

29th November 2024

Stove Kraft – BUY

CMP : Rs.795.0

Target Price : Rs.950.0

Upside : 19%+

Stop Loss : Rs.676.0 (Closing basis)

Investment Thesis

- Stove Kraft Ltd. (Stovekraft) has established itself as a leader in the kitchen appliance segment with significant growth in revenue share across non-stick cookware, pressure cookers, and small appliances like induction cooktops product range. Its brand, Pigeon, dominates the 'value for money' segment, capturing market share from unorganized players. Its recent entries into electric kettles, induction cooktops and air fryers have quickly catapulted it to market leadership, particularly in e-commerce platforms, reinforcing its growth potential and innovative edge. Strong backward integration into component manufacturing, such as injection molding and PCB production, Stovekraft has significantly improved its gross margin to ~38.0% in Q2FY25. The transition to higher in-house production (92% from 70% of revenue in FY21) reduces reliance on external vendors, enhances quality control and ensures cost efficiency. This positions Stovekraft as a dominant player with a competitive edge in India's formalizing kitchen appliance market.
- Stovekraft has adopted a '3-Phase' approach, viz., import, assemble and localize, to ensure prudent investment in product innovation. This phased strategy allows Stovekraft to assess market acceptance before scaling up, ensuring efficient resource allocation. Its consistent launch of affordable and customer-centric products like air fryers and electric pressure cookers aligns with its 'value for money' positioning, fostering higher customer loyalty and sales.
- Stovekraft is continuously expanding its distribution network to drive future growth. It had added 22 exclusive stores in Q2FY25 taking total counts to 213 from 191 exclusive stores in Q1FY25. Stovekraft plans to add 25-30 stores every quarters along with its dominance on e-commerce platforms and a robust general trade network. This multi-channel approach enhances its market penetration, particularly in North and East India. Its 'value for money' product positioning aligns well with mass-market demand, enabling faster scaling and higher brand visibility.

Financials

- Stovekraft's revenue & PAT grew by CAGR of 16.3% and 78.2%, respectively during FY19-24 led by new and innovative product launch and capacity addition taken by Stovekraft during the last 5 years.

Consol. (Rs.Mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	11,364	12,839	13,643	15,144	16,961
EBITDA	958	1,036	1,242	1,391	1,585
EBITDA Margin (%)	8.4%	8.1%	9.1%	9.2%	9.3%
PAT	562	358	341	382	436
EPS (Rs.)	17.0	10.8	10.3	11.6	13.2
P/E (x)	46.7	73.5	77.0	68.7	60.3
RoE (%)	15.5%	8.9%	7.8%	8.0%	8.3%

Stock Data

Market Cap (Rs. Mn)	26,395
Market Cap (\$ Mn)	312.40
Shares O/S (in Mn)	33.1
Avg. Volume (3 month)	1,34,000
52-Week Range (Rs.)	968.00 / 410.00

Shareholding Pattern

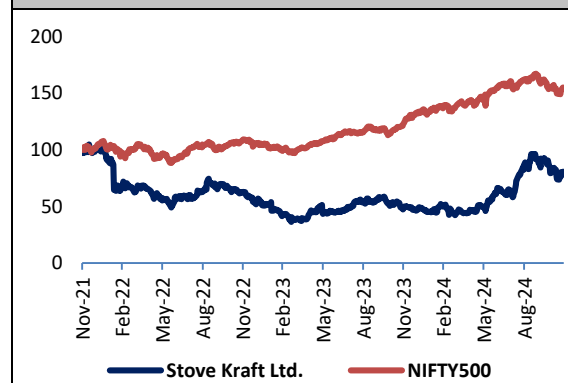
Promoters	55.88%
FIIIs	1.53%
Institutions	5.48%
Others (incl. body corporate)	37.11%

Key Ratios

Div Yield	0.3%
TTM PE	76.4x
ROE	7.8%
TTM EPS (Rs.)	10.39/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	-4.0%	63.6%	67.2%
NIFTY 500	-0.6%	5.3%	26.9%



- Stovekraft has reported 10.2% YoY growth in revenue to Rs.4,183mn in Q2FY25. 5.5% volume growth in Kitchen & Home Appliances. Small Appliance and Induction Cooktops has demonstrated better than expected volume growth of 20.6% and 16.3% YoY, respectively in Q2FY25.
- Stovekraft's EBITDA improved by 20.7% YoY to Rs.490mn in Q2FY25, as a result, EBITDA margin also improved by 120bps YoY led by cost optimization and increased in-house manufacturing. Gross margin also improved by 288bps YoY to 38.2% in Q2FY25.
- During the quarter, Stovekraft has added 22 exclusive pigeon retail stores (12 of them are on COFO model & 2 of them are on FOFO model) taking total count to 213.

Key Business Highlights

- Stovekraft has been a pioneer in providing innovative kitchen and home solutions, with Pigeon as its flagship brand. Stovekraft now offers a range of products, including cookware, cooktops, kitchen solutions, small appliances, stoves, sinks, and LEDs.
- Stovekraft offer wide range of products under three brands name, Pigeon (value), Gilma (semi-premium) brands and acts as an exclusive partner for kitchen appliances of the BLACK + DECKER (premium) brand.
- Stovekraft distribution network comprises of a dealer network, e-commerce and exclusive outlets. Stovekraft has 1,28,842 retail touch points and 213 exclusive retail outlets spread across 28 states and 6 union territories in India. It exports its Pigeon products to 14 countries.
- Stovekraft has two manufacturing plants in Bangalore with an aggregate production capacity of 220.9mn units per annum and Baddi (Himachal Pradesh) with an installed capacity of 3 Mn units per annum.

Valuation

Stovekraft exports its Pigeon brand to 14 countries, currently generating ~10-12% of revenue from export business. With Walmart among its key clients, the company aims to increase this to 25% in the medium term. Stovekraft is planning to expand into the UK market alongside existing US operations to diversify its income streams and leveraging global market growth. Stovekraft is also developing new products aligned with global trends to enhance this segment.

Stovekraft's management is optimistic about maintaining a strong market position in the Kitchen and Home Appliances segment, supported by a diverse product range amidst geopolitical challenges with China. It has outlined the strategy to introduce new products and categories to attracting younger customers. Stovekraft has also planned to increase investment in marketing and enhancing brand visibility, particularly for the Pigeon brand to drive growth. Management has guided for volume growth of 14-15% for FY25 and improve its EBITDA margins to 11-14% over the medium term, driven by operating leverage and increased in-house manufacturing.

With a leader in the kitchen appliance segment, having product range in non-stick cookware, pressure cookers, and small appliances like induction cooktops, adopted a '3-Phase' approach, continuously expanding its distribution network to drive future growth and expansion in export market, we are assigning **BUY** rating to Stove Kraft Ltd. (Stovekraft) and value at 72.0x FY26E EPS of Rs.13.20 to arrive at target price of Rs.950.00, an upside of ~19.0%+.

Risk & Concern

- Stovekraft being a value player always face competition from unorganized players, any failure to counter this competition may impact future growth.
- Slower than expected rural demand recovery as well as any recessionary pressure in key export market may impact Stovekraft negatively.
- Any sharp increases in commodity prices could put pressure on the Stovekraft's margins as being a value player, it is difficult for company to pass on raw material prices to the end customer.

Graphs & Charts

Figure 1: Net Sales Trend

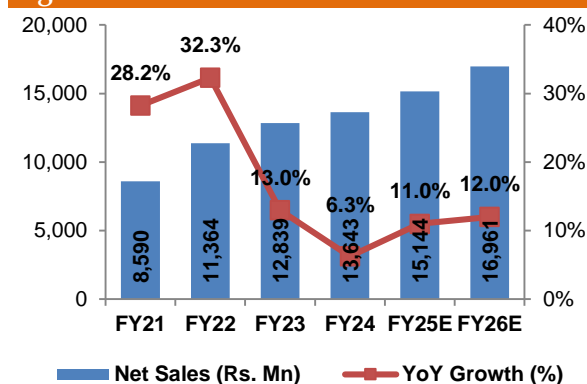


Figure 2: EBITDA & EBITDA Margin Trend

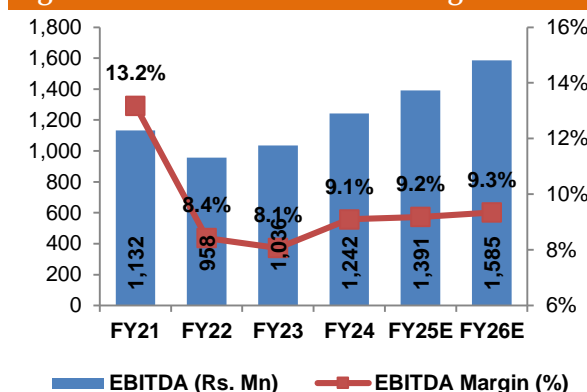


Figure 3: Revenue Brake-up (Q2FY25)

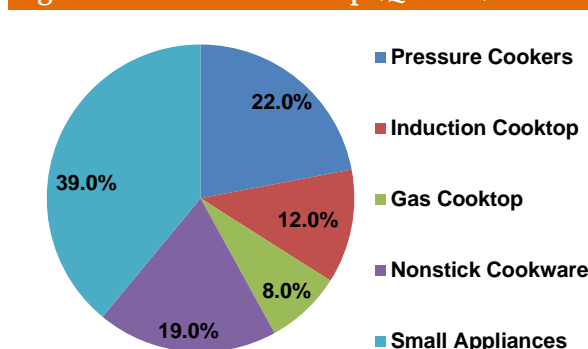
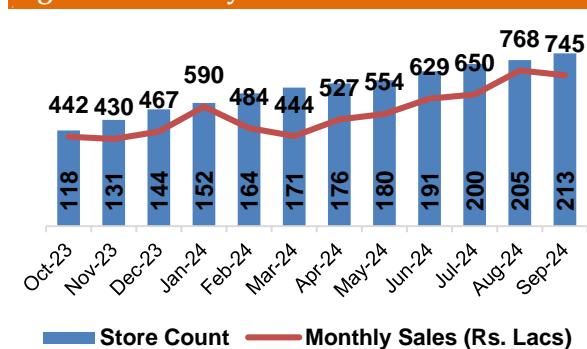


Figure 4: Monthly Store and Store Sales



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