

Rajendra Gandhi: So I can say that we will continue to grow and -- both because of the existing categories that we are and consistently that we add on new product varieties and new categories that we keep on adding. Both of these should contribute to the growth. And in -- under these, what do you say, softer demand times, we push ourselves to sell them. And in normal times, definitely, we'll grow at a much better and healthier rate than what we are currently growing.

Moderator: We take the next question from the line of Pritesh Chheda from Lucky Investment Managers.

Pritesh Chheda: Sir, I have a few questions. You gave out your answers on the employee cost. I just wanted to understand on the other expenses side also. You've seen a fairly high growth. And when I compare the 9 months result, you've done spectacularly well on the revenue growth. But when it comes to the expenses growth, there is fairly high growth. And if you recall in the past quarters after the IPO, we were saying that there is an operating leverage in the system, but we don't see that. Instead, we see expenses growing much faster than the revenue growth. So first of all, if you could give some comments on that. And how do you see now the expenses panning out on the absolute basis in FY '24, not as a percentage of sales but on absolute basis?

Rajendra Gandhi: So currently, I can say that on a quarterly basis, our overall expense -- majority of these expenses are fixed in nature. The one variable -- the major variable for us is the freight cost after the materials cost in the revenue. Apart from materials, materials, of course, is a percentage again, so it's a fixed number. But apart from this, there's more of a fixed cost. So we -- apportion in terms of percentage, again, towards marketing spend, which is in the range of the 3.5%. So we believe that if this was the normal AOP so to say this quarter, we would have otherwise planned to do at least INR 30 crores more revenue if the demand was normal. And then the percentage would have panned out -- I mean the operating leverage you would have seen. Otherwise, on a normal basis, I can say with the current run rate that we have, 20% is the overall cost for us as a company.

Pritesh Chheda: So do you see the employee expense side builtup already happened in '23, and you see an absolute number similar to that in FY '24? Looks like...

Rajendra Gandhi: There is already because there are several lines that we have already added, and they're now started delivering. So there is a gestation period from the time when we build the lines to when we start actually delivering. So most of the lines have started delivering. So when the season kicks in, all this will start actually generating enough profit from them. Currently, they are in the embedded cost of the company. On the HR front, I can say, the size is -- I mean the current cost is what -- but for the inflation that we'll have to provide for, otherwise, it is at the same level. I think we can manage the FY '24.

Pritesh Chheda: My second question is on the gross margin side. We are at a modest 32%, 33% gross margin. And I can see that even in quarter 3 last year, the whole 9 months of this year. Whereas there has been a substantial change now in the material price. Why is it that the gross margin -- expanded gross margin is not flowing through? Is it -- if you could give some color there. I happen to check in other companies also. It has not happened so far, but if I recall your past calls, you used to say that aluminum, about $2,700, $2,800 is where I see gross margin shrinking because I haven't taken any price increase. But aluminum now in the last 1.5, 2 quarters, there has been actually below $2,500, $2,600, but we don't see gross margin expansion. If you could give some comment there.

Rajendra Gandhi: Yes. So we are in a really competitive atmosphere. It's not that if there is a substantial reduction in the cost of the input. It's not that everything retains in the company. There will always be a lag in what we pass on, but generally, we are a cost plus, and we pass on either the benefit or the cost to the consumer. So there you will see some lag. The gross margin growth is not coming purely by material commodity price. It is more coming because of the efficiencies and the scale. If you want to have a guideline on the gross margin, so we would want to protect the 31%. That is a minimum that we want to protect, but our endeavor is to do better. So the range I can say, on a best case basis, can be 35%, but in the worse case basis, it can be 31%.

Pritesh Chheda: So when do we start seeing gross margin expansion?

Rajendra Gandhi: I think we are already witnessing that gross margin expansion at 33.5 is quite healthy for a quarter 3. The quarter 3, more particularly, I can say, post Diwali was a little soft under those circumstances to ensure continue to grow and the margin that we have got, we believe that it is a fair margin that the company is able to achieve.

Pritesh Chheda: Lastly, the write-offs that we are taking, is it done? Or there is any more left?

Rajendra Gandhi: No, we don't have any write-off other than the accounting principles that are allowed for the ECL, I don't think...

Pritesh Chheda: No. Allowances for credit loss impairment of financial asset , is it to do with that future retail account? Or is it -- now it is something else?

Balaji A.S: No, no. So the -- what we had last year was largely because of the future retail where we had to write off close to that INR 13 crores that we did for the full year. What you're seeing currently is more in terms of what the model throws. So typically, the ECL is a model. We start providing for a particular invoice from the first day of billing at about 1.5%. So additional revenues and additional receivables, there is that small amount of receivable provision that you see. But typically, by Q4, given that we're going to reverse whatever little additional receivables we have by Q3 -- you will not see anything that is significant enough on the P&L level.

Pritesh Chheda: Sir, lastly, when I was listening to your initial commentary, you said, I'll add CEO, CRO, CGO. These terms are quite new to me. What are these positions? What is the -- I can understand a COO, which means that you will hand over the whole manufacturing of responsibility to a COO, operation that had been responsibility to COO. Is that the correct way? What is the CRO? What is the CGO? And are we going to create a Bangalore City office now?

Rajendra Gandhi: Yes. All this, let me explain. The CRO is who will be responsible for all the established businesses, revenue of the company like the Pigeon brand, but also the various channels that includes general trade, modern trade, e-commerce, the institutional sales, all the established Pigeon LED business. But there are also new and evolving businesses like we are building our kitchen business, the retail business. For us, Gilma and BLACK+DECKER also are in the growth stage. So these require different mindsets at the current time. Once they evolve and start working on their own, then they are purely revenue models.

So at the growth stage, they are different. So we have 2 separate responsibilities here, one responsible for the revenue of the company, and that's what we call as the Chief Revenue Officer; and one responsible for the growth of these products or channels, that is what I mentioned, before particular channels that is the retail channel, BLACK+DECKER business, the Gilma business and our kitchen business. This will be under the CGO.

As you rightly said, COO is the guy who will take care of the manufacturing operations of the company. Since you mentioned and asked about the city office, yes, we have identified the place, and we will be doing it up in the next 3 to 4 months. So the city office, the sales, marketing and the corporate functions will move to the city office.

Pritesh Chheda: And what will be your role now in the company?

Rajendra Gandhi: All these people will report to me.

Moderator: We take our next question from the line of Pankit Shah from Dinero Wealth.

Pankit Shah: So actually, last year, we had -- in continuation with what the last participant was talking, last year, we had some one-off where we had written-off some debtors and inventory of approx. INR 20 crores. So actually, last year, other expenses were142 crores, but that would have been at 122 plus/minus. And this year, in 9 months, we already at INR 130 crores, and probably, might end at INR 170 crores. So this is the actual raise of 40% as against the increase in sales of 15%. So what is leading to this 40% increase in other expenses?

Balaji A.S: Largely, for the last FY, the first 2 quarters, given they were largely impacted by COVID, we had a lot of restraint in terms of the cost structures, be it travel, be it marketing spend. Anything that was discretionary, there was a lot of strains that happened, and the tailwinds that we got in terms of the COVID period demand also pushed the sales out. Therefore, I think we explained during the Q1 call as well that the numbers that we are currently looking is more normalized given that there is no COVID. And we have also passed our -- even in terms of our capex spending, current year will be more normalized, given the business is more normalized this year. And these numbers are more realistic…

Pankit Shah: Your voice is not audible actually. Last sentence, what did you said?

Balaji A.S: So I'm saying the current structures that we have is more realistic given that there is no COVID story in the current year whereas last year, the costs have remained muted, especially in the first 5 months and during Q4, where, again, the Omicron had hit.

Pankit Shah: But last year, we had taken these one-offs, which are not going to recur or we aren't seeing any of them in this current 9 months.

Balaji A.S: Yes. Yes. Yes. So last year, we had about INR 13.5 crores on the ECL. Plus I think in Q4, we had about INR 5 crores, INR 5.5 crores on the inventory that we had. That INR 18 crores, INR 19 crores against that, the max that we may have this year would be between INR 3 crores to INR 4 crores.

Pankit Shah: So excluding the -- including the one-offs also, we will see a good amount of growth this year in other expenses.

Balaji A.S: When you look at YOY yes.

Pankit Shah: Yes. Okay. And you are saying this is like a normalized spend?

Balaji A.S: Yes. I think rather if we normalize the last year spend without the COVID strains being in place, the growth would not look as disproportionate as what it is.

Pankit Shah: Okay. Okay. And you think when do we see some operating leverage coming in from -- at the EBITDA level? Because you had earlier guided that we'll protect 11% EBITDA margins and probably, I think there will be some sort of it.

Rajendra Gandhi: Yes. So the endeavor is even now to move to that 11%. But I can say that as per the plan, we would have been a little short of between INR 25 crores to INR 30 crores on our revenue for this quarter. There was a little slowdown in the overall demand side. So it is a normal business. I think it would have been in the sales. We will continue to work on this to retain that 11% EBITDA margin, and we believe that the future AOPs will have a little lower cost side revenue number, but actually revenue number, the target to be a little bit higher so that we don't miss on this 11%.

Pankit Shah: And sir, what is exactly the loss of INR 6 crores, which we see in other gains and losses?

Balaji A.S: So largely, the other gains and losses, what we are seeing for the quarter is -- and the full year is on account of the forex restatement losses close to about INR 3 crores, INR 3.5 crores for the quarter ending December was on account of the forex restatement. So these unrealized losses that we have marked-to-market, if you see by end December, both CNY and dollar had shot up. So whatever our long-term liabilities that we have on capex as well as some the imports that we have is typically a 2 to 3 months' time frame payable period that we have, both of those liabilities have been restated up. That is already costing that INR 3.5 crores of loss in the current quarter.

Pankit Shah: And sir, on advertising and marketing spend, you said that we spent x percentage, and we were not able to see the demand but the demand wasn't there, so revenues weren't there as such. But is it not logical to spend the percentage based on what revenue is probably there or coming off rather than spending an x amount and then -- because we aren't seeing that demand on the ground.

Rajendra Gandhi: So yes, we have done fairly well compared to what the industry is doing, and these marketing spends are a budgeted spend that we do based on the annual plan that the company wants to do. And anyway, this is in the range of that 3.5 to 4 and well within that range.

Moderator: We take the next question from the line of Mr. Nikhil Gada from Abakkus AMC.

Nikhil Gada: Sir, my first question is in line to the employee expense part, where you sort of mentioned that it would remain in the range of close to 10.5% for FY '24 as well. Now -- and then I think after that, you mentioned that it might not be -- the growth in employee expense would only be sort of inflation related, which would be close to 10%. Sir, bit confused over there. So if you can sort of clarify this number, per se, because if most of our lines are already up and running and we are not planning -- I think we are already backward integrated by close to 85%, 90%, and hence, there might not be any new expansion plans, per se. Can you sort of guide on this, please?

Rajendra Gandhi: No. So to say, the existing lines that we have already put in place are up and running and will start delivering. It does not, in any way, infer that we are not adding more lines. There is a capex plan, and there are also lines being installed. So we are also increasing our capacities, and also for the capacities that the products that are getting to maturity, there is also a backward integration plan. And so it is not going to be limited to the number of people that currently we have, but it is not disproportionately also growing.

So some amount of cost increase will come because of the inflationary things setting in, and some amount will also be for the new additional employees that we'll add on to this family. So I don't -- but in -- to assure you, it will not breach the 10.5% because we also believe that there could be a growth, which is higher than the -- in terms of absolute -- a number that will grow because of the 10.5%. When I say the 10.5%, we are very confident that we can retain our employee cost base within that number.

Nikhil Gada: Understood. Okay. Sir, and just on the cost structure front. Initially, you used to say that the business is built in such a way that at 31% gross margins with a 20% cost structure, we will be able to achieve 11% EBITDA margins. We are already seeing the gross margins going upwards of 32.5% to 33%, but we're still not coming to that 11% sort of an EBITDA margin because of maybe the employee cost going up and even the other expenses. So can you revisit this and help us understand what would be the new guidance in your opinion? Or you'll still stick to that 31% and 11% sort of a number?

Rajendra Gandhi: So yes, in a normalized situation, if the business were to be exactly what we had planned, we would have done better than that 11% and better than the 31%. So for us, we believe that in a normalized situation, the cost of the company will be within -- at that 20%. So with the current margins that we have, we believe that we can do better than that 11%. But particularly in the last -- in the period that has elapsed, we have seen a little slowdown in the demand.

We would have otherwise grown at a little higher number than what we have actually recorded the revenue. So that is why the lagging. We want to continue to assure you that the company will endeavor to deliver that 11%. Maybe there is a miss in 1 or 2 quarters, but we will want to ensure that we deliver at least 11% EBITDA.

Nikhil Gada: And sir, just last question from my end. One of our peers was saying that there was a heavy level of discounting in the entry-level products, and that is where they saw an impact. And I think we have done well specifically because we largely target that market. Was there any specific -- particularly to this quarter significant discounts or something which we had provided, seeing the market demand and also to stay -- maintain your market share and further improve it? And if you can highlight, what extra cost was spent over there?

Rajendra Gandhi: So the third quarter after the Diwali quarter, we believe, is always push unless there is a normal demand. And we did definitely experience that the market was slowing down. And so we have our what we call unique property every year. During this time, we excite our customers with the combo offers. We continue to do that. And of course, that comes at a little -- relatively lower margin, but because of the advantage that the company had both on -- both because of backward integration and also the material cost that is the basic material cost, the advantage that we passed on, we could retain or have a normal margin that we aspire to.

We retained our margin, but passed on all the benefits to the consumer. And definitely, the offers was very exciting for the consumers. We would have ideally in the normal situation done a little better than what we did. I don't think we did bad, but we could have done better.

Nikhil Gada: But there was a specific cost related to this, that we had to splurge on in this particular quarter?

Rajendra Gandhi: No. No. Every year, during this time, we have these combo offers for our consumers where the channel contributes, we also contribute and retailers who actually sells it to the consumer contributes. It's a collective contribution aimed at only benefit to the consumer. It not that we would have been discounted every year, but the -- in the hands of the consumer, of course, it's a huge advantage.

Moderator: We take the next question from the line of Mr. Achal Lohade from JM Financial.

Achal Lohade: What I wanted to check -- if you look at the aluminum, copper, plastic and so and so forth, costs would have come down by at least 8 to 10 percentage points for us at the blended basis. So is it fair that -- as you said, we passed on most of this cost reduction, backward integration benefits in the market? Is it fair to say that all that got passed on, and hence, you kind of -- that helps the volume growth? Is that a fair assessment?

Rajendra Gandhi: Yes. So yes, anything both when there is a price or cost reduction or increase, but for a little lag, everything gets passed down in the model that we work. The consumer either stands to gain when the prices go down or of course, the customer has to pay for -- if there is a cost inflation, most of that. It is not in real time, but it gets eventually passed on.

Achal Lohade: So in that sense, if you look at this 9%, effectively, we're talking about volume growth upwards of 14%, 15%. Would that be fair assessment?

Rajendra Gandhi: I'll tell you that there is some price -- I mean there is a cost also, I can say, that has contributed, but that's very negligible. It's less than 1%. But all the other -- the revenue that we have seen -- maybe some categories also I was seeing a reflection, but the increase in the number of units that we have sold is much higher than the 9%, yes. In value terms, it may...

Achal Lohade: Yes, so that's what I was saying, because we have passed on the cost reductions. And also on top of that, the benefit of the backward integration – volume growth is actually very substantial in a weak demand scenario.

Rajendra Gandhi: Let me explain to you. If a product that are selling at 100 and because the cost has come down, I'm selling now at 80, but my revenue has remained 100. Obviously, this is 125%. So I can say that in absolute number terms, it is a much higher growth than the 9%. But in value terms, it is a 9% growth. And in the 9%, majority of that growth has come by volume, but in absolute volume terms, it is a much higher growth. It's not even 15%, it's much higher than that.

Achal Lohade: Is it possible, because earlier you used to share – in 2021, if I recall correctly, used to share the number in terms of volume growth category-wise, product-wise. Can you give us some sense about those – some of those categories…

Rajendra Gandhi: We can make a presentation separately on the volume growth, and because we are in several categories, we'll try to do this. I think we will -- generally for everybody we'll separately give you out the volume growth numbers.

Achal Lohade: Right. Sir, the second question I had, given there is an element of seasonality, right? Because we have 2Q and 3Q are heavy quarters. So -- and given we have a larger fixed cost structure, is it fair to say that in third quarter, if it is 7.8%, it would be definitely lower in the fourth quarter? And hence, that 11% is actually unlikely in the fourth quarter? Is that a fair assumption?

Rajendra Gandhi: Yes. Currently, with the cost structure that we are currently having -- and if the current gross margins, if we don't hit the revenue number that we expect, then looks like that 11% may not be -- and definitely for the year, it is difficult because currently where we are. But in a normalized situation, so that's what I would -- I mentioned it earlier to the earlier participant, that we will endeavor to get to that 11% quickly -- as quickly as possible. For this year, the 11% seems unlikely.

Achal Lohade: Understood. With respect to Q3 ?, can you help us with the absolute spend the A&P spending in 3Q and the 9 months?

Rajendra Gandhi: Only the marketing spend, yes…

Achal Lohade: Advertisement and promotional spending, which was I presume INR 14 crores in 2Q, yes.

Rajendra Gandhi: Yes. For the Q3, it was INR 7.15 crores.

Achal Lohade: So if it is INR 7.15 crores, it's actually 2.2% of revenue. Is that right?

AS BALAJI: Yes. In Q3, of course, the spends were lower in actual. Given it can be the contribution that comes right, see for us -- e-comm, every rupees that we spend that roughly marketing that we have to budget and spend in line with the sales because it's part of the TOT that we do. Whereas in the non-e-comm part, whatever we spend is more structured towards when -- as & when we run our campaigns, per se. So from a single quarter perspective, what you're seeing may look smaller, but if you see for the full year, it'll still be at that -- between that 3% to 3.5%.

Achal Lohade: Understood. Sorry, if I'm repeating this question. If you could help us with the absolute value of e-comm exports and branded?

Rajendra Gandhi: You want the revenue numbers of export & e-comm?

Achal Lohade: Yes. Yes. For 3Q, sir.

AS Balaji : So I think for the quarter, exports would have been between 8% to 10%. Modern retail was about 12%. E-comm was close to 30%, and GT was about 45%.

Achal Lohade: It was 45%. Understood. And just last question, if I may, sir...

Moderator: We take the next question from the line of Mr. Rahul Ranade from Goldman Sachs Asset Management.

Rahul Ranade: Yes. Just 2 quick questions from my side. So just to understand this allowance for expected credit loss. So will this be a write-back in Q4 once you assess the position for the whole year? Or how should we think of it?

Balaji A.S: See, I don't think it's fair to expect a write back in Q4 in one quarter. Largely, we should not see any significant provisions going forward. Write-backs can come because of significant -- see some -- more than 50% of the current liability provision that we carry is towards the future retail receivables that we have, right? I think the cumulative provisions that we're carrying is close to INR 28 crores as on date and of that future retail itself is about INR 15 crores, INR 15.5 crores that we have. So for write-backs to start flowing in until and unless we recover some money from the actual liquidation process, that portion is not going to get written back.

Otherwise, for the kind of receivables that we have, the other INR 14 crores, INR 15 crores is fairly in line with what the model asks. As and when we get slightly more efficient in absolute numbers while, I may still get efficient in terms of the number of days of receivables that will not reflect on the ECL. For the ECL provisions to get reversed, the absolute number of the receivables has to reduce. So given that we are growing at a fairly decent pace on top line, and therefore, the receivables amount in absolute terms also would keep on growing in line with that. I don't think it's fair to say that we'll start having write-backs on ECL. You should not see any significant debits to the P&L.

Rahul Ranade: And you mentioned, there was a certain percentage which we used, right, when we create a provision.

Balaji A.S: So it is what -- so the way the model works is that basis the collection patterns in the last said number of quarters, and we use anywhere between 16 to 20 quarters. Basis the actual collection patterns and how the receivables have moved from different aging buckets, then the model itself determines for different aging categories at what percentages that we have to provide for. To give you a sense, we start providing about 1.5% from the day of the billing. So whatever I would have billed on, let's say, the 29th of December, which is not even due as per the normal credit terms that I have with my customers, still the model will want me to provide for about 1.5%, right? And it is as high as about, let's say, 65% for anything that is close to 1 year aging. Beyond that, it goes up to 100%. So that's how the model works.

Rahul Ranade: And this 1.5%, is this getting influenced because of the future retail because of the large kind of number there…

Balaji A.S: **It is to do with the** collection patterns that come. It is not that 1.5% -- I would not want to say that 1.5% is high or low. Of course, minus future retail, all the numbers would have been slightly lower, but it's not that it would have been, let's say, 0, and it is at 1.5% on day one because of future retail. The way the model functions is that there is a certain percentage of provision that you're supposed to take from the day of the sale, and that's how the model works.

Rahul Ranade: And if I look at the 9-month number, this number roughly work out to 75, 80 bps. So there is a provision and then there is a write-back and this is how it keeps on continuing. So the net effect may not be 150 bps. Is that the right way to look at it?

Balaji A.S: So on ECL, I think for the first 3 quarters, we have provided close to INR 2.75 crores. For the year, we may not -- I mean for Q4, I think it's fair to say that we may not provide more than another INR 50 lakhs, INR 60 lakhs at max. And that's where the...

Rahul Ranade: And just looking at the statutory -- the number kind of in the financial results. So what it shows is, it is around a INR 78 million number on a sale of INR 875 million, right, for the full year, for the 9 months.

Balaji A.S: Correct. Correct. So again, ECL, we may not be able to relate it to a percentage of sales because it was completely based on receivables on the collection pattern. I'm saying, in absolute terms, it will not -- for the full year, it will not cross INR 3.25 crores to INR 3.5 crores.

Rahul Ranade: And just last question from my side. So the city office that was mentioned, this is more a talent retention kind of an effort. Is that the way to look at it?

Rajendra Gandhi: Yes. See, actually, the factory is a little closer to Bangalore. It is about 30, 40 kilometers from the center of the city. The sales marketing function now is a sizable number in the organization along with the finance and corporate functions. So for these people, we believe that it is -- they can operate from the city, and that is why -- of course, it also adds to the talent retention, talent attraction.

Moderator: We take the next question from the line of Harshil Shethia from AUM Fund Advisors.

Harshil Shethia: Am I audible?

Rajendra Gandhi: Yes. Yes.

Harshil Shethia: Sir, I joined late into the call. So I have 2 questions. Firstly, so what is our take on finding a new CEO for the business?

Rajendra Gandhi: Yes. So we have a new structure today with 5 executive positions. Apart from the CFO, we're working on bringing one COO. And then we have an internal movement and where we have a CRO, that is the Chief Revenue Officer. We are also looking out for a CGO to handle our growing businesses, the growth officer. We are onboarding -- already identified, onboarding on CHRO. And as I said, they will report to me, and currently, this is the new structure.

Harshil Shethia: Secondly, sir, I had this question. So how do you see the industry panning out in Jan, the demand pickup? Because overall, in the last quarter across the whole industry, the sales weren't that good. So how do we see Jan and the quarter, panning out for Q4?

Rajendra Gandhi: On a revenue basis, we have grown at about 9% for this quarter. The demand continues to be softer, but I can say, the company is doing reasonably well under the current circumstances.

Harshil Shethia: So can we see that the industry is still growing at the same single digit, but we might be able to reach double-digit numbers?

Rajendra Gandhi: Yes, we are confident of reaching a double digit.

Harshil Shethia: Sir, my third question was on the margin front. Our gross margin are being much better...

Moderator: We take the next question from the line of Aashish from InvesQ Investment.

Aashish: Yes. I just wanted to clarify the number on the credit loss that was mentioned for future retail and others. Was it something like INR 20 crores plus that was mentioned?

Balaji A.S: So I was talking about the cumulative provision that we are carrying in books. What the cumulative number is about INR 27 crores, INR 28 crores that we have on the balance sheet. Of that, almost INR 25 crores was provided by March '22 itself. And in the current year, we have provided another INR 2.75 crores to date in the 9 months. Of that INR 27.5 crores, INR 28 crores, close to INR 15 crores is in account of future retail receivable itself, where we have provided 100%.

Aashish: Okay. And sir, also wanted to understand, is there a different trend in the different verticals that we have on the sales front and in the exports e-comm and offline? And if I understand correctly, we had certain regions where we are strong. I mean I think, South, we are pretty strong. So there were levers in terms of offline distribution expansion and the additional growth from that. So putting everything into perspective, can you just make us understand how you are looking at these channels overall contributing to the growth that you would be envisaging over the next one year?

Rajendra Gandhi: This quarter and for the 9 months, we have seen good growth on our GT channel, both particularly also apart from the growth levers that we have, which also non-COVID times. So the general trade overall has grown much higher. Unlike what in the previous times during the COVID times, we were seeing very high growth with our e-commerce channels. And with our cost advantage and continuous emphasis on our exports, we are also seeing high growth on our export channels.

Aashish: So e-comm is declining?

Rajendra Gandhi: I can say, for the quarter, we are growing, but it is flat for the 9 months. For the quarter, we are growing on the e-commerce.

Aashish: Sure.

Rajendra Gandhi: For the year because of the previous times, we were not growing. We are a little flattish on the e-comm.

Moderator: We take the next question from the line of Rusmik Oza from Kotak Securities.

Rusmik Oza: Sir, one small question I had was that on the margin front, since we do a cost plus markup basis we sell, and I presume that our products are most competitive on e-commerce. Pigeon is far competitive than any other brands in the same category. Then why can't we actually do a calculation where we keep the EBITDA margins in consideration and do the markup accordingly so that at least the margins are intact, keeping in mind that we are more competitive than the peers? Some comment on this from your side, sir.

Rajendra Gandhi: Yes. The endeavor is to maintain the gross margin and to also retain the planned revenue number. If these two fall in place, our EBITDA will automatically get protected. I can say, there is a little lag on the revenue number from the planned number that we had for the year. And hence, there is a little drop on the expected EBITDA percentage. But as we move forward, I can say that we would want to have a little conservative number on the revenue number. And then -- so that the planned expenses are in place because they are more fixed in nature. But for 1 or 2 line items, our endeavor will be to ensure that we protect the 11%in the future.

Rusmik Oza: Sir, similar question. Does the management does any analysis that, okay, if you sacrifice certain volumes and increase the markup just to maintain the EBITDA margin, does it make sense on the bottom line of the company?

Rajendra Gandhi: If we continue to see our -- the strategy of the company, we are both driven by growth and protecting the margins. It's not that we would want to throw a margin for growth or we would want to throw out growth for margin. Our strategy is that we would want to continue to grow higher than the industry and protect our margin. So the lever for margin is from the gross margin and what will flow down to the EBITDA is, once we have that revenue number intact, then the gross -- I mean the fixed cost that is there, as planned, if it pans out to be 20%, then automatically, we'll have the same EBITDA number that we planned, which is to protect the 11%.

Rusmik Oza: My second question was for Balaji. If you can just give us some -- because someone asked the question, is there other income is negative by INR 5.2 crores in the first 9 months. There's a INR 5.2 crores loss over there, and it is mainly because of some forex loss. So how much of the INR 681 crores of material consumed is imported, a? And out of INR 1,000 crores revenue, how much is exports? Just I want to understand why this loss is coming in the forex side?

Balaji A.S: See, for us, imports is between 40% to 45% of the total materials that we get. While you're seeing INR 5.9 crores for the year, close to INR 3.5 crores -- between INR 3.5 crores to INR 4 crores is on account of the unrealized losses which we have restated by end December going to a sharp increase in both the CNY as well as the dollar. And this exposure is more on the payable front. As far as the exports is concerned, while we have close to 10%, 12% of our revenues are exports and primarily in dollars, we have been constantly hedging on a -- between a medium- to long-term basis in 9 to 12 months forward, and those have largely remained effective for us.

Given the payable structures are more short term in nature on the CNY front, dollar payable is insignificant for us in that sense. This is something that we are working on. Of course, we are discussing with some consultant in terms of how do we manage these forex fluctuations better. So you should see us getting some control, but the only point is, of that INR 5.9 crores which you are seeing YTD, close to INR 4 crores, is the unrealized losses that we have restated just on the December close out.

Rusmik Oza: My small suggestion actually is the management can going forward actually work out backwards, keeping in mind a particular net margin and an EBITDA margin then can actually play around with the volumes and realization could be helpful for the long term.

Moderator: We take the next question from the line of Divyesh Mehta from Dinero Capital & Advisors Private Limited.

Divyesh Mehta: Sir, I have 2 important questions relating to the employee cost. So sir, what I was trying to understand is like, as Balaji said in the initial comment also that the capex expected is around next year, around INR 50 crores to INR 60 crores. And we must be adding around 2, 3 lines in that of production. So sir, what I was trying to understand is like, at the same time, your employee cost will also increase and other expenses also increase. But in such difficult business scenario where you are outperforming the industry and you are growing around 10%. But then the same growth, will we able to maintain for next financial year because your costs are going to increase with the momentum of capex, what we are picking up and the other expenses will also increase. So the earnings momentum, your sales momentum, are you confident about it to maintain for the next financial year, considering the current business scenario?

Rajendra Gandhi: So for the 9 months, we continue to -- at the current -- for the 9 months, we have grown by 15% on absolute revenue number. And we are actually growing higher than that when you go by the volume numbers. And we believe that with the addition of products, new products, with getting advantage in cost and our manufacturing facilities certifying all this, we believe that we can grow at even a better rate than current times. Of course, for the last quarter, we could grow on value terms by 9%. We believe that we can grow better.

Divyesh Mehta: So any portion of sales, which was lagging behind it, can come in the last quarter on this financial year?

Rajendra Gandhi: Can you please explain what is it you want to know?

Divyesh Mehta: So I'm saying, any portion of the sale which was left over and which has come in the last quarter or the previous quarter due to the billing and the other reason?

Balaji A.S: No, no. So if you see Q2, also we had grown. Q2 was a strong quarter for us where we clocked close to INR 410 crores of revenue. So there is obviously no spillover from Q2 that went into Q3. And Q3, we have grown constantly across geographies, across channels and categories. So it is not that the growth has come because of -- there was some spillover from Q2 to Q3, but it is actual growth. And the growth has also been largely on volumes itself. So despite the sluggish market outlook, we have been able to achieve this kind of a growth.

Moderator: We take the next question from the line of Devansh Nigotia from SIMPL.

Devansh Nigotia: I just wanted to -- I mean, ask this question once again. But when we're guiding that the employee cost has increased so much from 2,400 -- from 2,400 to 4,200, 4,300 and even then are -- and there has also been a lot of capex in the backward integration and all. But in terms of our gross margin guidance, it is still at the same band. So if you can just help us understand the competitive intensity in the entry-level products, and how it has evolved in the last 2, 2.5, 3 years? That would be really helpful.

Rajendra Gandhi: We believe that we are catering to the largest segment of the population, and we believe that we would continue -- want to continue to deliver value to our consumers. So we will always try our best to add value -- by whatever means that bring down our costs. And while protecting our margins that we believe that it's fair and then pass on. With this philosophy and with this business model, we are able to continuously witness growth both in times when there are fair demand and when there are challenging times.

We have been experiencing this, and we -- there are some categories that we have bought into and whenever we have got into the scale of -- in the state of manufacturing, it is a mature state for the product. We are seeing that we have got the leadership in many of the categories that we are currently operating.

Devansh Nigotia: And you mentioned in the earlier that we are considering to shift sales and marketing team in a Bangalore office. So if you can help us understand at what stage -- is this discussion right now? Out of the 4,200 employees, how much your employees are in sales and marketing which will be moved...

Rajendra Gandhi: And then there is a furnishing time that could take between 3 to 4 months, and then we'll move.

Devansh Nigotia: And how many sales and marketing employees that we have in our plant as of now?

Rajendra Gandhi: So we believe that about 100, 150 -- between 100 to 150 people will go. It's the sales, marketing, finance and corporate.

Devansh Nigotia: Okay. And in terms of our inventory, can you share the breakup between raw materials, finished work and work in progress?

Rajendra Gandhi: More or less, it is in the range of 50-50. We have about INR 250 crores of inventory approximately.

Moderator: Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management for closing comments. Thank you, and over to you, sir.

Rajendra Gandhi: Respected participants, we thank you for your time today for joining and understanding the business of and us answering, trying to answer all your questions related to the 9 months that have past, the quarter that has gone. We hope that we were able to answer to your questions, but if there is anything that you need to know, please write to us. You can reach out to our investor management team The Orient Capital or you can also write to our CFO, Balaji, we'll be more than happy to answer your questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Stovekraft Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.