

Stove Kraft Limited

13 July 2021

Bloomberg: STOVEKRA IN

Reaping the benefits of “value for money” brand

We initiate coverage on Stove Kraft Limited (SKL) with a BUY rating and target price (TP) of Rs900. We have assigned 26x to FY23E EPS. SKL, a kitchen and home appliance player, has transformed itself into a “value-for-money” branded player over the years by reducing its exposure to the co-branded business. A volume leader in Gas Stove category and among the top-3 players in Pressure Cooker/Non-stick Cookware, it is the preferred brand of choice when a consumer is shifting from the unorganized branded play to an organized branded play. SKL has grown faster than competition in the last 7 years. Although gross margin is lower than competitors, EBITDA margin is comparable with peers. It enjoys industry-best working capital profile, which is likely to improve further. We believe that distribution expansion, new product launches and exports will continue to result in higher-than-market growth for SKL in the medium term. Pandemic year (FY21) helped SKL in rationalizing its cost base while a new normal in profitability has been attained with rising scale, in our view. We forecast EBITDA margin will sustain in future with growing backward integration and in-house manufacturing. We expect SKL to report revenue/earnings CAGR of 22%/21% over FY21-FY24E.

Attractive brand positioning: We have observed that branded players like TTK Prestige/Hawkins cater more to the premium segment of the market whereas SKL’s Pigeon brand (~93% of total FY21 sales) is well-known for its “value-for-money” image. Pigeon’s products offer quality at attractive price-points in a high fragmented market. At the current price-points, Pigeon’s direct competitors are largely from the unorganized segment/small players. Therefore, it is a ‘brand of choice’ when a consumer moves from unorganized to organized branded play.

SKL can outperform industry growth in our view: As per industry estimates, kitchen categories are slated to grow by ~8-15% given the favorable growth drivers and government policy support. We expect SKL to outperform industry growth, thanks to its “value-for-money” brand image, distribution expansion and new product launches. Distribution expansion will be a key catalyst for growth going forward, particularly in Western/Northern regions. E-commerce/General trade (~80% of total sales) will continue to drive strong growth. SKL has a strong foothold on the major e-commerce platforms with its “value-for-money” offerings. In FY21, majority of incremental growth came from the e-commerce channel as general trade was shut in the lockdown period. Fast-growing, white-label exports in the non-stick cookware category will also be a growth driver in the medium term.

“New normal” in profitability achieved in the pandemic year: With 28% topline growth in FY21 and revenue base of Rs8.59bn, SKL reported 13% EBITDA margin (vs ~5% in FY20), as operating leverage/cost rationalization initiatives helped boost overall EBITDA margin. With a higher proportion of fixed cost and new cost base, 12-13% EBITDA margin is sustainable.

Outlook and valuation: We expect SKL to register 22% revenue CAGR, 21% EBITDA CAGR and 21% PAT CAGR over FY21-FY24E. We expect EBITDA margin of 13.0% in FY24 (vs 13.1% in FY21). SKL has reduced its gross debt to only Rs150mn (vs Rs3.38bn at the end of March 2020), with the help of IPO proceeds and conversion of convertible debt to equity. We expect the working capital situation (currently at 27 days) to further improve with inventory rationalization and vendor financing. We expect FCF generation of Rs2.9bn over FY22-FY24E (vs Rs328mn loss over FY19-FY21). SKL is currently trading at 20.6x FY23E EPS. Our valuation multiple of 26x reflects 35% discount to TTK Prestige, which we believe is reasonable given its strong ROCE profile, industry-best working capital, volume leadership across product categories and “value-for-money” brand positioning.

| Y/E March (Rsmn) | FY20 | FY21 | FY22E | FY23E | FY24E |
|-------------------|--------|--------|--------|--------|--------|
| Net revenues | 6,699 | 8,590 | 10,631 | 12,986 | 15,428 |
| EBITDA | 338 | 1,128 | 1,329 | 1,623 | 2,006 |
| PAT | 25 | 812 | 1,007 | 1,133 | 1,451 |
| EPS (Rs) | 1.0 | 24.9 | 30.9 | 34.8 | 44.5 |
| EPS growth (%) | 72.3 | 2362.8 | 24.0 | 12.5 | 28.1 |
| EBITDA margin (%) | 5.0 | 13.1 | 12.5 | 12.5 | 13.0 |
| P/E (x) | 706.7 | 28.7 | 23.1 | 20.6 | 16.1 |
| P/BV (x) | (30.1) | 7.7 | 5.8 | 4.6 | 3.6 |
| EV/EBITDA (x) | 78.2 | 20.8 | 17.0 | 13.4 | 10.3 |
| RoCE (%) | 8.4 | 31.7 | 29.7 | 29.9 | 30.0 |
| RoE (%) | (4.2) | 66.5 | 28.7 | 25.0 | 25.3 |

Source: Company, Nirmal Bang Institutional Equities Research

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BUY

Sector: Consumer Durables

CMP: Rs715

Target Price: Rs900

Upside: 26%

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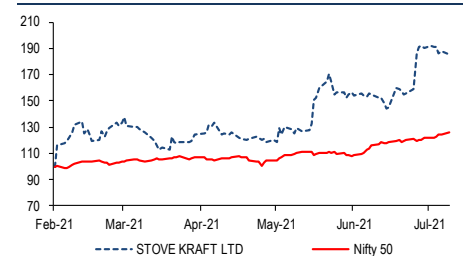
+91-9945758662

Key Data

| | |
|--------------------------|---------|
| Current Shares O/S (mn) | 32.6 |
| Mkt Cap (Rsbn/US\$m) | 24/322 |
| 52 Wk H / L (Rs) | 787/400 |
| Daily Vol. (3M NSE Avg.) | 282,861 |

| Shareholding (%) | 4QFY21 | 3QFY21 | 2QFY21 |
|------------------|--------|--------|--------|
| Promoter | 54.3 | 54.4 | 54.4 |
| Public | 45.7 | 45.6 | 45.6 |
| Others | - | - | - |

One -Year Indexed Stock Performance



Price Performance (%)

| | 1 M | 6 M | 1 Yr |
|-------------|-------|-----|------|
| Stove Kraft | 23.6 | - | - |
| Nifty Index | (0.7) | 7.7 | 45.3 |

Source: Bloomberg

A leading “value for money” brand

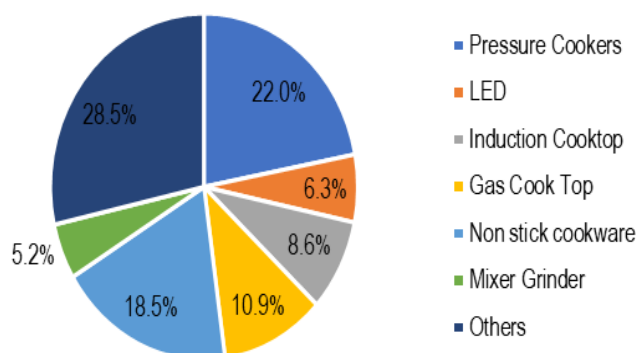
Diversified product offerings in kitchen and home solutions

SKL is engaged in manufacturing and retailing of a wide range of diverse suite of kitchen solutions. It also manufactures home solutions, including consumer lighting. As per industry reports, it is a dominant player in Pressure Cooker and market leader in the sale of free standing Hobs and Cooktops. In FY21, it derived ~22% of revenue from Pressure Cooker, ~18.5% from Non-stick Cookware followed by 10.9% from Gas Cook Top. Small appliances contributed ~28.5% to total revenue (FY21). The company follows a multi-brand approach to capture the entire value chain. It covers the entire range of value, semi-premium and premium kitchen solutions through Pigeon, Gilma and BLACK+DECKER brands, respectively.

Exhibit 1: Product/Brand profile

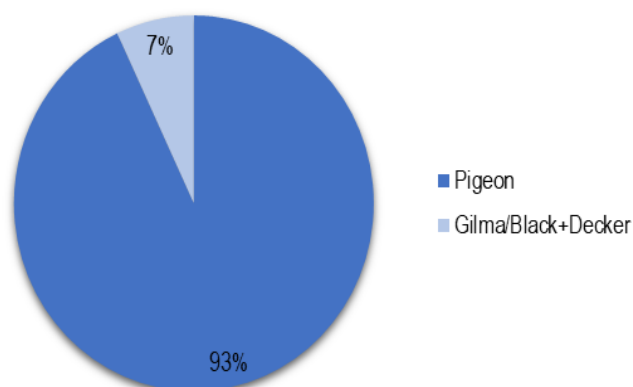
| Brand | Products |
|-----------------------|--|
| | Cookware —Pressure cooker, wonder cast cookware, non-stick cookware, electric rice cookers and titanium hard anodized cookware Cooktops and other kitchen solutions —Hobs, glass cooktops, stainless steel cooktops, induction cooktops and chimneys |
| Pigeon | Small appliances —Mixer grinders, rice cookers, electric kettles, toasters, sandwich makers, knives, steam irons, juicers, food steamers, air fryers/electric grills. Other products —LED bulbs, battens, downlights, emergency lamps, water bottles & flasks, aluminum ladders, cloth dryers, water heaters, dustbins and mops |
| Gilma | LPG stoves, massage apparatus, water heaters, chimney hobs, cooktops kitchen sinks. |
| BLACK + DECKER | Small appliances —Food processors, juicers, hand blenders, hand mixers, mini choppers, oven toaster grills, rice cookers, coffee makers, toasters, sandwich makers and kettles Other products —Steam irons, dry irons, water heaters and oil fin radiators. |

Exhibit 2: Product-wise revenue break-down (FY21)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Brand-wise revenue break-down (FY21)



Source: Company, Nirmal Bang Institutional Equities Research

Co-branding initiatives help establish strong outreach and brand recall

In 2014, the company used to have three business segments, comprising co-branding arrangements with oil companies, government business and branded business. It exited the government business in 2013 itself. The co-branded business also decreased to Rs180mn in FY21 from Rs2.5bn in FY14. As a result of its co-branding initiatives over the eight years with LPG companies such as Indian Oil Corporation Limited and Hindustan Petroleum Corporation Limited to utilize their sale and distribution channels, the Pigeon brand has enjoyed a wide customer outreach and continues to have a high brand recall value.

The margin on the co-branded business was not in line with the branded business. Overall, the business has transformed in terms of business-mix, which has resulted in improved gross margin for SKL. Gross margin has improved from 26% in FY14 to 35% in FY21. Control on the business has also improved, with increasing proportion of the branded business.

Exhibit 4: Co-branded business has come down...

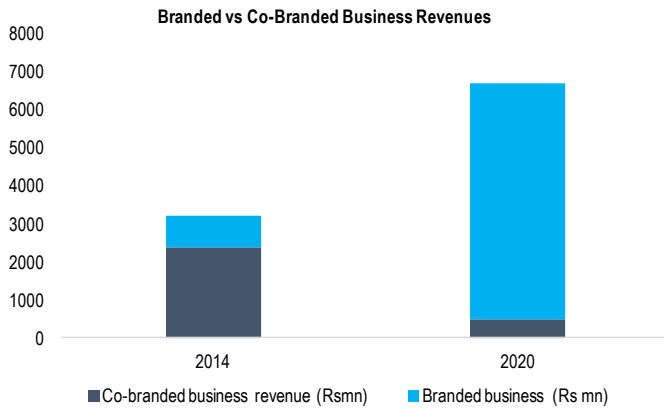
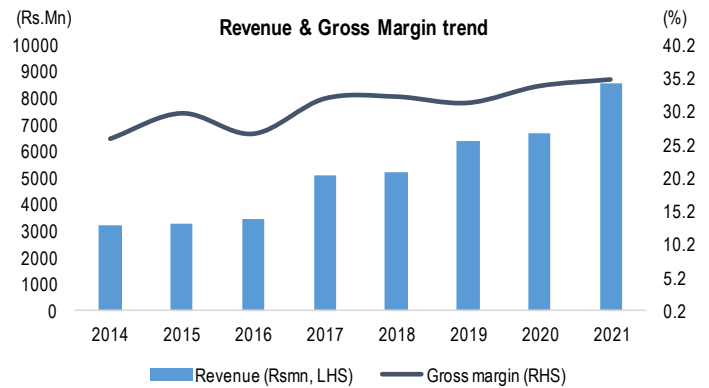


Exhibit 5: which reflects in gross margin increase



Source: Company, Nirmal Bang Institutional Equities Research

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Volume leader in cooking stove, emerging player in cookware/pressure cooker

| Product Categories: | Market Size: Retail Volume- 2020('000 Units) | Market Size: Retail Value-2020(Rs. Mn) | Market Leader Company (2020) | Market Share of Market Leader(%)- 2020 | Market Share of Stove Kraft Ltd(%)- 2020 |
|---------------------------------|--|--|------------------------------|--|--|
| Large Cooking Appliances | 14,209 | 1,10,958 | | | |
| 1 Cook Tops | 1,751 | 25,606 | Stove Kraft Ltd. | 25.0% | 25.0% |
| 2 Free-Standing Hobs | 10,432 | 55,276 | Stove Kraft Ltd. | 20.3% | 20.3% |
| 3 Built in Hobs | 284 | 4,732 | Faber | 23.0% | 4.8% |
| 4 Cooker Hoods | 1,742 | 25,344 | Faber | 23.0% | 3.8% |
| Non-Stick Cookware | | | | | |
| 1 Non-Stick Cookware | 7,117 | 9,646 | TTK Prestige | 58.2% | 18.9% |
| Small Cooking Appliances | 52,613 | 86,098 | | | |
| 1 Pressure Cooker | 31,697 | 17,728 | TTK Prestige | 48.2% | 11.4% |
| 2 Electric Kettle | 757 | 1,482 | Bajaj | 23.8% | 21.1% |
| 3 Electric Rice Cooker | 2,186 | 4,421 | Panasonic | 35.0% | 4.7% |
| 4 Coffee Maker | 327 | 1,238 | Bajaj | 29.1% | 6.6% |
| 5 Juice Extractor | 249 | 970 | Bajaj | 25.7% | 3.8% |
| 6 Mixer Grinder | 13,860 | 44,352 | Bajaj | 21.1% | 2.7% |
| 7 Blender | 1,229 | 3,623 | Phillips | 44.6% | 0.5% |
| 8 Food Processor | 2,309 | 12,283 | Phillips | 25.6% | - |

Source: Industry, Nirmal Bang Institutional Equities Research

In the Kitchen Appliances market, the organized brands are ~60% of the total market. Over the years, the share of unorganized players has been gradually falling as there has been a shift in the consumers' preference to reliable branded products. The share of unorganized players is higher in Cookware compared to Pressure Cookers. For the rest of the product categories, the market structure is fragmented and the share and the role of regional brands/unorganized players continue to be significant. In general, there is a clutter of regional brands/unorganized players at the entry-level price points.

SKL is a volume leader in Cook-tops/Free-standing Hobs with 25%/20.3% market share. Cooktops are essentially Cooking Stoves. In the Pressure Cooker category, it is ranked 3rd in terms of retail volume with an 11.4% market share (TTK Prestige: 48% and Hawkins: 35%). In the Non-stick Cookware also, the company is ranked 3rd in retail volume with an 18.9% market share (TTK Prestige: 58%, Wonderchef: 22%).

In a fragmented market, Pigeon offers “value-for-money”

Having attained leadership position in Gas Stoves and being an emerging player in Cookware/Pressure Cooker, we believe that Pigeon's brand recall is very high despite facing strong competition at the entry-level price points. We have performed detailed channel checks to understand the “value-for-money” positioning strategy and pricing strategy in each product category. Our findings suggest that SKL's “value-for-money” positioning is strong in product categories like Pressure Cooker/Gas Stove etc. We notice that the company sells pressure cookers at almost close to the lowest price points. Gas stoves are also sold at attractive price points. Major brands like TTK Prestige/Hawkins have focused on technological innovations to upgrade their customers. Therefore, Pigeon remains a preferred choice for aspirational customers in “semi-urban” and “rural” parts of the country.

However, in other categories like Small Appliances/Mixer Grinders, the “value-for-money” positioning is relatively weaker as most of the brands sell at similar price points. Overall, we believe that Pigeon is a preferred choice of brand at the entry level price points across product categories.

We also performed product quality checks across 12 cities in South India. We understand that there are some issues related to quality in mixer grinder/induction cooktop/emergency lights. However, there is no major complaint across product categories. Normally, 4-5% of products sold report quality issues across all brands. Pigeon's product quality is good and service is also good.

Exhibit 7: Pigeon's products are priced at varying discount to premium brands

| Product | Pigeon's price | Competition's Pricing |
|---------------------------------|----------------|---|
| 3Liter Aluminum Pressure Cooker | Rs670 | Prestige (Rs1,135), Butterfly (Rs749), Greenchef (Rs549), Solomo (Rs829), Hawkins (Rs923) |
| 2 burner gas stove (Steel) | Rs2,149 | Butterfly (2,900), Greenchef (Rs2,100), Orange (Rs2,200), Surya (Rs2,200), Priya-gold (Rs2,000) and Sun flame (Rs2,600), Prestige (Rs2,600) |
| Mixer Grinder | >Rs1,571 | Butterfly (Rs2,200), Preeti (2,250), Prestige (Rs2,400) |
| Hand Blender | >Rs929 | Kent (Rs1,149), Kutchina (Rs999) |
| Induction Cooktop | >Rs1,399 | Prestige (Rs1,650) |
| Oven Toaster Grill | >Rs3,499 | Bajaj (Rs3,699), Agaro (Rs3,699) |
| Rice Cooker | >Rs2,095 | Butterfly (Rs2,500), Prestige (Rs2,800) |
| Electric Kettle | >Rs625 | Prestige (Rs680) |
| Stainless steel water bottle | >Rs853 | Ranges from Rs900-Rs1400 |
| Plastic chopper | >Rs249 | Ranges from Rs300-500 |
| Aluminum Flat Tawa | >519 | Ranges from Rs500-1000 |

Source: Nirmal Bang Institutional Equities Research, e-commerce websites like Amazon, Flipkart

Exhibit 8: A “value-for-money” positioning across product categories

| Product | “Value for money” positioning | Comment on competition |
|-------------------------------|---|---|
| Pressure cooker | “Value-for-money” positioning is very strong. 3L aluminum pressure cooker is available starting Rs650. | With higher technology differentiation, Prestige/Hawkins sells a significant premium to local/unorganized/smaller brands. Pigeon sells at near lowest price points |
| Induction cooktop | “Value-for-money” positioning is relatively weaker. Product is available starting Rs1,399 | Competition is relatively less but competition offers product at largely similar price-points or 15-20% higher than Pigeon’s price. |
| Gas cooktop | “Value-for-money” positioning is very strong as it is the volume leader in market. 2 burner gas stove is available starting Rs2,000 | Competitive intensity is very high as there are a number of brands from unorganized segment offering product at similar price-point as that of Pigeon’s. Even Prestige offers at entry-level price in this category |
| Nonstick cookware | “Value-for-money” positioning is relatively weaker. Aluminum flat tawa starts at Rs500 | We notice that Pigeon is also trying to bring technology differentiation in this product category. Competition is already aggressive in terms of technology differentiation. Products are available at similar price points from a larger number of players |
| Mixer grinder/Small appliance | “Value-for-money” positioning is relatively weaker. | Several brands are available. Pigeon’s products are priced at 15-20% lower than competitor’s. |

Source: Nirmal Bang Institutional Equities Research

Exhibit 9: City-wise product quality check

| City | Comment |
|--------------------------|--|
| Bengaluru | Our interactions with multiple retailers suggest that product related complaints are higher for Prestige as the quantity sold is higher. Normally, 4-5% of products sold report quality issue across all brands. |
| Chennai | Pressure cooker comes with 5 years warranty and Gas stove comes with 2 years warranty. For Pigeon, majority of complaints come in Mixer Grinder and Induction cooktop. |
| Coimbatore | Except in Mixer Grinder, no major complaint reported. Most of the complaints are motor related. |
| Tiruchirappalli (Trichy) | No major complaint in any product category. Service is good |
| Vellore | Except in Induction cooktop, no complaint in any product. Service is good. |
| Salem | Product related complaints in induction cooktop/Mixer grinder. |
| Mysore | A retailer said no complaint in any product in last 4 years. Service requirement was low |
| Mangalore | Pigeon’s products are better in quality in comparison to local/smaller brands. Very minimal complaints. |
| Kozhikode | A retailer highlighted that it gets higher complaint in Pigeon’s products than in Hawkings/TTK Prestige |
| Kottayam | Except in emergency light and mixer grinder, no complaint in any other product. Toll free number is used to address the complaint |
| Kochi | No major complaint in any product category. Service is good |
| Vijaywada | Although Prestige’s product quality is best but Pigeon product quality is also good. No major complaints received. |

Source: Nirmal Bang Institutional Equities Research

Favorable growth drivers in place with government policy support

Rising urbanization, increasing disposable incomes & e-commerce penetration

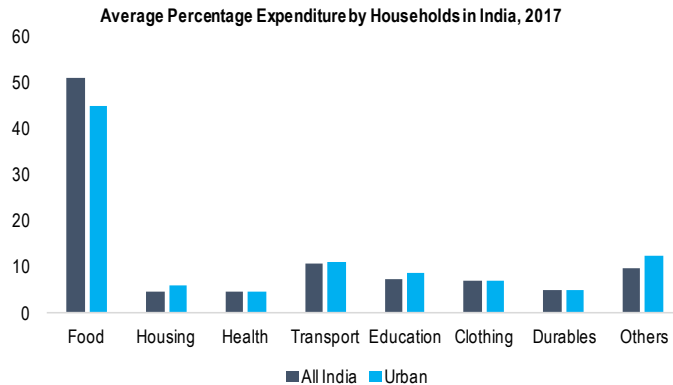
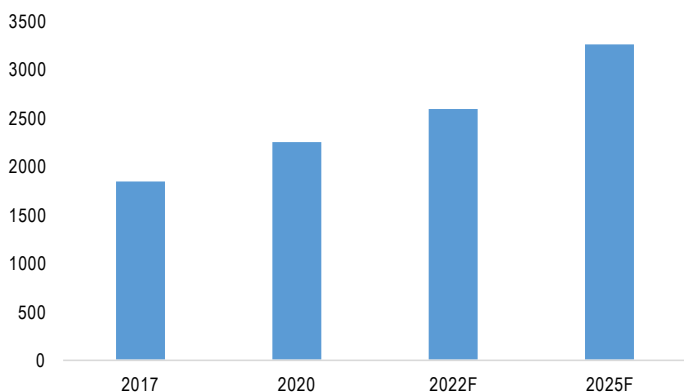
SKL is likely to benefit from favorable macro drivers in place for the Indian consumer appliances market, which includes a burgeoning middle-class population, rising disposable incomes of Indian households and easy access to credit, which drives a growing purchasing power.

Increase in the overall per capita income has resulted in the rise of per capita disposable income in the country. It is expected to grow at a CAGR of 7% until 2025. Tier-II and Tier-III cities will be the upcoming high disposable-income cities with greater purchasing power parity, high internet penetration and increasingly brand-conscious young population. Rise in urbanization in India has also led to its people having more additional disposable incomes compared to earlier, which in turn translates into greater opportunity for overall retail spending in India. And with food accounting for the biggest share in the Indian consumers' expenditure pie, it is more and more evident that the Kitchen Appliances and Cookware market would be a direct beneficiary of the growing trend of urbanization.

A growing middle class population is also leading to changing consumer behavior. According to NCAER (National Council of Applied Economic Research), India's middle-class population was 267mn (53mn households) in 2016. Further ahead, by 2025-26, the number of middle-class households in India is likely to more than double from the 2015-16 level to 547mn individuals (or 113.8mn households), representing ~37% of India's population. Recent research has indicated that rural consumers are particularly aspiring or striving to purchase high quality branded products for their day-to-day living. Consequently, Consumer Appliances manufacturers in India are optimistic about growth of the country's rural consumer market, which is expected to be faster than urban consumer market.

Exhibit 10: Per capita Gross National disposable income (USD)

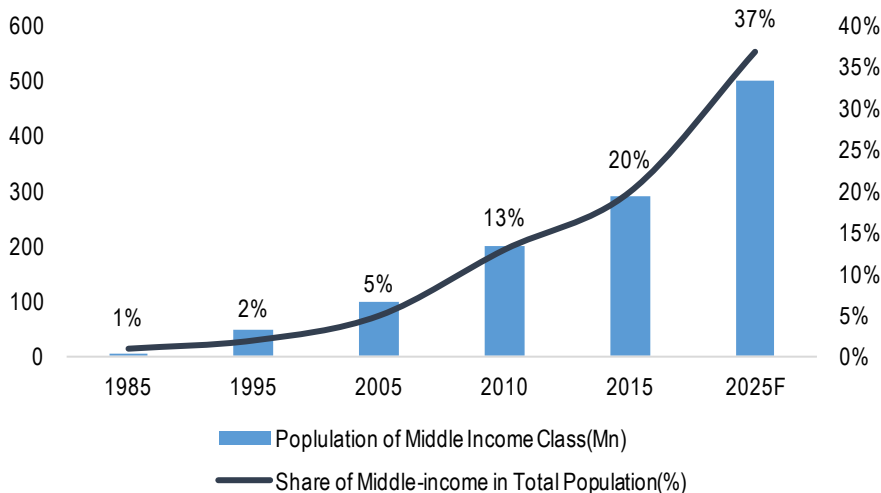
Exhibit 11: Food has biggest share of consumer spending (%)



Source: Industry, Nirmal Bang Institutional Equities Research

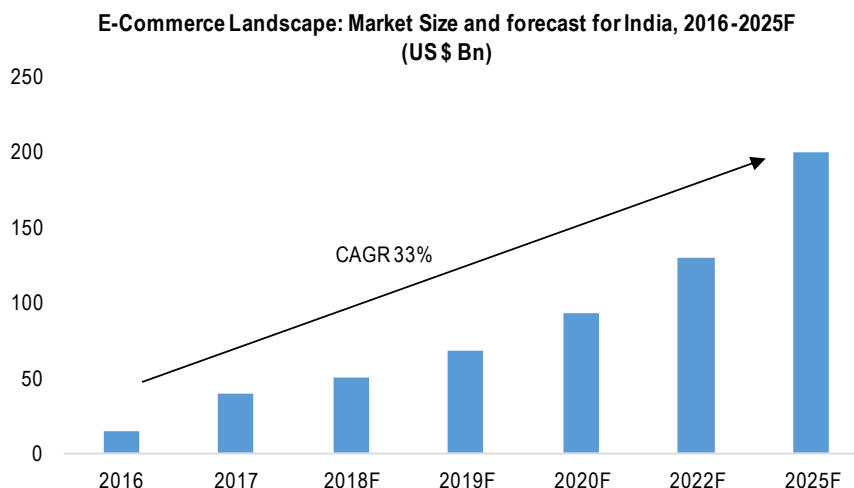
Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 12: Rising share of middle class population



Source: Industry, Nirmal Bang Institutional Equities Research

E-commerce provides a huge selling platform for Consumer Appliance manufacturers. With the mushrooming of e-commerce platforms like Amazon, Flipkart, Paytm and Snapdeal in India, the online channel is evolving as the fastest growing channel for the sales of kitchen/home appliances. This is largely driven by increasing internet & smartphone penetration, heavy discounting of products and availability of options to choose from. Top brands in the market have separate online sales & marketing strategy for the sale of their kitchen appliances. SKL derives 33% of its total revenue from the e-commerce channel. The E-commerce market in India is expected to reach US\$200bn by 2025, with Consumer Electronics as the top segment, contributing 36% to the online retail market.

Exhibit 13: E-commerce landscape in India


Source: Industry, Nirmal Bang Institutional Equities Research

Favorable government policy

We believe that the government's favorable policies will provide further thrust to the overall growth of Kitchen Appliance industry. This includes implementation of GST, Make-in-India, Foreign Direct Investment (FDI), rising rural electrification and Pradhan Mantri Ujjwala Yojana (PMUY). Implementation of GST has led to a transformational shift from the 'unorganized' to 'organized' sector in Indian manufacturing industries.

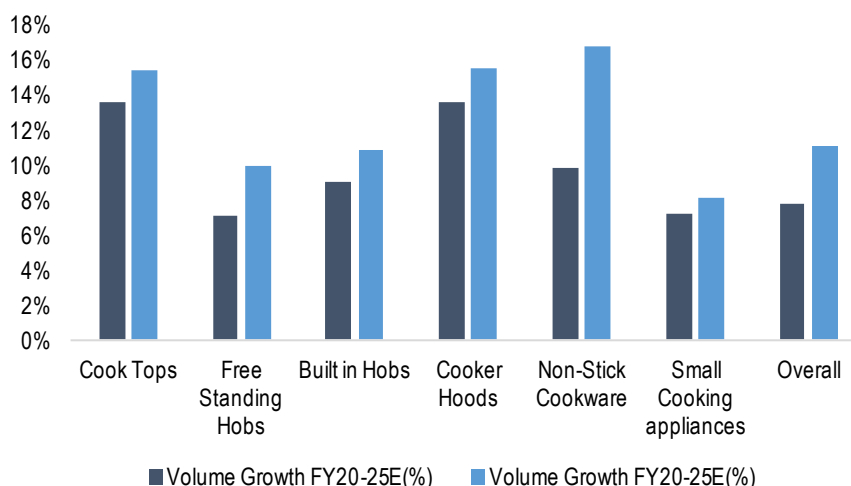
Exhibit 14: Favorable government policy

| Government policy/initiative | Description |
|---|---|
| Goods and Services (GST) tax | As per current GST structure, the lower tax brackets of '5%', '12%' and '18%' are the standard rates for commonly used Indian kitchen items. The highest tax slab of 28% will be applicable to items, which were earlier taxed at 30-31% (excise duty plus VAT). GST places Large Domestic Appliances and Consumer durables category in the highest tax slab of 28% |
| 'Make in India' initiative | Electronics Manufacturing clusters: Subsidies on infrastructure cost to set up special manufacturing zones. Modified Special Incentive Package Scheme: Subsidy for investments in capital expenditure of 20% for investments in Special Economic Zones and 25% in non-special economic zones Investment allowances and deductions: Investment allowance (additional depreciation) at the rate of 15% to electronics manufacturing companies investing >Rs250mn in plants/machinery. This benefit was available for three years, i.e. for investments made up to March 31, 2017 |
| Foreign Direct investment (FDI) in India | To fulfil its objective of reducing dependence on imports by 2020, the Govt. of India has allowed 100% FDI in the electronics hardware manufacturing sector through the automatic route and 51% FDI in Multi-brand retail. Under the automatic route in the ESDM (Electronic System Design & Manufacturing) sector, 100% FDI is allowed, with Special preference to foreign companies setting up manufacturing units in India. This proved to be a key attraction for foreign investors, and also enabled consumer appliance manufacturers, especially those in the Kitchen Appliances industry. |
| Rural electrification | Majority of kitchen appliances – both large and small types, are electricity driven; The Indian Government's continued push for rural electrification (<i>Deendayal Upadhyaya Gram Jyoti Yojana/ Pradhan Mantri Sahaj Bijli Har Ghar Yojna</i>) could benefit a host of consumer durables and electronics makers, mainly Food preparation and other Kitchen Appliances. |
| 'Pradhan Mantri Ujjwala Yojana (PMUY) | India Government's aim to provide clean cooking fuel to families that are below poverty line. Under this scheme the Indian Government initially made a target to provide 50mn LPG connections to under privileged women. Stove Kraft Limited, has partnered with oil and gas companies such as Indian Oil, HPCL and BPCL, as a co-branding initiative and provides cooktops with new gas connection for any of these oil and Gas companies |

Source: Nirmal Bang Institutional Equities Research

Industry growth at 11% CAGR from FY20-25E

Exhibit 15: Kitchen appliance industry to grow in value at 11% CAGR over FY20-25E



Source: Industry, Nirmal Bang Institutional Equities Research

Overall, the Kitchen Appliance industry is expected to grow in value terms at 11% CAGR (~8% volume) over FY20-FY25E. The large appliances category (cooker hoods, cooking hobs, cooktop etc) is expected to grow in value at 12.5% CAGR (8.7% volume CAGR) whereas the small cooking appliances category (pressure cooker, electric kettle, rice cooker and mixer grinder etc) is expected to grow in value at 8% CAGR (7% volume CAGR). Over FY15-FY20, the Large Cooking Appliance category grew at 9% CAGR (6% volume CAGR). The Non-stick Cookware category is expected to grow in value at 17% CAGR (~10% volume CAGR).

Exhibit 16 : Key drivers of kitchen appliance industry

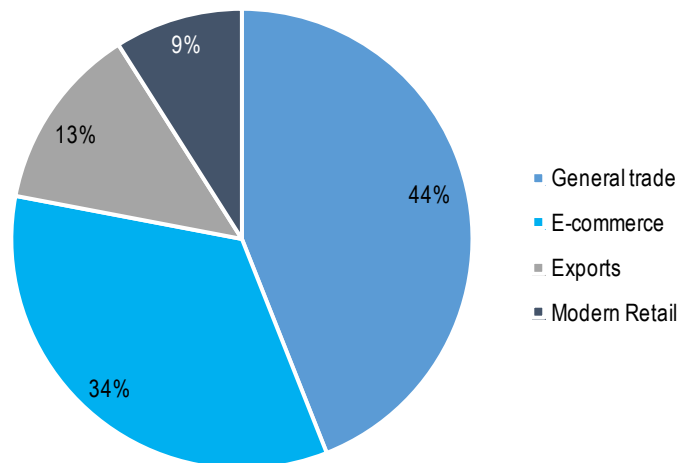
| Key driver | Description |
|---|---|
| Lifestyle | Stylizing of cookware in order to transform the product from a functional kitchen tool to making it a part of an aspirational lifestyle, especially for affluent, urban consumers |
| Need for space utilization | Emergence of “modular kitchen” as a concept with compact designs and portable cookware especially for small homes, apartments and traveling purposes |
| Change in cooking approach | Cooking is no more restricted to women. Man is also playing role of cook and its equally accepted in society |
| Health and environment concerns | Indians are looking for healthier options not only in their choice of food but also in their choice of kitchen appliances. Today, People question the safety of non-stick coatings in cookware. |
| Technological advancement | Technological evolution is transforming the supply of products such as hoods or hobs, which become more and more hi-tech and connected. |
| Growth of E-commerce and easy financing options | E-commerce companies offer a range of kitchen appliances with easy financing, like low EMI and discounts to generate more sales, which also contribute toward increased demand. As per industry expert’s views, Modern Retail chains such as Big Bazar, Croma, Reliance Digital, etc. significantly contribute toward increasing product awareness of modern consumer appliances among consumers, thereby boosting the demand for kitchen appliances in India |
| Mass Media | Consumers are now more aware of cookware through reality programs and cooking shows on Television. Increasing number of cooking based shows on television is also encouraging people to buy food preparation appliances and to try out new recipes |
| Influence of Social Media | To take this approach at the global level, social media also played a very important role. In this technological savvy world, people have started experimenting and with the help of media taking it viral |
| Property developers and builders as influencers | Developers are providing built-in kitchens/modular kitchen. The concept of hiring a third party Kitchen designer is also on the rise especially in urban pockets |
| Increase in premium residential constructions | Share of premium residential construction was 7% in 2010, has increased to 10% in 2015 giving rise to higher adoption of modern kitchen appliances |

Source: Industry, Nirmal Bang Institutional Equities Research

Distribution expansion/new product launches/exports to drive growth

General trade/E-commerce channels drive ~80% of sales

Exhibit 17: E-commerce accounts for ~34% of total sales



Source: Company, Nirmal Bang Institutional Equities Research

SKL derives ~44% of total sales from general trade, followed by 34% from the e-commerce channel. It derives 13% of sales from exports and 9% of sales from modern retail. Sales contribution from e-commerce has increased significantly in the last three years. The Kitchen Appliance industry has seen regional and small players reaching out to pan-India level through the e-commerce channel. Further, during 1HFY21, supply chain constraints of large players provided an opportunity to regional brands/smaller players to fulfill demand that outstripped supply through the e-commerce channel.

SKL's manufacturing facilities are well connected with strategically located 9 C&F agents. Additionally, it has 651 distributors in 27 states and 5 union territories of India. The C&F agents and distributors are, in turn, connected with a dealer network, comprising over 45,500+ retail outlets, which are driven through a sales force of 566 personnel. The company's products are also available in retail chains such as Metro Cash & Carry India. It has also partnered with e-commerce retailers such as Amazon and Flipkart to sell Pigeon branded products on their platforms. SKL has also tied up with Udaan.com to sell its products. Gilma branded products are sold exclusively through 65 Gilma branded stores located across 28 cities and towns in four states.

There is scope for distribution expansion of the Pigeon brand, particularly in North/West/East of the country. Of the total 45,000 retail touch points, Pigeon accounts for ~33,000, LED ~11,000 and Black & Decker ~1,000. Total addressable touch points in Pigeon are 1,00,000. Out of the total 33,000 touch points for Pigeon, 45% are from South and 36% are from West. North/East have ~15% of total touch points (~2,500 each). Management expects 20% growth in touch-points in Western India in the next few years. It will add ~1,000-1,500 touch-points in East/North India every year. Due to its strong reach in Southern markets through general trade, it derives 55% of its revenue from South India.

Black & Decker and LED are being sold currently only in nine states and six states. Growth in LED is possible through geographical expansion beyond six states. SKL has super distributors for the LED business (not C&F agents). It is also planning to take its Gilma brand across the country (pan-India).

SKL has implemented a secondary sales software called BIZOM, which enables the company to track and capture secondary momentum of its field sales executives and servicing engineers in real time. After-sales service is provided through a dedicated centralized CRM, a large team of in-house service personnel to cater to the requirements of customers. DMS (Distributor Management System) helps SKL to track secondary and tertiary sales and maintain inventory levels with the distributors.

White label exports will continue to grow faster than overall business

SKL exports Non-stick Cookware to 14 countries. It is the largest exporter of Non-stick Cookware. Good quality and cost competitiveness has led to strong growth in exports in the last few years (>70% YoY). Out of the total export contribution of 10% to revenue, 7-8% is through OEM exports. In North America/Mexico, it is working with large retailers like Walmart/JC Penny/Belk/Big Lots. There is not much competition in exports from India in the Non-stick Cookware category. SKL has built a very strong relationship with all retailers and is looking at having its own brand/distribution in future. Management is focusing on building export opportunities with manufacturing and technological competence, constant innovation and increased customer acceptance. It does not expect the export business to exceed 20% of total revenue in future.

New product introduction to aid overall growth

SKL seeks to expand its product portfolio across categories to cater to the evolving requirements of a large customer base and cover newer segments. In 2016, it diversified the Pigeon brand by launching LED products. In 2019, it commenced manufacturing of LED products at its Bengaluru facility. Very recently, the company has launched or upgraded a new range of Home & Kitchen Appliances for the Onam festival, which includes Mixer Grinder/Wet Grinder, Pressure Cooker, Cast Iron Cookware, Sleek Glass Cooktop 2, 3 and 4 Burner, Double Walled Kettle, Hand Blender, Hand Mixer, Induction Stove, Desk Lamp, Turbo Food Processor, Shears and Cutting Board.

Few innovative product launches



Super stormed advanced



Infinity Glass cooktop



Super cooker

Upcoming launches



Turbo Chopper



Personal Blender

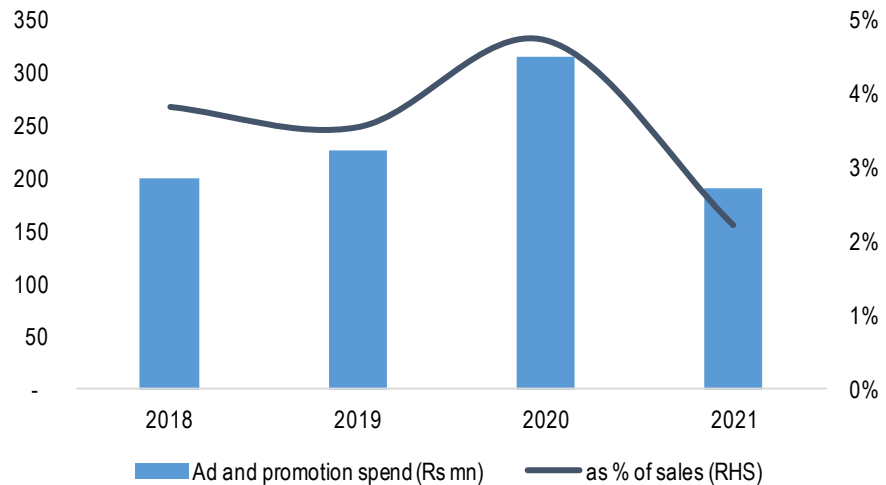


Pro Chopper



Feather touch mixer grinder

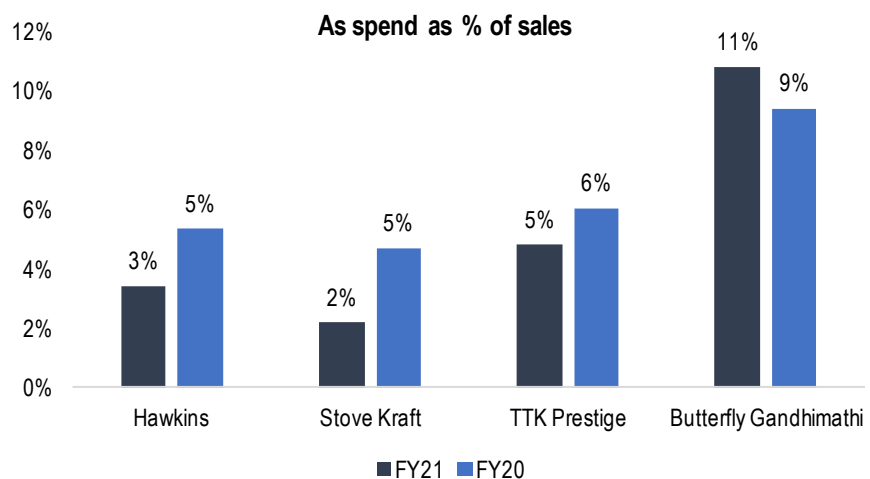
Exhibit 18: Ad spend will be 3-4% of sales going forward



Source: Company, Nirmal Bang Institutional Equities Research

Management has guided that ad spend will be maintained at 3-4% of sales going forward. We notice that SKL's ad spend is little lower than other key branded players. SKL's FY20 ad spend was ~5% of sales (Hawkins: 5%, TTK Prestige: 6% and Butterfly Gandhimathi: ~9%). However, we believe that SKL is slated to benefit from its continued focus on branding & advertisement as it provides an edge over the unorganized/smaller players. Unorganized/smaller players form a large part of the market in the Kitchen Appliance category. In the pandemic year (FY21), we have seen cuts in ad spend by SKL's competitors also. SKL spent Rs190mn (~2% of sales) in comparison to 5% in FY20. Hawkins spent 3% of sales (vs 5% in FY20) and TTK Prestige spent 5% of sales (vs 6% in FY20). Only Butterfly Gandhimathi saw its ad spend increase to 11% of total sales (vs 9% of sales in FY20).

Exhibit 19: Ad spend as % of sales for key industry players (FY20-FY21)



Source: Company, Nirmal Bang Institutional Equities Research

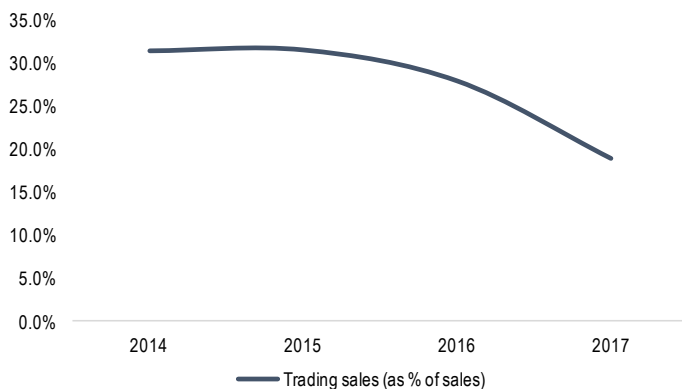
“New normal” in profitability achieved in pandemic year

Increasing in-house manufacturing and backward integration margin accretive

SKL manufactures its Pigeon and Gilma branded products at its well-equipped and highly backward integrated manufacturing facilities at Bangaluru (Karnataka) and Baddi (Himachal Pradesh), which enables the company to control and monitor quality and cost. Its Bangaluru facility is spread over ~46 acres and over 30 acres of land is still available for future expansion. It has an installed annual production capacity of 38.4mn units with the capability to manufacture products like Pressure Cookers, Non-Stick Cookware, LPG Stove, Mixer Grinder, LED Bulbs, Electric Iron and Induction Cooktops. The company’s Baddi facility has an installed capacity of 2.8mn units per annum with the capability to manufacture products such as LPG Stove and Inner Lid Pressure Cooker.

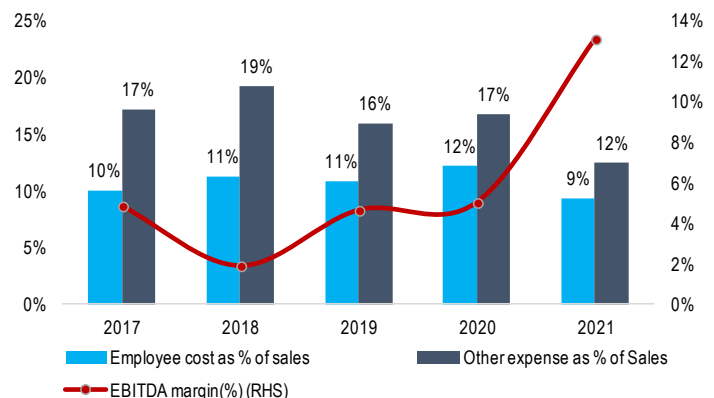
SKL undertakes manufacturing of its products combined with its raw material sourcing, packaging, transportation practices and quality control, which enables it to derive higher margins from the sale of a product. It has one of the few facilities in India to have a fully automated roller coating line for the manufacture of Non-stick Cookware. It has the ability to manufacture components such as Bakelite Handle, Sheet Metal Components, Moulded parts, Die Cast parts, Mould Dyes and Fixtures in-house for the manufacturing of its products. Backward integration of its manufacturing facilities has reduced dependence on third-party suppliers and OEMs for such components. It has reduced the proportion of traded products to 19% of total sales (vs 31% in FY18) over the past few years. It will continue to expand its presence in the existing product categories by increasing the emphasis on manufacturing a greater proportion of its products and reducing reliance on traded products. It entered the LED segment in 2016 as retailers, increasing its manufacturing capacity for LED products and reduced dependence on traded products.

Exhibit 20: Trading sales as % of sales has come down



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Cost control in FY21



Source: Company, Nirmal Bang Institutional Equities Research

SKL has recently put up an automated line for manufacturing glass plates in the Non-stick Cookware category. Currently, 100% of glass plates are imported from China. It has already invested in plastic moulding in FY21. Overall, the company is focusing on increasing indigenization and backward integration, which will be margin accretive in future.

Cost rationalization efforts to result in stable 12-13% EBITDA margin going forward

Management has guided for 12-13% EBITDA margin going forward. In FY21, the company saw its EBITDA margin jump to 13.1% vs 5.1% in FY20. This was largely attributed to cost-control measures as well as the impact of operating leverage kicking in. Employee cost declined by 2% in FY21 as the company focused on streamlining its workforce. Moreover, advertisement spend was only Rs190mn in FY21 vs Rs320mn in FY20. While some expenses will come back in FY22 (like advertising expenses, transport cost) etc, operating leverage will continue to support margin due to higher fixed cost base.

Our analysis of major cost items in “other expenses” section shows that SKL has re-based its cost base in FY21. Key heads of “other expenses” like freight cost, sales commission, travelling expenses either

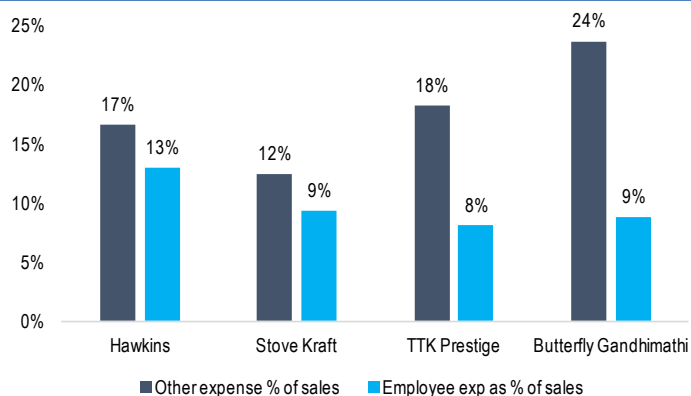
Exhibit 22: Key cost items under “other expenses”

| Cost item under “Other expense” | FY20 (Rs mn) | FY21 (Rs mn) | Comment |
|---------------------------------|--------------|--------------|--|
| Freight and forwarding | 241 | 260 | SKL has rationalized the freight cost with 1) in-house fleet of trucks for transportation 2) Efficiency in truck-load achieved with rising scale. It expects freight cost will be less than 3% of sales going forward. |
| Sales commission | 91 | 97.5 | As cobranded business is coming down, sales commission is slated to go-down further. |
| Business promotion and adv. | 316 | 190 | Management expects ad spend will be 3-4% of total sales going forward. |
| Travelling and conveyance | 100 | 37.5 | Travelling cost will get normalized going forward |
| Job work charges | 68 | - | |
| Power and Fuel | 70 | - | Power cost will come down as the company is setting up renewable plant (rooftop and wind) of 3.5-4MW. After the plant is operational, 80% of power will be supplied captively. Power cost will come down to Rs2.5 from Rs7.5, currently. |
| Others | 237 | - | - |
| Total | 1,122 | 1,073 | |

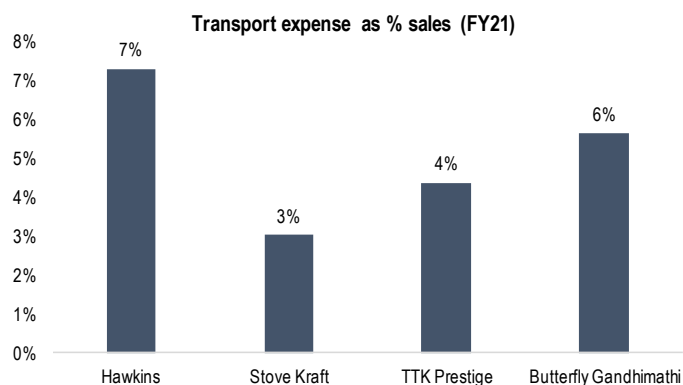
Source: Company, Nirmal Bang Institutional Equities Research

saw a decline in FY21 or remained stable against revenue growth of 28%. We believe that SKL has re-based its cost structure in FY21. Therefore, it will be able to maintain its current margin profile going forward as well.

Except Hawkins, we notice that employee expenses category is largely in the range of 8-9% of sales. SKL has the lowest other expense as % sales among all the competitors, thanks to prudent advertisement spend and transport cost. Butterfly Gandhimathi’s other expenses is very high mainly due to higher ad spend and transport cost. Butterfly spends ~6% of sales on transport expenses whereas SKL spends only 3% of sales on transport expense. Hawkins spends ~7% of sales on transport expenses whereas TTK Prestige spends 4% of sales on it. In terms of advertisement spend, Butterfly Gandhimathi spends ~9% of sales (FY20) on it whereas TTK Prestige/Hawkins spend 6%/5%. In FY20, SKL spent Rs319mn on advertisement spend (~5% of sales).

Exhibit 23: SKL has lowest other exp as % sales (FY21)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Transport expense is lowest in industry (FY21)


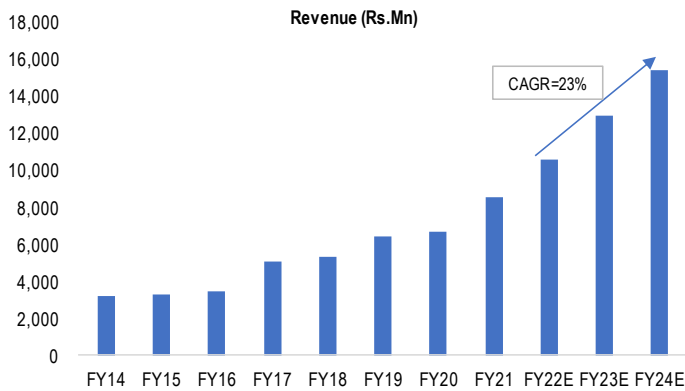
Source: Company, Nirmal Bang Institutional Equities Research

Financial analysis

22% revenue CAGR likely over FY21-FY24E

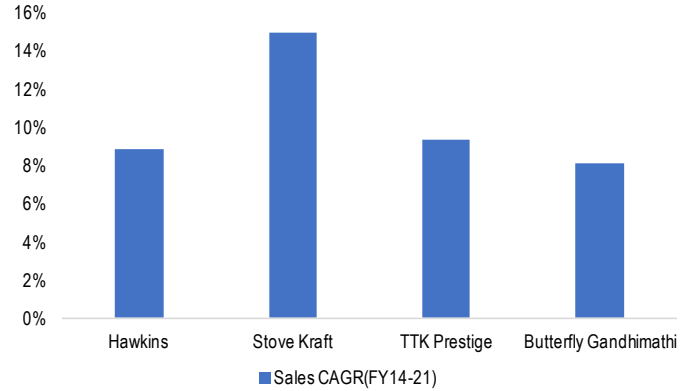
Over FY14-FY21, SKL has registered revenue CAGR of 15%, significantly outpacing competition (TTK: 9%, Butterfly: 8% and Hawkins: 9%). We expect it to grow its sales at 22% CAGR over FY21-24E. We are factoring in faster volume growth in Pressure Cooker/Non-stick Cookware in comparison to other categories. Non-stick Cookware will grow at a higher pace than overall growth as exports (white label) will contribute to its growth. We factor in 20-25% volume growth in Pressure Cooker, 25-30% volume growth in Non-stick Cookware and 15% volume growth in Cooktop (LPG and Induction). We also factor in 13-15% growth in the LED business and 13-20% growth in the Small Appliance business.

Exhibit 25: Revenue to post 22% CAGR over FY21-FY24E



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 26: Sales CAGR (FY14-FY21)

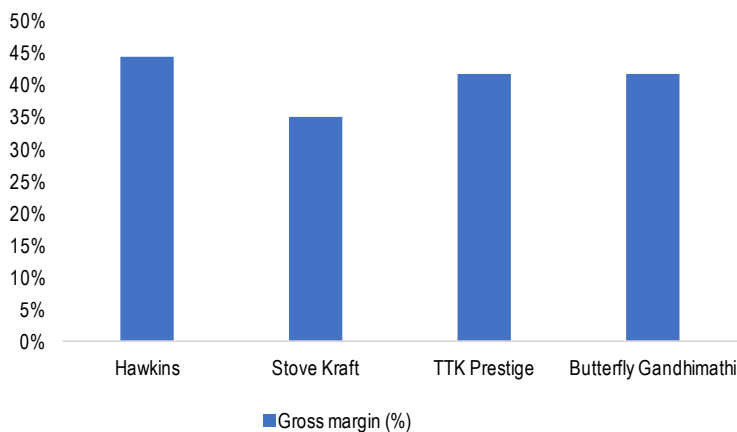


Source: Company, Nirmal Bang Institutional Equities Research

12-13% margin in FY22-FY24E, PBT CAGR of 33% over FY21-24E

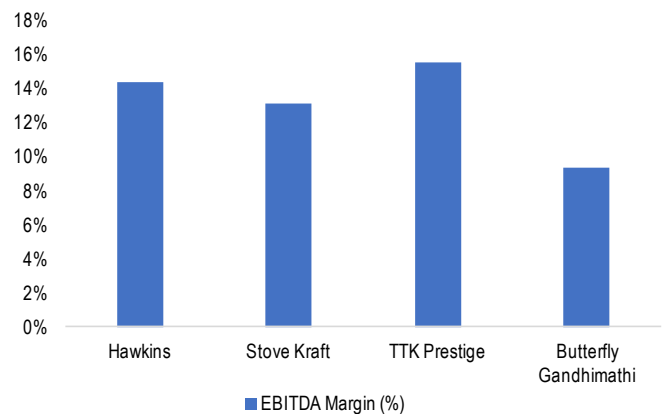
SKL's gross margin profile (FY21: ~35%) is lower than its key competitors (Hawkins: ~44%, TTK Prestige: ~42% and Butterfly: ~42%). However, EBITDA margin (FY21: ~13.1%) is comparable to its key competitors (Hawkins: ~14.4%, TTK Prestige: ~15.5% and Butterfly: ~9.3%). We expect SKL to be able to maintain its margin in the range of 12-13% going forward, thanks to cost rationalization (employee and other cost) initiatives in the pandemic year FY21. We expect negligible interest cost going forward as the company is largely debt free now. We expect PBT CAGR of 33% over FY21-FY24E. As we expect effective tax rate of 25% FY23 onwards, we expect overall PAT CAGR at 21% over FY21-FY24E.

Exhibit 27: Gross margin of key industry players (FY21)



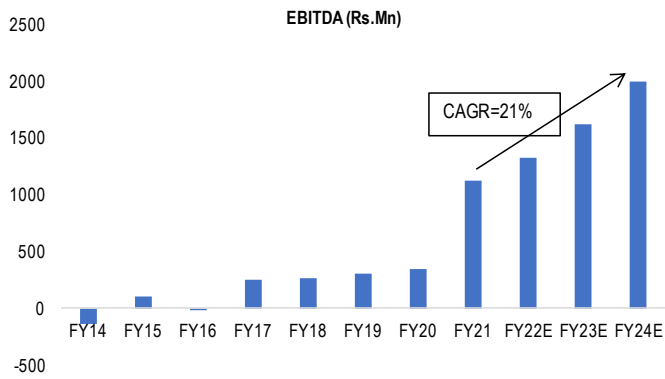
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 28: EBITDA margin of key industry players (FY21)



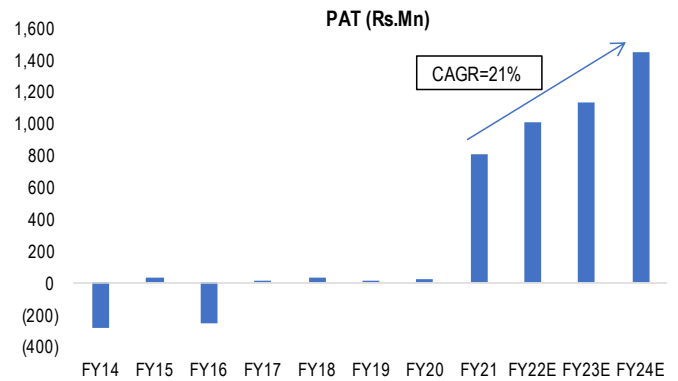
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 29: EBITDA to grow at 21% CAGR over FY20-FY24E



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 30: PAT to grow at 21% CAGR over FY21E- FY24E

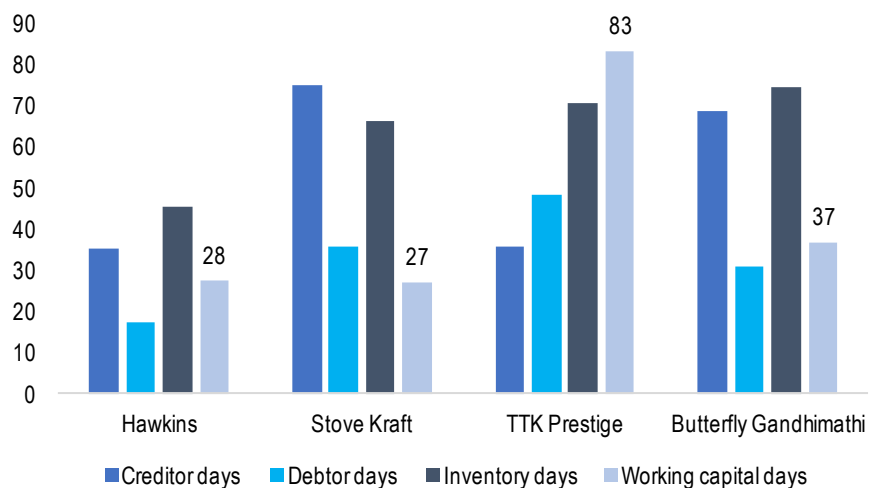


Source: Company, Nirmal Bang Institutional Equities Research

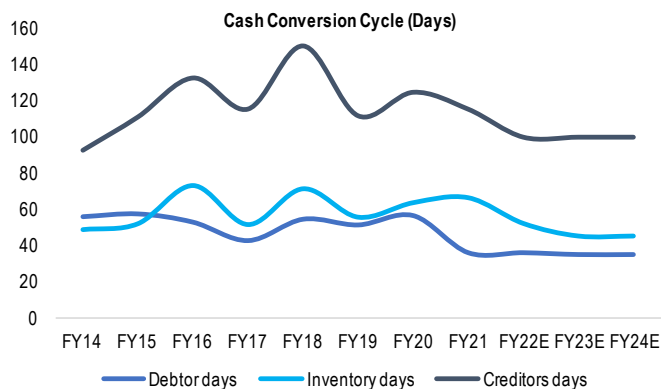
Working capital to improve going forward; return ratios will be maintained

SKL enjoys industry-best working capital. Currently, SKL’s working capital days stand at 27 (FY21) with inventory days at 66 days, debtors at 36 days and creditors at 75 days. TTK prestige’s working capital days is the highest at 83 days followed by Butterfly (37 days) and Hawkins (28 days). SKL’s debtor days is optimal due to channel financing and bill discounting. As per the management, 95% of SKL’s sales through general trade are based on channel financing. Even on e-commerce platforms like Flipkart and Amazon, it uses bill discounting. In modern retail, payment terms are favorable (D-Mart pays within 7 days). On the inventory side, it expects further rationalization as the company is consolidating its network of C&F agents post the implementation of GST. Before GST implementation, it was mandatory to keep one C&F agent in each state. On the payables side, higher vendor financing will result in lower payable days going forward, as per the management. Overall, management expects working capital days to improve going forward due to increasing inventory turns and vendor financing. There is little scope for improvement in the receivables situation. We expect working capital days to improve to 16-17 days in FY23-FY24E (vs 28 days in FY21). As % of sales, ex-cash working capital will be maintained at 5% in future.

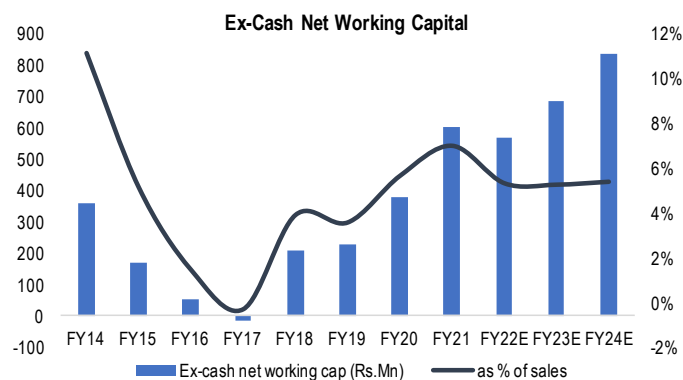
Exhibit 31: Working capital days of key industry players



Source: Company, Nirmal Bang Institutional Equities Research

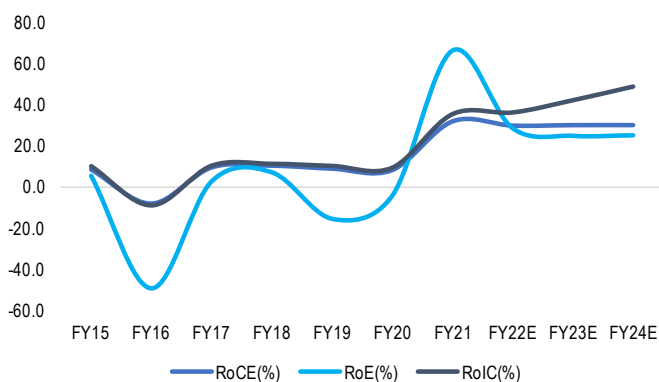
Exhibit 32: Trend in cash conversion cycle


Source: Company, Nirmal Bang Institutional Equities Research

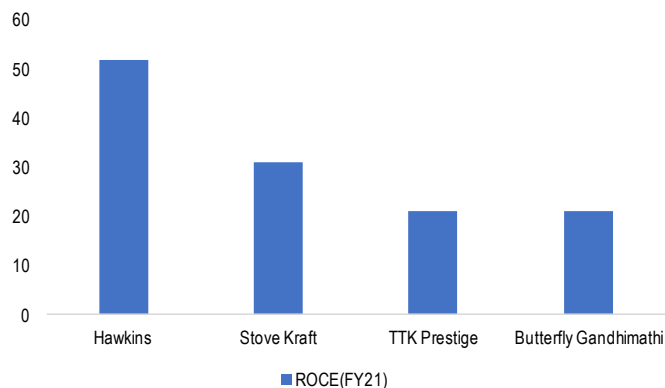
Exhibit 33: Trend in ex-cash net working capital


Source: Company, Nirmal Bang Institutional Equities Research

In FY21, RoCE/RoE increased to 32%/67%, thanks to a improvement in its margin profile. In FY19-20, RoCE stood at ~9%. We expect the company's return ratios to largely be maintained going forward as SKL will largely maintain its profitability profile with a strong topline growth. We expect RoCE/RoE of 29%/25% in FY24E. We notice that SKL has a better RoCE profile than Butterfly Gandhimathi (~21%) and TTK Prestige (~20%). Hawkins enjoys the highest RoCE at ~50%.

Exhibit 34: Trend in return ratios


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 35: RoCE profile of key industry players


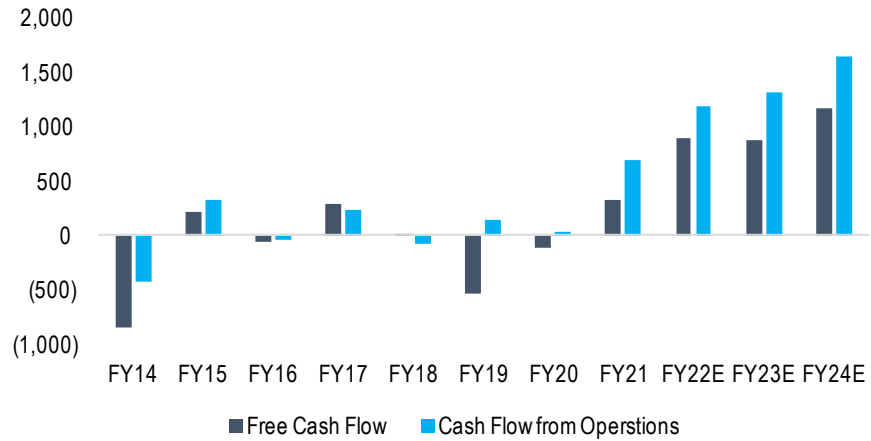
Source: Company, Nirmal Bang Institutional Equities Research

Strong cash flow generation going forward; asset turnover to rise

With healthy revenue growth, strong operating margin, increasing profitability and improvement in the working capital cycle, SKL is expected to generate operating cash flow of Rs4.0bn over FY22-FY24E. In the last 8 years (FY14-FY21), the company has generated operating cash flow of Rs1.97bn. SKL will do capex of ~Rs350mn annually for the next 2-3 years. We expect SKL to generate positive free cash flow of Rs2.9bn over FY22-FY24E (vs Rs328mn loss over FY19-FY21).

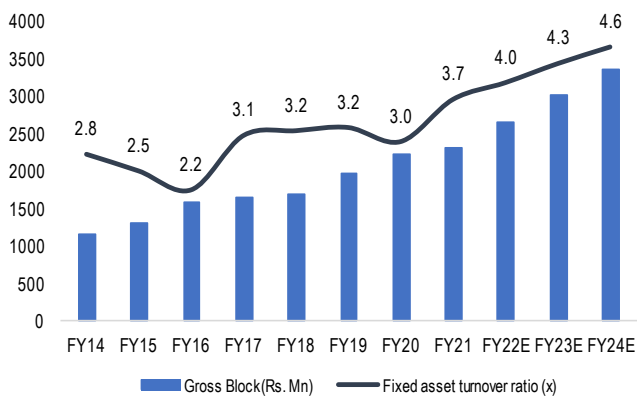
SKL's fixed asset turnover has increased from 2.5x in FY15 to 3.7x in FY21. SKL's capex rose to Rs633mn in FY21 compared to an average of Rs128mn every year over FY15-FY20. With resumption of growth, we expect the fixed asset turnover to rise to 4.6x in FY24E. At 100% capacity utilization currently, the company can generate ~Rs10-12bn of sales. Incremental Rs1bn of capex can generate ~Rs3.5-4bn of sales. As SKL does not have any debt, current debt-equity ratio is modest at 0.2x in FY21, which we expect to reduce further to 0.1x in FY22E.

Exhibit 36: Trend in Operating Cash Flow and Free Cash Flow



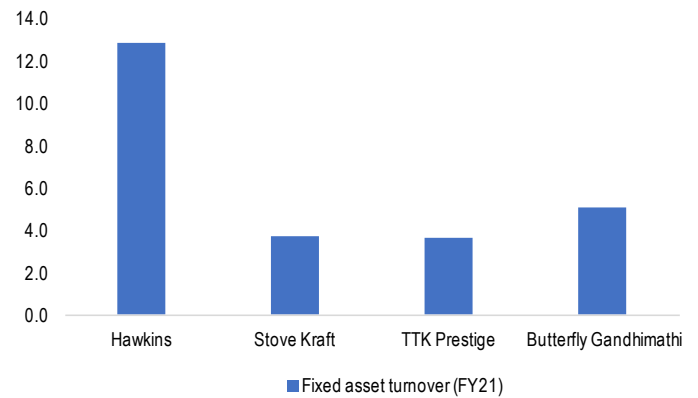
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 37: Gross block and fixed asset turnover



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 38: Fixed asset turnover of key industry players (FY21)



Source: Company, Nirmal Bang Institutional Equities Research

Outlook and valuation

We believe SKL can grow at a faster pace than industry, thanks to distribution expansion and its “value-for-money” brand image. Exports and new product launches will also contribute positively to overall growth. We expect sales CAGR of 22% over FY21-FY24E. While we expect margin to largely be maintained ~12-13% going forward, PBT will grow at 33% CAGR over FY21-FY24E.

SKL has grown faster than its key competitors in the last 7 years. SKL enjoys strong RoCE of 29%, higher than some of the key industry players like Butterfly and TTK Prestige. Although the company has lower gross margin than its competitors, its EBITDA margin profile is comparable. We agree that industry leaders like TTK Prestige should command a valuation premium due to strong branding, product innovation, robust distribution network and premium positioning. Therefore, we assign 26x to SKL, 35% discount to TTK Prestige (40x FY23E consensus EPS). We derive a TP of Rs900. Our TP gives an upside of 26% from the current market price. The stock is currently trading at 21x FY23E EPS. We initiate coverage on SKL with a BUY rating. “Value-for-money” brand image, volume leadership in key categories and distribution expansion will continue to support SKL’s valuation.

Exhibit 39: Valuation table

| Company name | P/E(x) | | | P/Bv(x) | | | ROE(%) |
|-------------------------------|--------|-------|-------|---------|-------|-------|--------|
| | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E | FY21 |
| Bajaj Electricals | 64.2 | 47.9 | 30.5 | 7.4 | 6.6 | 5.7 | 11.4 |
| Blue Star | 82.4 | 48.8 | 31.9 | 9.3 | 8.8 | 7.8 | 12.0 |
| Crompton consumer | 46.0 | 45.4 | 37.9 | 14.7 | 13.0 | 11.4 | 36.3 |
| Dixon Tech | 169.6 | 79.6 | 53.3 | 36.2 | 26.3 | 18.6 | 21.7 |
| Havells India | 62.7 | 55.3 | 45.5 | 12.6 | 10.9 | 9.4 | 22.0 |
| IFB Industries | 69.7 | 29.3 | 22.6 | 6.1 | 5.0 | 4.1 | 9.1 |
| Johnson Controls Hitachi - IN | 182.9 | 56.4 | 36.1 | 8.4 | 7.4 | 6.3 | 4.6 |
| Orient Electric | 55.0 | 48.2 | 36.5 | 14.4 | 12.1 | 10.0 | 29.4 |
| Polycab India | 33.0 | 31.8 | 26.7 | 6.1 | 5.3 | 4.5 | 18.5 |
| Stove Kraft | 28.7 | 23.1 | 20.6 | 7.7 | 5.8 | 4.6 | 66.5 |
| V-Guard Industries | 55.5 | 48.1 | 36.7 | 9.1 | 8.0 | 6.8 | 18.1 |
| Voltas | 64.2 | 51.5 | 36.3 | 6.8 | 6.2 | 5.5 | 11.3 |
| Whirlpool of India | 80.3 | 47.6 | 36.9 | 9.9 | 8.5 | 7.1 | 13.0 |

Source: BSE, Company, Nirmal Bang Institutional Equities Research

Quarterly result analysis

Exhibit 40: Stove Kraft's 4QFY21 quarterly performance

| Y/E March (Rsmn) | 4QFY21 | 4QFY20 | YoY % | FY21 | FY20 | YoY % |
|--------------------------------|--------------|---------------|-----------|--------------|--------------|-------------|
| Revenue from Operations | 2,354 | 1,540 | 53 | 8,590 | 6,699 | 28 |
| Cost of Materials Consumed | 1,377 | 749 | | 4,424 | 3,232 | |
| Purchase of stock-in-trade | 183 | 187 | | 1,252 | 1,288 | |
| Changes in Inventories | (18) | 128 | | (94) | (101) | |
| Gross Profit | 813 | 476 | 71 | 3,007 | 2,280 | 32 |
| GP % | 34.5 | 30.9 | | 35 | 34 | |
| Employee Benefits Expense | 258 | 216 | | 806 | 820 | |
| Other Expenses | 303 | 277 | | 1,073 | 1,122 | |
| EBITDA | 252 | (17) | NA | 1,128 | 338 | 234 |
| EBITDA % | 10.7 | (1.10) | | 13.1 | 5 | |
| Other Income | 8 | 2 | | 15 | 21 | |
| D&A Expense | 36 | 33 | | 142 | 121 | |
| EBIT | 224 | (48) | | 1,000 | 237 | |
| Finance Costs | 32 | 56 | | 188 | 209 | |
| PBT | 192 | (104) | | 812 | 28 | |
| Total Tax Expense | 0 | 0 | | 0 | 0 | |
| Profit for the year | 192 | (104) | NA | 812 | 28 | 2758 |
| PAT % | 8.2 | (6.8) | | 9.5 | 0.4 | |

Source: Company

- SKL reported sales of Rs2.3bn in 4QFY21, up 53% YoY on the back of strong volume growth, better product mix and cost rationalization.
- In Pressure cooker, volume grew by 90% to 0.8mn (FY21: 2.59mn, +19% YoY). In Gas cooktop, volume grew by 11% to 0.18mn (FY21: 0.7mn, -18% YoY). In Induction cooktop, volume grew 52% YoY at 0.25mn (FY21: 0.81mn, +21% YoY). In non-stick cookware, volume grew 39% YoY at 0.89mn (FY21: 3.38mn, +43% YoY). In LED, volume grew 241% YoY (FY21: 8.2mn, +136% YoY). In Small appliances, volume de-grew 5% YoY at 2.78mn (FY21: 12.2mn, +6% YoY)
- Gross profit margin improved by 360bps to 34.5% YoY in the same period.
- EBITDA for the quarter jumped to Rs252mn vs. EBITDA loss of Rs17mn in 4QFY20.
- The company reported net profit of Rs192mn in 4QFY21 as against a net loss of Rs104mn in 4QFY20.
- The company's working capital improved from 37 days in March 2020 to 27 days in March 2021.
- Net debt reduced to Rs150mn vs Rs3.38 at the end of March 2020.

Company Background

Incorporated in 1999 by Rajendra Gandhi, Stove Kraft Ltd is engaged in the manufacture, trade as well as retail of a wide and diverse suite of kitchen and home solutions. Its kitchen solutions comprise cookware and cooking appliances across brands. Its home solutions comprise various household utilities, including consumer lighting. The company markets its products under the flagship brands of Pigeon (pressure cookers, non-stick cookware, LPG gas stoves, induction cooktops and LED products), Gilma (chimneys, hobs and cooktops) and licensed 'Black & Decker' brand. It's flagship brands, Pigeon and Gilma, have enjoyed a market presence of over 15 years and command a high brand recall among customers for quality and value for money. The company has been able to leverage the distribution network of its Pigeon branded products by launching LED products and in 2019 commenced manufacturing of LED products.

At Bengaluru, the company has an installed annual production capacity of 38.4mn units, with the capability to manufacture pressure cookers, non-stick cookware (roller coated and spray coated), LPG stoves, mixer grinders, LED bulbs, iron and induction cooktops categories. Similarly, its Baddi Facility in Himachal Pradesh, has an installed capacity of 2.8mn units per annum, with the capability to manufacture products such as LPG stoves and inner lid cooker. For certain product categories and sub-categories, which do not enjoy economies of scale in India, the company engages in sourcing from third-party OEMs.

Additionally, SKL has 651 distributors in 27 states and 5 union territories across India. The company's C&F agents and distributors are connected with a dealer network comprising over 45,475 retail outlets. In general trade, ~55% of sales come from South India. However, the company is now bridging the gap in Non-south regions through e-commerce and modern trade channels. Internationally, SKL's products are exported to 14 countries, including UAE, Qatar, Bahrain, Kuwait, Tanzania, Uganda, Nepal, Sri Lanka, Bangladesh, Oman, Ghana, USA, Mexico and Saudi Arabia. The company also undertakes original equipment manufacturing for retail chains in the USA under their brands.

Exhibit 41: Key management personnel

| Name | Profile |
|---|--|
| Mr. Rajendra Gandhi, Managing Director | Mr. Rajendra Gandhi is the founder, promoter and Managing Director of the company. He is a first generation entrepreneur with over 21 years of experience in the kitchen appliances and home utility products industry. He has been on the Board since 1999. He is involved in the day to day affairs of the Company. |
| Mr. Rajiv Mehta, Director & CEO | Mr. Rajiv Mehta is a Whole Time Director designated as the Chief Executive Officer of the company. He holds a bachelor's degree in chemical engineering from University of Mumbai and master's degree in science from University of Pennsylvania, and in business administration from INSEAD. He has previously served as the CEO of Arvind Limited and MD of Puma Sports India Private Limited. He has also been a director of Fourseven Services Private Limited. |
| Mr. Rohit Mago, CEO-Baddi | Mr. Rohit Mago is the Chief Executive Officer of Company's manufacturing unit located at Baddi. He holds a master's degree in business administration from Rani Durgavati Vishwavidyalaya, and a post-graduate certificate in retail management from XLRI Jamshedpur. He has over 18 years of experience in various industries. Prior to joining SKL, he worked with Hindustan Petroleum Corporation Limited for 14 years. Mr. Rohit Mago joined SKL on October 10, 2017. |
| Mr. Shashidhar SK, CFO & CS | Shashidhar SK is the Chief Financial Officer, Company Secretary and Compliance Officer of the company. He has over 25 years of experience in the corporate finance and corporate secretarial field. He joined the company on July 2, 2018. He holds a bachelor's degree in commerce from Bangalore University. He is a Chartered Global Management Accountant (CGMA) and Fellow Chartered Management Accountant (FCMA) as certified by the Chartered Institute of Management Accountants ("CIMA"). Additionally, he is also a Fellow member of the Institute of Company Secretaries of India and a Fellow of the Institute of Cost Accountants of India. |
| Mr. Sentilal Kumar, Head-Mfg | Senthil Kumar R. is the Head - Manufacturing. He holds a bachelor's degree in engineering from University of Madras. He has over 30 years of experience in manufacturing. Prior to joining SKL, he worked with BPL Limited. Senthil Kumar R. joined on April 1, 2011. |
| Ms. Neha Gandhi, Executive Director | Ms. Neha Gandhi is an Executive Director of the Company. She holds a bachelor's degree in business administration from Christ University, Bengaluru and has completed a post graduate certificate programme in sales and marketing management from MICA (formerly Mudra Institute of Communications, Ahmedabad). She has served as a graduate trainee at Viacom 18 Media Private Limited. |

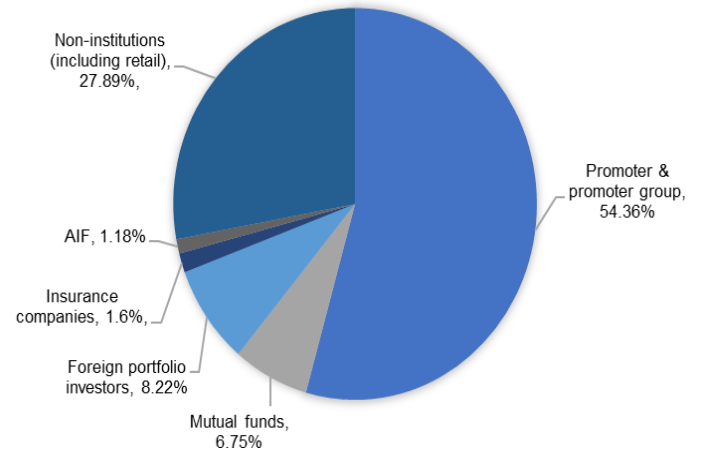
Exhibit 42: Plant locations

| Plant location | State | Key products |
|----------------|------------------|--|
| Bengaluru | Karnataka | cookware, cooktops, pressure cookers, mixer grinders, non-stick cookware, LED bulbs, floor mops, handy vegetable chopper, IR thermometer and induction cooktops. |
| Baddi | Himachal Pradesh | LPG Stove, Induction Cooktop, Inner Lid Cooker |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 43: Key shareholders

| Shareholding pattern | |
|--|--------------|
| Promoter & promoter group | 54.56 |
| Mutual funds | 6.75 |
| Nippon Life | 4.45 |
| Sundaram AMC | 1.08 |
| Mirae Asset Management | 1.18 |
| Foreign portfolio investors | 8.22 |
| Goldman Sachs | 2.94 |
| Ashoka | 1.69 |
| Insurance companies | 1.6 |
| Bajaj Allianz Insurance | 1.12 |
| Alternate Investment Funds | 1.18 |
| Non-institutions (including retail) | 27.89 |



Source: BSE, Nirmal Bang Institutional Equities Research

Key risks

- Significant slowdown in consumer spending can adversely impact the demand and it might affect the Stovekraft's revenue.
- An unforeseen rise in competitive intensity, especially from value brands, could impact the growth prospects/margins for the company.
- Any disruption in manufacturing plants could adversely impact the production.
- Rise in key raw material prices could adversely impact the profitability, if not passed on to the consumers
- The brand license agreement of BLACK + DECKER contains certain onerous provisions and a failure to comply with certain provisions could result in adverse consequences including an event of default
- The trademark for marquee brand 'Pigeon' is the subject matter of litigation, and there can be no assurance that the company will be able to protect the trademark in the future

Financials

Exhibit 44: Income statement

| Y/E March (Rsmn) | FY20 | FY21 | FY22E | FY23E | FY24E |
|--------------------------|--------------|--------------|---------------|---------------|---------------|
| Net Sales | 6,699 | 8,590 | 10,631 | 12,986 | 15,428 |
| % growth | 4.5 | 28.2 | 23.8 | 22.1 | 18.8 |
| Raw material cost | 4,419 | 5,582 | 6,910 | 8,376 | 9,874 |
| Staff cost | 820 | 806 | 957 | 1,169 | 1,389 |
| Other overheads | 1,122 | 1,073 | 1,435 | 1,818 | 2,160 |
| Total Expenditure | 6,361 | 7,462 | 9,302 | 11,363 | 13,422 |
| EBITDA | 338 | 1,128 | 1,329 | 1,623 | 2,006 |
| % growth | 12.2 | 234.2 | 17.8 | 22.1 | 23.6 |
| EBITDA margin (%) | 5.0 | 13.1 | 12.5 | 12.5 | 13.0 |
| Other income | 21 | 15 | 37 | 95 | 157 |
| Interest | 209 | 188 | 35 | 18 | 18 |
| Depreciation | 121 | 142 | 173 | 191 | 210 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| Profit Before Tax | 28 | 812 | 1,158 | 1,510 | 1,935 |
| Tax | 3 | 0 | 150 | 378 | 484 |
| Net Profit | 25 | 812 | 1,007 | 1,133 | 1,451 |
| PAT margin | 0.4 | 9.5 | 9.5 | 8.7 | 9.4 |
| EPS (Rs) | 1.0 | 24.9 | 30.9 | 34.8 | 44.5 |
| % growth | 72.3 | 2,362.8 | 24.0 | 12.5 | 28.1 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 46: Balance sheet

| Y/E March (Rsmn) | FY20 | FY21 | FY22E | FY23E | FY24E |
|--|--------------|--------------|--------------|--------------|--------------|
| Share capital | 247 | 326 | 326 | 326 | 326 |
| Reserves | (834) | 2,701 | 3,675 | 4,743 | 6,097 |
| Net worth | (587) | 3,027 | 4,001 | 5,069 | 6,422 |
| Total Loans | 3,269 | 504 | 250 | 250 | 250 |
| Deferred Tax Liability Net | - | - | - | - | - |
| Liabilities | 2,681 | 3,530 | 4,251 | 5,319 | 6,672 |
| Gross Block | 2,233 | 2,318 | 2,668 | 3,018 | 3,368 |
| Depreciation | 299 | 142 | 316 | 507 | 716 |
| Net Block | 1,934 | 2,176 | 2,353 | 2,512 | 2,652 |
| Capital work-in-progress | 42 | 191 | 191 | 191 | 191 |
| Goodwill on consolidation of subs | 36 | 32 | 32 | 32 | 32 |
| Investments | 59 | 53 | 53 | 53 | 53 |
| Inventories | 1,166 | 1,560 | 1,515 | 1,601 | 1,902 |
| Debtors | 1,030 | 847 | 1,049 | 1,245 | 1,479 |
| Cash | 186 | 373 | 953 | 1,743 | 2,808 |
| Other Current assets | 264 | 476 | 532 | 756 | 878 |
| Total Current assets | 2,646 | 3,256 | 4,048 | 5,346 | 7,067 |
| Creditors | 1,511 | 1,766 | 1,893 | 2,295 | 2,705 |
| Other current liabilities & provisions | 526 | 412 | 532 | 519 | 617 |
| Total current liabilities | 2,037 | 2,178 | 2,425 | 2,814 | 3,322 |
| Net current assets | 609 | 1,079 | 1,623 | 2,531 | 3,745 |
| Total Assets | 2,681 | 3,530 | 4,251 | 5,319 | 6,672 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 45: Cash flow

| Y/E March (Rsmn) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---------------------------------------|--------------|----------------|--------------|--------------|--------------|
| EBIT | 216 | 986 | 1,155 | 1,432 | 1,796 |
| (Inc)/Dec in working capital | (173) | (282) | 35 | (118) | (149) |
| Cash flow from operations | 43 | 704 | 1,190 | 1,315 | 1,647 |
| Other income | 21 | 15 | 37 | 95 | 157 |
| Depreciation | 121 | 142 | 173 | 191 | 210 |
| Tax paid (-) | (3) | - | (150) | (378) | (484) |
| Minority Interest | - | - | - | - | - |
| Net cash from operations | 182 | 861 | 1,251 | 1,223 | 1,530 |
| Capital expenditure (-) | (299) | (533) | (350) | (350) | (350) |
| Net cash after capex | (116) | 328 | 901 | 873 | 1,180 |
| Interest paid (-) | (209) | (188) | (35) | (18) | (18) |
| Dividends paid (-) | - | - | (33) | (65) | (98) |
| Inc./(dec.) in total borrowings | 169 | (2,765) | (254) | - | - |
| (Inc.)/Dec. in investments | 79 | 6 | - | - | - |
| Cash from Financial Activities | 39 | (2,868) | (322) | (83) | (115) |
| Others | (4) | 2,802 | 0 | 0 | -0 |
| Opening cash | 278 | 186 | 373 | 953 | 1,743 |
| Closing cash | 186 | 373 | 953 | 1,743 | 2,808 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 47: Key ratios

| Y/E March | FY20 | FY21 | FY22E | FY23E | FY24E |
|---------------------------------|--------|------|-------|-------|-------|
| Per share (Rs) | | | | | |
| EPS | 1.0 | 24.9 | 30.9 | 34.8 | 44.5 |
| Book value | (23.7) | 92.9 | 122.8 | 155.5 | 197.1 |
| Valuation (x) | | | | | |
| P/E | 706.7 | 28.7 | 23.1 | 20.6 | 16.1 |
| P/BV | (30.1) | 7.7 | 5.8 | 4.6 | 3.6 |
| EV/EBITDA | 78.2 | 20.8 | 17.0 | 13.4 | 10.3 |
| EV/sales | 3.9 | 2.7 | 2.1 | 1.7 | 1.3 |
| Return ratios (%) | | | | | |
| RoCE | 8.4 | 31.7 | 29.7 | 29.9 | 30.0 |
| RoE | (4.2) | 66.5 | 28.7 | 25.0 | 25.3 |
| RoIC | 9.6 | 35.6 | 36.4 | 42.3 | 49.0 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 5.0 | 13.1 | 12.5 | 12.5 | 13.0 |
| EBIT margin | 3.2 | 11.5 | 10.9 | 11.0 | 11.6 |
| PAT margin | 0.4 | 9.5 | 9.5 | 8.7 | 9.4 |
| Turnover ratios | | | | | |
| Total asset turnover ratio (x) | 2.5 | 2.4 | 2.5 | 2.4 | 2.3 |
| Fixed asset turnover ratio (x) | 3.0 | 3.7 | 4.0 | 4.3 | 4.6 |
| Debtor days | 56 | 36 | 36 | 35 | 35 |
| Inventory days | 64 | 66 | 52 | 45 | 45 |
| Creditor days | 125 | 115 | 100 | 100 | 100 |
| Solvency ratio (x) | | | | | |
| Debt-Equity | (5.6) | 0.2 | 0.1 | 0.0 | 0.0 |

Source: Company, Nirmal Bang Institutional Equities Research

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