

## Stove Kraft Limited

SSIS IPO GRADE 3.5/5 (Above Average)

24<sup>th</sup> January, 2021

### Rating Overview

Incorporated on June 28, 1999, Stove Kraft Limited (“Stove Kraft”) is the kitchen solutions and an emerging home solutions brand and one of the leading brands for kitchen appliances in India and one of the dominant players for pressure cookers and a market leader in the sale of free standing hobs and cooktops. Stove Kraft is engaged in the manufacture and retail of a wide and diverse suite of kitchen solutions under the Pigeon and Gilma brands, and proposes to commence manufacturing of kitchen solutions covering the entire range of value, semi-premium and premium kitchen solutions, respectively.

The kitchen solutions comprise of cookware and cooking appliances across their brands, and the home solutions comprise various household utilities, including consumer lighting. Pigeon branded products were amongst the leading brands in the market for certain products such as free standing hobs, cooktops, non-stick cookware, LPG gas stoves and induction cooktops. The Gilma portfolio comprises chimneys, hobs and cooktops across price ranges and designs.

Stove Kraft competes with national businesses that utilize a similar retail store strategy, as well as local unorganized kitchen cookware appliance manufacturers. The sales growth in the kitchen cookware appliances industry has encouraged the entry of many new competitors, new business models, and an increase in competition from established companies, many of whom are willing to spend significant funds and/ or reduce pricing in order to gain market share.

Company is bringing the issue at P/E multiple of approx 33x at higher end of price band of Rs 384-385/share on H1FY21 PAT basis. Due to small size of issue, stock may be volatile in short term but looking after financial performance, company seems to be performed well in H1FY21 as compare to last few years hence we would like to see sustainability of H1FY21 financial performance. Also looking after margin profile we feel that there is lot of scope for company to match its peers going forward on margin front as company’s margins seems to be lower at present. Our overall rating of Stove Kraft is average fundamentals holding a slightly high valuation post issue. Investors pay a premium and we believe that investors can avoid the issue and purchase later from the market for medium to long term share appreciation.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.



## Business Overview

Stove Kraft Ltd. (SKL) is a kitchen solution and an emerging home solutions brand. Further, it is one of the leading brands for kitchen appliances in India, and one of the dominant players for pressure cookers and amongst the market leaders in the sale of free-standing hobs and cooktops (Source: F&S Report, sponsored by the Company).

SKL is engaged in the manufacture and retail of a wide and diverse suite of kitchen solutions under Pigeon and Gilma brands, and propose to commence manufacturing of kitchen solutions under the BLACK + DECKER brand, covering the entire range of value, semi-premium and premium kitchen solutions, respectively. Company's kitchen solutions comprise of cookware and cooking appliances across brands, and home solutions comprise various household utilities, including consumer lighting, which not only enables it to be a one-stop-shop for kitchen and home solutions but also offer products at different pricing points to meet diverse customer requirements and aspirations.

During the six month periods ended September 30, 2020, and September 30, 2019, and for Fiscals 2020, 2019 and 2018 its Pigeon branded products contributed 76.90%, 80.86%, 86.20%, 81.24% and 86.89% to overall sales, respectively and were amongst the leading brands in the market for certain products such as free-standing hobs, cooktops, non-stick cookware, LPG gas stoves and induction cooktops (Source: F&S Report, sponsored by the Company). Similarly, during the six month periods ended September 30, 2020, and September 30, 2019, and for Fiscals 2020, 2019 and 2018 its Gilma branded products contributed 5.43%, 2.36%, 2.54%, 3.75% and 5.58% to overall sales, respectively and BLACK + DECKER products contributed 1.50%, 2.37%, 2.70%, 2.67% and 0.88% to overall sales, respectively. Its Gilma portfolio comprises chimneys, hobs and cooktops across price ranges and designs.

SKL's flagship brands, Pigeon and Gilma, have enjoyed a market presence of over 15 years and enjoy a high brand recall amongst customers for quality and value for money. Its co-branding initiatives over eight years with LPG companies such as Indian Oil Corporation Limited and Hindustan Petroleum Corporation Limited to utilize their sale and distribution channels, Pigeon brand has enjoyed a wide customers outreach and continues to have a high brand recall value.

## Fundamental Overview

On the financial performance front, for the last three fiscals, SKL has reported total turnover/net profit (Loss) of Rs. 534.59 cr. / Rs. - (12.02) cr. (FY18), Rs. 642.60 cr. / Rs. 0.74 cr. (FY19) and Rs. 672.91 cr. / Rs. 3.17 cr. (FY20). For the six months of FY21 ended on September 30, 2020, it has earned a net profit of Rs. 28.78 cr. on a turnover of Rs. 329.51 cr. For the first half of FY21, the company has now shown any tax liability, which is a bit surprising. As well as a sudden jump in the bottom line in the IPO year to raises eyebrows as it includes pandemic periods. Will the company be able to sustain such spectacular performance going forward is a million-dollar question.

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For the last three fiscals, SKL has posted an average EPs of Rs. - (0.21) and an average RoNW of 1.46%. The issue is priced at a P/BV of 7.42 based on its NAV of Rs. 51.89 as on September 30, 2020, and at a P/BV of 4.99

based on post-IPO NAV of Rs. 77.14 (based on upper price band). Considering annualized FY21 earnings the asking price is at a P/E of around 21.8, but based on FY20 earnings, the asking price is at a P/E of around 396.91 and is at negative P/E based on last three fiscals negative average. Thus the issue is aggressively priced. According to management, SKL has near-zero tax status till next year and due to new high margin products, the bottom line got boost.

On account of the pandemic-imposed lockdown and other related measures by Govt, SKL's manufacturing facilities in Bengaluru and Baddi were shut down for 42 days and 34 days, respectively during the first quarter of current fiscal, which resulted in the ceasing of manufacturing and sales activities during that period. Despite this, the company posted spectacular performance which invites caution, opines seasoned observers.

Summary of financial Information				
Particulars	For the year/period ended (Rs in Million)			
	30-Sep-20	31-Mar-20	31-Mar-19	31-Mar-18
<b>Total Assets</b>	4,984.99	4,712.91	4,257.26	3,936.42
<b>Total Revenue</b>	3,295.09	6,729.14	6,425.98	5,345.85
<b>Profit After Tax</b>	287.76	31.70	7.36	(120.18)

## Issue Details

To part finance its plans of repayment/prepayment of certain borrowings (Rs. 76 cr.) and general corpus fund needs, SKL is coming out with a maiden combo IPO consisting fresh equity (approx 2467568 shares) issue worth Rs. 95 cr.) as well as offer for sale (8250000 equity shares) to mobilize Rs. 411.55 to Rs. 412.63 cr. based on lower and upper price bands. The company has fixed price band of Rs. 384 - Rs. 385 per share for equity shares having face value of Rs. 10. Minimum application is to be made for 38 shares and in multiples thereon, thereafter. The issue opens for subscription on January 25, 2021, and will close on January 28, 2021. Post allotment shares will be listed on BSE and NSE. The issue constitutes 32.93% of the post issue paid-up equity capital of the company.

Due to loss history in the last three fiscals (for FY18) the company has earmarked 75% for QIBs, 15% for HNI and 10% for retail investors. BRLM's to this issue are Edelweiss Financial Services Ltd. and J M Financial Ltd., while K Fin Technologies Pvt. Ltd. is the registrar to the issue.

Having issued initial equity at par, the company raised further equity in the price range of Rs. 100 to Rs. 150 between March 2004 and January 2021. It has also issued bonus shares in the ratio of 2.14 share for every 1 share held (3000000 shares bonus against 1400100 shares as on said date) on March 31, 2009.

The average cost of acquisitions of shares by the promoters and selling stakeholders is Rs. 3.18, Rs. 8.49, Rs. 113.48 and Rs. 239.34 per share.

Post issue, SKL's current paid-up equity capital of Rs. 30.08 cr. will stand enhanced to Rs. 32.55 cr. Based on the upper price band of the issue, the company is looking for a market cap of Rs. 1253.11 cr.

<b>Application Dates</b>	<b>Jan 25, 2021 – Jan 28, 2021</b>
<b>Issue Type</b>	Book Built Issue IPO
<b>Face Value</b>	₹10 per equity share
<b>IPO Price</b>	₹384 to ₹385 per equity share
<b>Market Lot</b>	38 Shares
<b>Listing At</b>	BSE, NSE
<b>Issue Size</b>	[.] Eq Shares of ₹10 (Up to ₹412.63 Cr)

### Issue Timeline

<b>Basis of Allotment Date</b>	Feb 2, 2021
<b>Initiation of Refunds</b>	Feb 3, 2021
<b>Credit of Shares to Demat Account</b>	Feb 4, 2021
<b>IPO Listing Date</b>	Feb 5, 2021

## Investment Strategy

If we consider H1 FY 21 (IPO year) super earnings, the issue appears fully priced. Sustainability of such performance going forward is a major concern. If we consider FY20 performance, the issue is priced aggressively. Due to losses for FY18, it had opted for higher QIB portion in IPO. Perhaps the company has hurried for its IPO plan to encase boom in the secondary market. Considering all these, cash surplus, risk savvy investors may consider investment at their own risk.