19 August,2024

To,

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

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

Dear Sir / Madam,

Subject: Intimation under Regulation 30 - Transcript of Earnings Call

Pursuant to the Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings call held on 12 August 2024.

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

Request you to kindly take the same on record.

Thanking you,

Yours faithfully
For Stove Kraft Limited

SHRINIVAS PRANESHACHARYA HARAPANAHALLI
Digitally signed by SHRINIVAS PRANESHACHARYA HARAPANAHALLI
Date: 2024.08.19 14:58:23 +05'30'

Shrinivas P Harapanahalli
Company Secretary & Compliance Officer

"Stove Kraft Limited

Q1 FY'25 Earnings Conference Call"

August 12, 2024

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

Moderator: Ladies and gentlemen, good day, and welcome to the Stove Kraft Limited Q1 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star 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 of Stove Kraft Limited. Please go ahead.

Rajendra Gandhi: Good afternoon, everyone. Thank you for joining us today in this earnings call of quarter 1 FY '25 of Stove Kraft Limited. Along with me Mr. Ramakrishna, our CFO; and Hemant Kothari, our Chief Business Analyst have joined this call.

I am pleased to report that our company has maintained its growth trajectory, driven by prudent strategic initiatives, efforts in containing costs has improved our profitability. Coming to the macroeconomics, despite global headwinds, the Indian economy has demonstrated remarkable resilience, strong consumer power, supported by a robust financial system and a prudent public policies. This, along with easing of supply-side bottlenecks, government trust on infrastructure capital expenditures and moderation of inflationary pressure have all contributed to economic growth and has positioned India as one of the fastest growing major economics.

In Q1 FY '25, we achieved a 5.6% year-on-year increase in revenue with gross margins improving to 38.2%. Our EBITDA has grown by 32% year-on-year and EBITDA margin stood at 10.1% for the quarter, which the company has mentioned during the previous earnings con calls. However, our PAT has grown by 0.04% mainly due to the notionalimpact of indirect lease accounting. Our volume growth for kitchen and home appliances excluding the LED products has seen a growth of 9.1%.

Moving to the exclusive Pigeon retail stores. We have continued our aggressive store expansion strategy increasing our total retail store count to 191 stores across 11 states and the footprint in 49 cities. Notably, we have made meaningful inroads into the Delhi NCR region, expanding our operations beyond the Southern states. Also as a strategic move, we have added further 23 retail stores under the COFO model to manage cash flows on retail store expansion.

In quarter 1 FY '25, company has added 20 stores in quarter 1 FY '25 and was able to convert 23 stores from COCO to COFO in quarter 1. This will help us to increase our retail stores across the length and breadth of the country. Our commitment to new product innovation remains unwavering. This quarter, we announced the launch of several new kitchen appliances under the Pigeon brand, which are designed to deliver high-quality, reliable and innovative products that meet the unique needs of each of our customers.

Introducing the electric pressure cooker, Electra, which unlocks culinary creativity and redefines cooking convenience. The Pigeon Cosmic series, glass cooktops offer an ultra slim, elegant designed with unparalleled safety features, including the components like brass burners from Sabaf Italy.

Our new line-up includes 12 liters Air Fryer OTG, Jumbo Sandwich Griller, the Deluxe series of chimneys with inclined design for effective suction, the Pigeon Nutri Master 2 and 3 jar for juicing and blending; the Air Turbo vacuum cleaner, which provides very high suction with the HEPA filter; additionally, the Pigeon Titan heavyweight iron offering a professional iron experience with dual layer nonstick coating sole plate. Lastly, the Pigeon Uno Blendo available in attractive colors customized for instant blending on the go.

The above mentioned introduced new product development cycle, which are customized for Indian consumers based upon our years of experience in consumer segment when complemented with strategic initiatives which company undertook like in-house manufacturing and enhanced backward integration, ensure superior quality, agility, modern sleek design and cost-effective products for the consumers.

For the quarter, all the channels were active and showed good traction with our modern retail e-commerce platforms and exclusive stores performing exceptionally well, showing significant growth. Manufacturing progress along with the presence across multiple channels has reinforced our position as industry pioneers and allowed us to cater to a larger target consumer segment. Moving forward, we are confident about our FY '25 also with the upcoming festive season augmenting well off for us.

Now I will discuss the Q1 FY '25 financial performance. The consolidated revenue stood at INR314.5 crores in Q1 FY '25 versus INR297.7 crores in Q1 FY '24, registering a growth of 5.6% on the year-to-year basis. Gross profit for the current year -- current quarter stood at INR120.1 crores in Q1 FY '25 as against INR109.8 crores in Q1 FY '24, registering a growth of 9.4%.

Gross profit margin for the current quarter stood at 38.2% as against 36.9% in Q1 FY '24 and 37.1% in Q4 FY '24. This improvement is due to increase in sales realization. EBITDA for Q1 FY '25 stood at INR31.7 crores versus INR23.9 crores in Q1 FY '24, registering a growth of 32.1%. The EBITDA margin was 10.1% versus 8% in Q1 FY '24 and 7.6% in Q4 FY '24, showing a growth of 210 basis points Y-o-Y and 250 basis points quarter-on-quarter.

Profit after tax for the quarter stood at INR8.2 crores versus INR8.1 crores in the corresponding quarter last year, and INR2.7 crores in Q4 FY '24. PAT margins for Q1 FY '25 stood at 2.6% as compared to 2.7% in Q1 FY '24 and 0.8% in Q4 FY '24 despite anotionalimpact of lease accounting in India as per INDAS for retail channel.

Looking ahead, we remain optimistic about our growth prospects. We will continue to focus on broadening our product portfolio, bolstering our distribution channels and intensifying our accessibility to consumers. These efforts are geared towards sustaining our growth trajectory and creating a long-term value for all our stakeholders.

With this, I would request to open the floor for question and answers. Thank you so much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mr. Rishabh Gang from Sacheti Family Office. The current participant seems to have disconnected, we will take the next question which is from the line of Resha Mehta from GreenEdge Wealth.

Resha Mehta: So the first question is on the sales growth. So, while our guidance has been on the volume front, the volume growth to be around 12%- 15% for the full year. And in Q1, we've done around 9% volume growth. So do you continue to maintain that guidance of at least mid-teen kind of volume growth for the full year? Or do you revise it downwards?

Rajendra Gandhi: No, we are very optimistic and positive about our growth. And of course, the second and the third quarter are actually the larger quarters for the company, and category of products that we offer. Actually, these are generally about 60% of the year. So the majority of the growth, we believe, will also happen in the second and third quarter.

Resha Mehta: And sir, do you feel that this optimism comes from the fact that, let's say, for Onam in South. Have you seen that festive demand kind of picking up as you see?

Rajendra Gandhi: Yes. So the primaries have begun. We are seeing good demand in the primaries. Of course, the second wave will follow, but there is a reasonably good demand for Onam.

Resha Mehta: Right. And this gap between volume and value growth for the full year will continue to be around 300-400 bps? Is that understanding right?

Rajendra Gandhi: As we progress over the years, I think this will stabilize. The initial period of the last year, there was a relatively high cost. So I think as we gradually progress during the year, this will stabilize.

Resha Mehta: Got it. On margins, we've delivered double-digit and congratulations for that. So do you see that we will be able to maintain double-digit margins for the next 3-4 quarters?

Rajendra Gandhi: So for us, annualized, we believe we'll protect the 11%.

Resha Mehta: Okay. And lastly, on the solar plant INR13 crores capex that you've done. So was this envisage as a part of the INR50 crores-INR55 crores capex that we had planned for the full year? Or is it over and above that?

Rajendra Gandhi: So we are in the concluding year of our capex and there is some work in progress, and we will be concluding and it is as per the earlier guidance.

Resha Mehta: So for the full year FY '25, basically, it will be in that range of INR50 crores-INR60 crores kind of capex. Is that understanding right?

Rajendra Gandhi: Yes, you're right.

Resha Mehta: Including the solar plant, INR13 crores, right?

Rajendra Gandhi: Yes.

Resha Mehta: Got it. All right.

Moderator: The next question is from the line of Achal Lohade from Nuvama Institutional Equities.

Achal Lohade: I think very good performance on the margin front, but let me ask, sir, if you look at the margins, 10% for the relatively weaker quarter in the season, right, from a year perspective, I'm a little perplexed why the guidance is only 11%. If 10% we have delivered in 1Q, I would say we'll deliver 14%-15%, if not more, for 2Q and 3Q. So I'm just curious to understand why this hesitation with respect to margins guidance?

Rajendra Gandhi: So the margin that we believe is for the whole year. We, of course, have a Q4 which is relatively a softer quarter. And we believe, of course, the second and third quarter can be better. But for the overall year, we will protect 11%.

Achal Lohade: Okay. The second question I had was with respect to the recent fall in the metal prices. Now -- how do you see that playing out for us in terms of; a, the pass-through; and b, in terms of price reductions?

Rajendra Gandhi: So the metal prices are stabilizing now. It's just happened recently. And if this continues, definitely, if not for the second and third quarter, but we'll definitely pass on if the metal prices continue to be at the same level. But we see that there is already a normalization happening on the metal prices. You are seeing some low side of the metal cost for the near term only. But I see we have a plan of a quarter at least when we procure our materials. And so I can say that it is neither on a very -- it's not very volatile. There is a small movement, and that is okay.

Achal Lohade: Understood. And if you could help us in terms of outlook for both the domestic and the export businesses separately as to how you're looking at exports? Have you seen any improvement in the export to U.S. market or if things remain as they were?

Rajendra Gandhi: Some of our growth is also driven by our higher growth in the exports. And we continue to have good projections for the remaining part of the year. So for the company as a whole, we will still grow higher on the export compared to the company's growth rate.

Achal Lohade: Understood. And sir, just one clarification with respect to the leases. Can you help us understand what is the -- is that for the incremental assets you are going for lease or even for the existing ones? And is it to do with the COCO?

Rajendra Gandhi: It's more to do with our stores. So, as we increase the number of stores, the IND AS accounting, both has an impact directly towards the rental cost on our finance cost and depreciation. But the initial years have a higher impact on the indirect accounting. So there is some notional impact, say, for the year. For the quarter that's bygone, I can say the impact was about INR1.5 crores -- the notional impact, other than the actual financial cost of rent.

Achal Lohade: Okay. If you could elaborate a little bit, this is a very critical one. So what is the quarter's rental we have paid? And how much is depreciation and interest component? How it is accounted for? I think that will help in terms of understanding it clearly?

Rajendra Gandhi: I can share that with you. I don't have the exact number, but the notional difference was -- but maybe during this call, I will give that exact number.

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

Natasha Jain: So my first question is on the margin. Now -- if I see your other expenses have decreased both in terms of year-on-year growth and in terms of your percentage of total revenues as compared to last year same quarter. So first off, can you help us understand what component in your other expense has reduced? Have you reduced your ad spend? And going forward, is that spend that you reduced in this quarter going to come forth in the second and third? The first question is that.

Rajendra Gandhi: To answer that question, other expenses increase is mainly because of retail stores, as we are increasing the retail stores, the retail stores maintenance expenses and the staff, which were deputed in those stores cost has gone up. So it continues to be increased as -- because every quarter, we are increasing the number of stores.

Natasha Jain: No sir. Sir, my question was your other expenses have actually reduced on a Y-o-Y basis. I'm asking what is the reason for reduction both in terms of Y-o-Y, there's a 1% reduction, even in terms of the percentage of revenue, other expenses was close to 16% in 1Q '24, now it's close to only 14.5% in 1Q '25. So why the reduction? Which line item spend has reduced in this quarter?

Rajendra Gandhi: Our overall other expenses for Q1 FY '24 was INR47 crores and is now INR46.5 crores. It's very, very marginal. Of course, these are a combination of the various costs that include sometimes, one-off costs like consulting and legal costs. But otherwise, our general costs are in line with our actual -- normal spend. And for this quarter, particularly, the Q1 is a lower spend in marketing. And there has been a little lower spend in the marketing in the first quarter. So there is a nominal decrease. Otherwise, we have worked on containing our costs. We believe that we will be able to maintain the company's growth rate with existing level of cost.

Natasha Jain: So sir, can we expect cost rationalization to continue from here? Or there is still, I mean...

Rajendra Gandhi: There is the correct base, we would have had a little higher cost in the previous year. The current quarter will give you the right picture on the cost side.

Natasha Jain: Understood, sir. And can you call out your ad spend fees this quarter and similar quarter last year?

Rajendra Gandhi: So we will continue to invest between 3% to 3.5% on our overall revenue towards marketing and advertisement spend.

Natasha Jain: And sir, lastly, can you call out the contribution from other channels in terms of exports and modern format?

Rajendra Gandhi: So for the quarter gone by, I can give you, yes, just a minute...

Natasha Jain: Sir, detailed breakup would help in terms of exports institutionally?

Rajendra Gandhi: Yes, I'll give you all the channels. 31% was contributed by general trade, eCom contributed 28.4%, the modern trade contributed 12.1%. Our corporate sales contributed 4.4%. The retail outlets contributed 4.8% and our exports business contributed 19.2%.

Natasha Jain: And sir, can you tell us the growth rate for exports?

Rajendra Gandhi: The growth rate for the quarter-to-quarter was 9%.

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

Varun: Sir, my first question is related to be price hikes you have taken. You mentioned that gross margins have improved because of realizations. So if you could provide us how much hikesyou have taken across segments? And secondly, if you could also provide the reason for lower volumes in cooker and nonstick cookware for the quarter?

Rajendra Gandhi: Yes. The nonstick cookware, of course, it's not lower too for us. We are growing on our cookware category. Pressure cooker has been a flat a revenue for us. On the contribution margin, both it has come by the various backward integration that we have done and a small increase in the beginning of the quarter that we have taken on our sales price. So these are combination of both the cost reduction because of backward integration and also the I can take closer to a percentage of increase in the price.

Varun: How much increase?

Rajendra Gandhi: Overall, when you see it was about 1%.

Varun: Okay. And on the depreciation front, should we consider that this should be the run rate of around INR15 crores for the full year going forward?

Rajendra Gandhi: Between INR15 crores and INR16 crores.

Varun: Okay. And lastly, you continue to maintain the volume guidance of around 18% to 20%?

Rajendra Gandhi: We should be able to do that, sir.

Moderator: The next question is from the line of Harsh Shah from Reera Holdings Private Limited.

Harsh Shah: I just wanted to get an idea, since our value growth has been lower than the volume growth, how much of that would have come from pass-through of raw material prices?

Rajendra Gandhi: Please come back.

Harsh Shah: Yes. So my question is that Y-o-Y, we have seen on a blended basis, our realizations come down, so just wanted to get an idea how much of it is because of raw material pass-through and how much would be because of any price cuts if we would have taken? And how much would be because of the product mix?

Rajendra Gandhi: So more or less, I can tell you the price increase was about 1%, but there is an additional contribution coming from the backward integration also. So while we have grown at 5% to 6% on the revenue, our actual volume growth is about 9%.

Harsh Shah: And my question is also, during the quarter, have you also seen any pass-through of lower raw material prices?

Rajendra Gandhi: Wherever we have seen substantial correction before the beginning of this quarter, we would have definitely done. Example, I would want to give you that the -- some electronic parts that we were importing in the past, over the previous year, we have seen some substantial price reduction. So, we have passed on some of our products like our induction cooker.

Harsh Shah: Okay. And if I have to point at any particular category. So since you're guiding 15% to 20% volume growth CAGR over the next 3 to 5 years, which are the categories that will continue tocontribute more to this growth?

Rajendra Gandhi: Yes, the growth that we have seen in the quarter also, and what we see for the year comes from the appliances category is to do with 2 things with the addition of more categories in our range itself. And many of these categories, we have moved to completely manufactured within the facilities of Stove Kraft, which is giving us a huge advantage, both in terms of cost and the supply chain stability and the product quality.

Harsh Shah: Okay. So sir, should we assume that since the contribution of small appliances will be higher going ahead, our realization will continue to remain at the lower side or will reduce going ahead since the mix of small appliances that increase in the overall sales?

Rajendra Gandhi: So we will continue to address the same TG that we believe is what we are addressing. So we will continue to excite our consumers with better quality products and the price -- and the affordability levels that we believe should be the right cost to the consumer. Within the appliances category, we will want to give our consumers accessibility to products either to consider aspirational, but at the price points that are very attracted to them.

Harsh Shah: Okay. And lastly, sir, would we be able to highlight how has been the response to some of the new launches, especially on the electric pressure cooker and also the vacuum cleaner -- range of vacuum cleaner that we have launched.

Rajendra Gandhi: Both are very high-quality products, aspirational for our consumers. And we have just started with this product. The initial response is as expected or I can tell is very good.

Moderator: The next question is from the line of Rishabh Gang from Sacheti Family Office.

Rishabh Gang: So I want to understand what is our like 5-year long-term vision on the revenue and earnings growth, like what could be the key levers for the same? Like what kind of brand do we aspire to build in 5 years? And can exports be a big growth lever for the same, sir. Yes, sir.

Rajendra Gandhi: Of course, one of the growth levers for us is export if we continue to grow at a higher rate than the company's growth rate. We believe that the last 5-6 years, we've been growing at 18%-19% CAGR, and we believe that we can continue the same trajectory.

On the brand, we -- particularly the brand Pigeon, we are targeting the growing middle class in this country. And as more and more people join this TG, it is actually addressing a very large segment of our consumer. And we also believe that we will continue to always be relevant -- more relevant to the value-conscious customer.

Rishabh Gang: Okay. So you mean to say revenue growth of 18% to 20% for the next 5 years. What kind of the earnings margin would be like EBITDA and PAT margin, do you think it is something which is possible for after 5 years?

Rajendra Gandhi: It will be too early. But still, I will tell you that we are working towards this current gross margins that we currently are at 38%. So we believe that we will be able to remain here and we will continue to protect at 11%. And in a good year, it will always be better than this, but we'll try to -- we'll continue to work to protect this 11% EBITDA.

Rishabh Gang: All right. Sir, on the gross margin front, so when we sell more through our own stores, then our gross margin expands? Like, how what...

Rajendra Gandhi: Yes. Our gross margins in our own stores is much higher than the overall gross margins.

Rishabh Gang: Any idea on how much percentage high?

Rajendra Gandhi: Yes, we operate at about between 50% and 52% on the retail stores.

Rishabh Gang: And around 38%, 39%...

Rajendra Gandhi: It is actually a manufacturing to retail. So the channel margin is retained by the company.

Rishabh Gang: All right. I want to understand like how -- what has been the hiring trend in the senior management, right, to enable you to take to the company to the next level or enable high growth. Any -- like hiring trend that we have been doing it?

Rajendra Gandhi: So we are continuously adding human capital with the capabilities that the company believes the right kind of capability, but we are more excited with growth within the company, and we believe that the company is well poised to handle the growth. Within the company, there are leaders that are emerging and it's not that we are blocking ourselves from any external new hires, but then there is enough capability within the company, and we wish to groom the team that is there in the company, and we continue to keep hiring.

Rishabh Gang: All right. Also on the small appliances front, I think that is going to be the biggest growth driver for you. So like for the products that we are adding, are we designing and manufacturing all in-house or like we are sourcing from outside as well?

Rajendra Gandhi: So we have -- well-proved system where we bring in products that are once accepted, then, of course, we go to manufacturing these products. We have a strong, what we call engineering R&D team, both within the country and also a team that is the company's team that supports us from China. We also have designers in the U.S. to keep us abreast with the latest development in the U.S. market.

Rishabh Gang: So for the manufacturing part, is it all in-house? Or like can you give a percentage of how much small appliances we are manufacturing in-house and how much we are getting from outsource?

Rajendra Gandhi: I can tell you that overall, from the revenue of the company, a little more than 90% is manufactured within the facility of Stove Kraft.

Rishabh Gang: All right. More on the stores that we actually -- any -- what is the vision that we have for the stores that we want to set up as well as what are the return ratios, like a return on equity and payback period that we aspire for the COCO model and the COFO model, sir, if you can tell about that?

Rajendra Gandhi: So, we started this journey with a COCO model. And we believe that the more sustainable model is a COFO model. So at the beginning of this year, we had 171 stores, which were COCO models. And we aspire to add between 25 to 30 stores every quarter. So the target for the team is also that we embarked equal number of franchises to take over the existing COCO into COFO model. So, for all the time in the future, while we expand at about 25-30 stores every quarter, we will restrict our COCO to 171 stores.

Rishabh Gang: Okay. So now a majority of the stores would be on the COFO side, right?

Rajendra Gandhi: So the new stores can also start as COCO will move to COFO. We believe that we should hand over stores to the franchisee once the initial stabilization period is over.

Rishabh Gang: All right. I want to understand more on like what kind of repeat sales are we able to guide like any -- what are the initiatives? Like which are unique to Pigeon apart from the industry, like what we are taking to ensure loyalty or repeat sales from that front?

Rajendra Gandhi: We believe that our growth has always been driven by the loyalty of our consumers. So because we have a very large range of products, the higher growth has come from existing consumers. Within our retail also, we see that about 18% to 20% of the existing customers coming to us to buy our own products.

Rishabh Gang: And just a last question. What is the revenue split between the in-house brands and the work which we are doing for external brands, like Black & Decker and all, any split available?

Rajendra Gandhi: Black & Decker -- we don't manufacture any products for Black & Decker. We are a licensee of Black & Decker in India. So for this region, for the small domestic appliances, we call this SDA. We're the exclusive licensees. So not necessarily we produce these products because the scale is very small. We import and sell these products under the Black & Decker brand in the country. We do not do any OEM, what we call white labeling for products in the country. But for the exports, particularly for the retailers in the U.S.A., it's the white labeling business for us.

Rishabh Gang: Just last question, if I can ask one more. What is our strategy for North India rate, yes?

Rajendra Gandhi: So for us, we are there across the country including the North. And the general trade that we are growing every quarter. Modern trade, wherever the modern retails or modern trade stores are there, we are working with all the large chains in this country. So we are there to the model trade. E-commerce has given us a very -- an opportunity to be in every pincode in this country.

And on our own stores, as I mentioned in the call -- at the beginning of this call, that we have embarked on this journey. We are expanding our stores in Delhi and the NCR region and moving towards Haryana, Punjab there. So we'll be there across the North even to our own stores.

Moderator: The next question is from the line of Rusmik Manilal Oza from 9 Rays EquiResearch.

Rusmik Manilal Oza: Congrats for the good quarter. Gandhiji, I was wondering about export, because export contribution has now gone to 19%, and you've been saying in your call that exports will be a major driver for growth in future. So is it possible to get understanding the gross margin mix on the export business?

And since you have done with capex and going forward, whatever revenue growth comes should perculate down to EBITDA. So though we'll do 11% this year, but with higher contribution of our own stores where gross margins are higher and with better export, is there a positive EBITDA going up to maybe 12%, 13%, 14% in the next 2- 3 years?

Rajendra Gandhi: There is -- what we see is northwards from here where we are. But for the year, we believe that we will be able to protect 11% EBITDA. You are right on the exports front, on the gross margin, our margins are lower, but EBITDA is either at par with the company's EBITDA level or sometimes better.

On the retail front, yes, as we expand more stores, our gross margins are higher, but the relative costs are a little higher than the normal business. Overall, I can say it is all neutral. We have higher gross margins in retail, lower gross margins in export. But at the overall company's EBITDA margins, I don't -- we don't see any pressure to deliver this 11%.

Rusmik Manilal Oza: Okay. Okay. And my second question, sir, was on margins. So our gross margins have now improved from almost that 30% to 33% to 38% and EBITDA margin going to 10%-11%. But somewhere, because of the expansion of stores and the lease liability going up, the interest cost depreciation keeps going up. So -- the earnings growth is not at par with the growth we have seen in the top line and EBITDA. So how do you encounter this or see to it that going forward, you have a healthy earnings growth as well along with the 18%-19% revenue growth you're projecting for in the future?

Rajendra Gandhi: Yes. As we -- this is for the year and as we progress and the number of stores are growing. Currently, we are also seeing that the company dependent on -- I mean borrowings is also coming down. We believe that we can also get to being rid offthe net of our complete debt by the end of this year itself, particularly the working capital debts.

We only have working capital debt. So the financing cost will also -- I mean, the cost of finance will also come down to that extent. And only for the retail stores for the initial 3, 4 years, we have the delta between the actual rent and in the IND AS, then it will become a more positive towards the bottom line.

In the earlier question I think -- I will tell you, the overall rent for this quarter was about INR4.5 crores, but actual accounted as per India's lease accounting, it is INR5.9 crores interest and depreciation both. So, the difference is INR1.5 crores, but over -- post the fourth year it will become accretive to the bottom line.

Rusmik Manilal Oza: Okay. Sir, 2 more questions on [inaudible]what was the ultimate aim of actually at what stage you will probably go and then look at stopping expanding, maybe in the next 2, 3 years, what kind of eventual target you have for a number of stores?

Rajendra Gandhi: For the near term, we definitely have plans to open 25 to 30 stores every quarter.

Rusmik Manilal Oza: Okay. But any eventual goal or target in mind that, okay, we want this...

Rajendra Gandhi: See what we want is there across the country. So we believe that easily we can take the store from current beginning of the quarter, we were at 191. We have progressed from there. We crossed the 200 number. We believe in the next 3 years, definitely, at the same rate, we'll be able to add at least 300 stores.

Rusmik Manilal Oza: Okay. Sir, last question. On the export side, can you give us a little bit of color of what kind of products are exported because the contribution is quite healthy. So what kind of products are getting exported? And in terms of all this geopolitical issue, is there any threat to margins because of higher logistic costs? Or is it a pass-through or do you have to get the impact of higher logistic costs?

Rajendra Gandhi: For us, the exports is always on FOB. We don't take the cost -- the sea freight costs on our books.It's excluding those costs. So,our responsibilities are the revenue recognized once it is delivered through the port here in India. The current -- we are only focused on 1 category, that is the cookware and more particularly to the coated cookware, but the opportunities of expanding some cookware to other categories that we are already manufacturing, there's a lot of interest. And so we also believe that the growth rate on exports will be much higher.

Moderator: The next question is from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: Sir, this number of stores, so last time you had said 170, so that was all company-owned company operated, right? Now incrementally, these 20 stores which have come up, is company-owned where there were inventories owned by us and operated by a franchisee, right?

Rajendra Gandhi: You're right.

Sarvesh Gupta: And now incrementally, there is no capex because that security deposit and inventory are getting nullified against each other?

Rajendra Gandhi: Yes, they get set off the deposits strategic.

Ramakrishna Pendyala: There will be an increase in the capex, but there will not be any effect in the cash flows.

Sarvesh Gupta: Yes. Understood. And this -- like what has been your same-store sales growth in your own in these 180 or 170 stores?

Rajendra Gandhi: So of course, I'm unable to give you exact numbers, but I'll give you a color on how it is setting. Those stores that have -- are older than 6 months have seen a reasonable growth on the month-on-month basis. But there are also stores that we have opened in the last 6 months. So the stabilization period applies to almost all the stores.

And when we have more new stores and until we cross over that the overall, when you say the mean -- average sales per store, they look a little subdued. But we will bifurcate the new stores with the old stores, we are able to see once the stores stabilize, then there is a -- reasonable growth. And that growth we are seeing on an annualized -- we have to populate all that, but it is growing at higher of 10%.

Sarvesh Gupta: So the mature stores, let's say, stores which were opened more than a year back are showing 10% growth, right?

Rajendra Gandhi: Yes, higher than that..

Sarvesh Gupta: And now you have been launching a lot of new products. So what has been the revenue growth from your existing product? Because is I mean, 9% volume growth, how much of that is coming from new products versus existing products?

Rajendra Gandhi: So more of our new products come in the appliances category. I'll give you on the appliances category -- we have grown actually year-on-year on the appliances category by 24.7%. So relatively to the traditional products like pressure cooker, cookware, cooktop, I can say there is very soft growth, but the bigger growth has come from this. Our induction cooktop has also grown well. We've grown by 8.2%.

Sarvesh Gupta: Okay. Sir, but broadly, let's say, if we have a target of 15%, 20% growth, in the next 4-5 years. So this would be majorly on the back of newer and newer products? Or do you see growth also happening? I mean how do you see growth happening in your existing product or existing stores? Or is it on the bank of more geographical expansion and new product sort of initiatives only?

Rajendra Gandhi: So it's a combination of both product and channel as the retail channel is new and additional channel, of course, we believe that the growth that comes from this channel is almost additional growth and our export is also growing. So these -- but within the existing channels, the higher growth will come from new products, but we believe we'll continue to grow in our existing product categories

Sarvesh Gupta: Understood, sir. Finally, one question is on warranty-related costs. So what's been the trend there? And how do we provide that in our P&L?

Rajendra Gandhi: We actually have, what we call, history of our costs on warranty. And based on the history, we continue to provide for that, which, of course, gets reversed every year based on the actual spend versus -- and the new one gets approved. And we have always feel that we have provided a little more than the actual cost every year.

Sarvesh Gupta: So what is that percentage, sir, that we are providing?

Ramakrishna Pendyala: I think it's about 0.1% on sales.

Sarvesh Gupta: 0.1%, is it? 0.1% onlythat's it?

Ramakrishna Pendyala: Yes, right.

Moderator: The next question is from the line of Shreyans from SVAN Investments.

Shreyans: Sir, my first question is, last 5 years, if I look at your gross block, we've actually tripled our gross block, say, from INR200 crores to INR600-odd crores. And if I assume a 3x asset turns, so on a INR600 crores block, I think ideally, we should be able to do INR1,800 crores to INR2,000 crores of top line. So with the kind of growth rates that you're targeting, do you think we will need capex in the next 2 years after that, I mean, '26? Or do you think this capex that we have right now with the gross block we have is sufficient?

Rajendra Gandhi: I think with the current capex, we are able to definitely be able to manage the growth for the next 3 years.

Shreyans: Okay, okay. And my second question is, sir, when you talk about exports and small domestic appliances being margin neutral for you, so if I were to understand the improvement in gross margins is just going to come from product mix improvement. There's no channel mix change that will help us increase our gross margin. Is it?

Rajendra Gandhi: So the gross margins in retail are higher. Otherwise, for us, across the categories, it is neutral. And exports, as I again mentioned, was at the gross margin level, it is much lower than the company's gross margin. But at the margin level -- at the EBITDA level, it is at par.

Shreyans: Okay. Okay. And sir, in terms of backward integration, all the products that we are selling, we can manufacture it in-house?

Rajendra Gandhi: Yes. We either are making it within the practice of Stove Kraft or they are at the initial phase of launch of products. Example, I will tell you, if you have seen in our EPC, the electric pressure cooker or the vacuum cleaner, their 100% of all the manufacturing happens within the factories of Stove Kraft.

Shreyans: Okay.. And do we expect any margin benefits to -- further come into play? I mean, gross margin, we understand rather than that what kind of improvements can we expect? And one more question on this is, in terms of employee addition, we've been adding a lot of employees because of the retail expansion. But now that the retail expansion is COFO, are we also done with that? And can we expect some leverage benefit to come into play?

Rajendra Gandhi: Definitely, there is a scope for the operational leverage to play out because we today have our capacity, as I said, that is closer to what the growth can take us in the next 3 years. There could be a small incremental cost, but it is not in proportion to the growth. So definitely, we should expect some operational leverage to play out from there.

Shreyans: Okay. So I'll put the question other way around. So what I'm trying to understand is whatever capex that we've done in the past, the margin benefit we were going to accrue. Is that through? Or do you think there's some scope of getting that benefit is still yet there?

Rajendra Gandhi: Yes, it is there. There is -- I mean, there are several of the capex that we have done or doing or yet to start delivering. Example, we have been investing on our and foundry for the last 18 months. It will start getting to production maybe by end of September, early October. So I mean there are similar kind of facilities that we have been investing and they are getting it. So all this will start working.

Shreyans: Okay. And last question, sir, from my side is if in terms of percentage of sales, can you help us understand what percentage of your sales is now coming from your new launch -- newly launched products or new designs, if you can help us understand that, what percent of it?

Rajendra Gandhi: So currently, I don't see this trend to continue at the same level. Currently, particularly for the quarter, majority of the sales growth has come from new products. But during normal times, our existing categories will also grow. So definitely, the overall growth will be much higher than the current 8% to 9% on volume or 5% 6% on the value. So we believe that the larger growth for the near term will come from new products, but the existing products should also grow.

Shreyans: But sir, how much would new products contribute as a percentage of total sales, if just some understanding?

Rajendra Gandhi: Currently, the small appliances alone which does not, of course, include the cooktops, we also -- are generally classified as appliances contribute 25% of our business. And we have been able to grow at 25% on that. So almost a 6% of the growth has come from small appliances. But all the small appliances are not new, our relative contribution of some small appliances, maybe 2 years back, was much lower than the current contribution.

Moderator: The next question is from the line of Chaitanya from PL Capital.

Chaitanya: I have a simple question. What was the capex you mentioned? I think I missed it.

Rajendra Gandhi: Can you please come back, sir.

Chaitanya: Sir, what was the capex amount you mentioned, I missed it?

Rajendra Gandhi: capex in the last 4 years is closer to INR380 crores.

Chaitanya: Okay. And what is for FY '25?

Rajendra Gandhi: That includes the capex that we will conclude this year.

Moderator: The next question is from the line of Shyam Garg from Ladderup Wealth Management Private Limited.

Shyam Garg: Sir, my first question is with respect to what is the return rate in our modern distribution channels, online sales?

Rajendra Gandhi: Sorry. Returns?

Shyam Garg: Yes, returns in online sales.

Rajendra Gandhi: So the way the business is structured for us, we do not take any returns from our online channels. This is absorbed by the sellers on the channel. The business model is structured in a way that we don't get any returns that the channel actually offers to the consumers.

Shyam Garg: So do we sell those online sales by the existing stores that we have -- nearby stores that we have or how it works. If you can give a little color on model?

Rajendra Gandhi: You mean to say how -- see, there are aligned sellers on these large platforms, and we work with these large sellers. So definitely, the way the channel operates is, the consumer is free to even return goods that he has ordered for or in case of any defects or damages during transit is allowed to return. But these return goods are managed by the sellers, and it does not come back to the company.

Shyam Garg: Okay. And the expense of marketing is same done by the sellers only?

Rajendra Gandhi: So we spend invest, I can say, about between 3% to 3.5%. It is the same percentage that we do even on the e-commerce platforms.

Shyam Garg: Okay. Got it. Hence, are -- Licensed for Black & Decker on the verge of renewal in FY '26. So how confident we are in -- on that perspective?

Rajendra Gandhi: So we have a 10-plus 10-year arrangement with them. It's an automatic renewal mechanism. And currently, we are very confident, the relationship is very strong.

Moderator: The next question is from the line of Praneeth, an Individual Investor.

Praneeth: Yes, I was curious about a few things actually. Our expansion to the North, like how much contribution has the North been to us in terms of revenue of Q1. And you mentioned that in the previous con call, and on this con call also that you have been focusing on Delhi, so -- on retail expansion, especially. So how many stores have we opened up in Delhi?

And how is that going forward? And what's the average revenue per store? And in terms of product mix in North India, what are we looking at? Are we look -- is the consumption more towards the lower price segment or the higher price segment, because North and East are more price-conscious consumers.

So I'm curious about that. And in terms of Gujarat also, you mentioned that we're going to -- after Delhi, we're going to follow by Gujarat in North India. So how is that going forward? And what are we -- how many general traders touch points have we onboarded? And what is the plan for East India in terms of increasing our distribution?

Rajendra Gandhi: Okay. Delhi, we have currently 13 stores operational. And we are also in neighboring states, we have opened a store in Punjab and we are expanding the whole region there. So we have 2 stores in UP. On the product side, so we are -- it's not by the higher end, we make good products, which can also be consumed by the higher -- maybe a PG that considers to be buying high-value products.

But we make it in a way that it is accessible and easily affordable from the larger set of the society. It is not that we -- so every product category, we will have product features, which will be at the entry level and also at the higher end. So whether it is North or East, I think the same applies. On the value that we deliver, we already believe that we can deliver better value than what products are available in the market.

It's because the cost structure is built. We are highly backward integrated, we invest on our R&D, our manufacturing facilities are, I can say, state-of-the-art so our cost per piece, because of the high volume of products that we produce are relatively lower. And overall, a very strong distribution network, which also gives us advantage in the supply -- I mean, overall cost of the channel.

Praneeth: One more question. Yes, the thing is, I understand the point that our products are great and we have a great value proposition, but I was curious about the average order value, if we continue into 4 parts like South, North, East, West? Like what's the average order value across these segments in each part of India?

Rajendra Gandhi: We would not have these numbers exactly, but we don't see a very big difference between the South, North,East and West. We are, of course, there across the country, all over the place, but I don't see a huge kind of, what you call, difference in the consumption pattern of the consumers that we are targeting.

Praneeth: Understood. I have one more question. In the previous earnings calls, you have mentioned that our pricing structure is cost base structure. Is it the same kind of pricing model for all the appliances and all our products? Or is it only for the cooker segment of it?

Rajendra Gandhi: No, no. It is across the product categories and across the channels, it is a cost plus.

Praneeth: Understood. And in the quarterly presentation, there's a mention of small appliances, value growing by around 12% and volume growing by 26%. How much is it as a resultant of developing and introducing lower value products? Or what is it because of -- like is it because of us introducing lower-value products at value like reducing and volume is increasing? Or how is it going to be in the future also? Are we going to start introducing lower value products to increase more volume? How was it?

Rajendra Gandhi: So see particularly, the small appliances, as we move from the initial phase of trading in the category to completely backward integration. Definitely, there is a pass on of the majority of the benefit, if not all. So the cost acquisition -- cost for the consumer definitely comes down and the revenue of the company also comes down.

So to give you an example, if you have launched a product at say, INR3,500 initially considered trading. Our cost would have come down by INR500 and we would have reduced the cost to the consumer to INR3,000. So obviously, we'll have to sell 20% more. And that's why you are seeing the difference would be there always.

And on the volume -- overall, when we calculate the volumes, it is not by each product category, it is within that category all the products or -- I mean the number of products that we would sell. So average ASP would be sometimes different. So that's why you could see a difference in value and volume.

Praneeth: Okay. So in like the previous question, I think -- I don't think you alluded the fact of what are you planning on doing for the East part of India? Like how are we planning on expanding there? Is it going to be more retail footprint? Or is it going to be modern trade or general trade? How is it going to be for...

Rajendra Gandhi: Yes. The modern trade is not very strong in the East, but I ensure it will also catch up, but both on e-commerce and general trade, we are there. We are not very, very strong, but we are there across the East in the general trade. And e-commerce, we are seeing good contribution coming from the East also.

Praneeth: Okay. And what exactly is happening with Black & Decker because we don't give sales breakup of how much revenue contribution is getting to our top line. So what -- and what kind of efforts do we usually put, because you just mentioned that you import the products and sell it. So apart from retail channels that I have noticed that we have Black & Decker products, how do we sell the products of Black & Decker, and what is the revenue contribution at the moment?

Rajendra Gandhi: It's a very, very small contribution that is coming from Black & Decker, it is between 2% to 3%. So the contribution is very small.

Praneeth: And do we only do it through the retail channels or do we do it through e-commerce also, the Black & Decker products we have license to...

Rajendra Gandhi: We have a small e-commerce presence, but we believe that we can strengthen the e-commerce channels for the Black & Decker business. Currently, we sell it through the general trade. And also, some of the products, we also sell it through our retail stores.

Praneeth: Got it. And initially, we also plan on onboarding more OEMs like this to get licenses. How is that effort going on that front?

Rajendra Gandhi: So we are not onboarding any more licenses, but for our export business, we are adding more customers. Currently, both in the U.S. All this time, we are working only with retailers in the U.S. We have now started working with one large retailer in the U.K. And even in the U.S., we are adding some more customers. So overall, both in the product category, which all this time we were focused on exporting only our non-stick cookware. We are also seeing interest into our other category of products. So you'll see soon exports of our larger range than the non-stick cookware alone.

Praneeth: Okay. And in previous, I think, questions, you mentioned that we do white labeling. So what exactly is the business around white labeling, which products do we white label and where do we sell them?

Rajendra Gandhi: The products that we don't sell under our brand name is what we call white labeling. So these retailers have their own brands, their own private labels under which brands, example, a Walmart brand, they will have their own brands. So we manufacture these products under that brand and export. And this white labeling we do it only for exports.

Praneeth: So in exports, how much does the white labeling contribute and how much does our sales contribute? What is the split?

Rajendra Gandhi: It is more than 80% is white labeling of the export business, 20% will be our own brand.

Praneeth: And can you mention the companies are white labeling sir? Or is it that confidential?

Rajendra Gandhi: I did mention you but we work with Walmart. So we -- all of the products that we make for Walmart USA is on white label. We work with -- and similar kind of retailers, so they are all white labeled.

Praneeth: Okay, sir. Understood. Got it.

Moderator: In the interest of time, this was the last question for today's conference call. I would now like to hand the conference over to Mr. Rajendra Gandhi for closing comments.

Rajendra Gandhi: Thanks all of you for patiently bearing with us during the call. And I hope we are able to answer your queries, but if you have any more queries, anytime you can reach out to our Investor Relations team at Orient Capital or you can write to us directly. We'll be more than happy to answer all of your queries. Thank you Arvind.

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