October 08, 2020

Stove Kraft Limited: [ICRA]BBB(Stable)/[ICRA]A3+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based (CC)	90.00	[ICRA]BBB(Stable); Assigned
Long Term – Term Loan	30.98	[ICRA]BBB(Stable); Assigned
Short Term – Non Fund based	35.00	[ICRA]A3+; Assigned
Long Term/Short Term – Interchangeable	(35.00)	[ICRA]BBB(Stable)/[ICRA]A3+; Assigned
Total	**155.98**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reflects the healthy operational profile of Stove Kraft Limited (SKL), led by the strong presence of its flagship brand, Pigeon, in the kitchen appliances market in South India. The brand is well positioned as a value-for-money offering and witnessed healthy volumetric growth during the last few years. The same was aided by an expanding branded portfolio with sizeable manufacturing capacities built up by the company over the last few years. The rating draws comfort from SKL's established pan-India multi-channel distribution network and diversified revenues from export sales.

The rating is, however, constrained by SKL's exposure to stiff competition in the kitchen appliances space and susceptibility of its margins to adverse movements in key input prices. Till FY2020, its financial risk profile was characterised by weak return metrics owing to inadequate capacity utilisation and moderate profit margins. Moreover, the company's debt levels have been rising due to growing funding requirements towards its working capital and capacity enhancements being undertaken, which resulted in moderate debt coverage metrics. However, in 5M FY2021, on a provisional basis, SKL's sales performance witnessed a significant uptick, driven by healthy demand for kitchen appliances in the Covid-19 pandemic-related lockdown. Apart from better contributions from higher volumes, SKL's profitability improved in the same period pursuant to various cost optimisation measures including automation, targeting advertisement and market spend. The company's ability to sustain the revenue growth amid a competitive market, while maintaining the improvement in its margins, remains crucial.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that SKL will continue to benefit from its extensive track record of operations, manufacturing capabilities, established brand and diversified end consumer markets. Moreover, the buoyant long-term demand outlook for the product portfolio lends comfort.

Key rating drivers and their description

Credit strengths

Established brand and diversified product portfolio – Incorporated in 1999, SKL draws comfort from the vast experience of its promoter and has developed its strong presence as a manufacturer of kitchen appliances such as pressure cookers, LPG stoves, non-stick cookware, induction cook tops, etc. It has developed a healthy market position, particularly in South India with well-known brands such as Pigeon, Gilma and Black + Decker. The company has been expanding its branded product portfolio over the last few years. Apart from introducing LED bulbs in 2017, SKL's recent launches include oxymeters, digital thermometers, UV light for sanitisation, hot water kettles, etc, considering the health and hygiene criticality, due to the ongoing pandemic. Being positioned as a value-for-money brand with a competitive price point, the Pigeon brand reported Rs. 610-crore revenues in FY2020 against Rs. 441 crore in FY2016, indicating a growth of ~11%. The company is focussed to move away from low-margin segments such as oil company stove-related business and Government tenders, which resulted in slower growth. The Pigeon brand's contribution to the revenues, including exports, has risen to 91% in 5M FY2021 from 82% in FY2019. The LED bulb segment has also received an encouraging response garnering a good market position in Karnataka with sales of Rs. 33 crore, accounting for ~5% of SKL's revenues in FY2020. The improved product mix is expected to aid in profit expansion going forward.

Established domestic distribution network, exports offering revenue diversity – The company has a nationwide distribution network of 400 distributors and ~40,000 retailers, which has steadily expanded over the years. SKL's other brands such as Gilma and the licensing arrangement for Black + Decker are sold through an exclusive network of distributors and retailers. Moreover, it has sizeable sales through e-commerce platforms like Flipkart and Amazon, which contributed to 25% of revenues in FY2020, further growing by 33% in 5M FY2021 owing to the pandemic. About 8% of the company's sales came from exports to principals such as Walmart in the USA and Mexico, as well as branded sales in Middle-Eastern countries, thus offering revenue diversity. The export segment has witnessed a healthy traction in the current year.

Healthy performance in 5M FY2021 – SKL witnessed a revenue growth of ~11% in 5M FY2021 compared to the corresponding previous period, particularly led by sales during June to August 2020. Its operating profit margin rose to 13.6% in 5M FY2021 compared to 5.3% in FY2020, while its interest coverage stood at 2.8 times in 5M FY2021. This improvement has been due to several cost rationalisation measures implemented during the last two to three quarters with respect to employee costs, marketing and advertising, as well as other administration expenses, apart from increased indigenisation and automation in the manufacturing processes. While higher demand for kitchen appliances in the lockdown and better export order book supported its revenue growth, the higher product volumes aided in profit expansion on an improved cost structure. Higher cash accruals during this period enabled the company to reduce its working capital borrowings to an extent, even on a growing revenue base. Moreover, early payment solutions[1] are likely to reduce working capital funding requirements. Nevertheless, the company's ability to sustain the performance going forward remains crucial.

Credit challenges

Weak return metrics and moderate debt coverage indicators – Till FY2020, SKL's financial profile remained moderate, characterised by modest return metrics (ROCE of 9.0% in FY2020) and debt coverage metrics (interest coverage of 1.7 times and DSCR of 1.1 times in FY2020). Inadequate capacity utilisation, high proportion of non-branded sales, input price volatility and high interest outgo on growing debt levels resulted in weak returns. In FY2020, the lockdown affected its sales and margin performance. The company availed long-term working capital debt as well as equipment finance to address its funding requirements. Its current ratio stood weak at 0.8 times in FY2020. However, the financial profile and liquidity have witnessed improvement in the current financial year.

Vulnerability to fluctuating raw material prices – The company's profitability remains exposed to volatility in raw material prices, mainly aluminium and steel. Moreover, it is exposed to forex fluctuations as it imports traded goods and raw materials and is also an exporter. The risks are partly mitigated by SKL's hedging policies.

Exposure to consumer spending trends and intense competition – SKL's sales, profitability and cash accruals are closely linked to the macro-economic conditions, consumer confidence and spending patterns, particularly considering the nature of its products. Besides, its sales remain vulnerable to the consumers' changing tastes and preferences and the

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[1]*SKL has implemented receivable discounting through a service provider for its general trade network. Further, it is almost implementing similar solutions for its e-commerce business. These initiatives are expected to shorten SKL's working capital cycle going forward.*

competition from other branded players such as TTK Prestige, Hawkins Cookers and Butterfly Gandhi Mati, etc, which results in limited pricing power. Nevertheless, the long-term domestic demand outlook for this segment remains favourable.

Liquidity position: Adequate

SKL's liquidity is **adequate** with sufficient undrawn working capital lines as on August 31, 2020 and average working capital utilisation of 68% of the sanctioned limits for the last 12 months. While it opted for moratorium under the Reserve Bank of India's (RBI) Covid-19 Package for a few of its bank facilities in Q1 FY2021, the company's business witnessed significant revival subsequently and did not avail further extension. ICRA notes that SKL has been implementing measures to reduce its receivable realisation period, which is expected to support its liquidity. This also includes the likely resolution of a large debtor from the modern retail business in Q3 FY2021. It has long-term repayment obligation of ~Rs. 11 crore in FY2021. Moreover, it has already completed sizeable capex during the last few years and does not have any debt raising plans. The sustenance of the recent measures would lead to an improved cash flow from operations in FY2021 compared to FY2020.

Rating sensitivities

Positive triggers – ICRA could upgrade SKL's rating if the company demonstrates a sustainable improvement in its scale of operations, along with substantial increase in profitability as witnessed in 5M FY2021. Moreover, an improvement in liquidity and capitalisation or an EBITDA margin of 10%, on a sustained basis, may trigger a rating upgrade.

Negative triggers – Negative pressure on SKL's rating could arise if the company is unable to demonstrate an improvement in its profitability or if there is any stretch in the working capital cycle and debt coverage indicators.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on standalone financial profile of the company.

About the company

Incorporated in 1999 by Mr. Rajendra Gandhi, SKL is involved in the manufacture and retail of a wide range of kitchen solutions under Pigeon and Gilma brands. It acts as an exclusive partner for kitchen appliances of the BLACK + DECKER brand. SKL's products comprise cookware and cooking appliances across brands, while the home solutions constitutes of various household utilities, including the recently introduced LED bulbs, oxymeters, etc. The company sells its products through its dealer distributor network, e-commerce platforms and a few exclusive brand outlets. It exports Pigeon products to 12 countries and acts as a vendor to principals like Walmart Inc in the USA and Mexico. SKL has two manufacturing plants located in Bangalore and Baddi, which have a capacity of 2.23 crore units spread across pressure cooker, induction cooker, LPG stoves, mixer grinder, etc. It forayed into LED manufacturing in FY2020 from its Bangalore facility, which has a capacity of 75,000 bulbs a day. The private equity player–Sequoia Capital–had invested Rs. 150 crore in the company during FY2010 to FY2014. ICRA notes that SKL is planning to come out with an initial public offering (IPO) in H2 FY2021 with a plan to offer partial exit to the investor and raise funds to reduce its debt levels. The compulsory convertible debentures subscribed by Sequoia Capital are expected to be entirely converted to equity before the IPO. The investor had already converted a part of the debentures in FY2019.

In 5M FY2021, on a provisional basis, the company reported a net profit of Rs. 20.76 crore on an operating income of Rs. 257.46 crore.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	640.9	669.9
PAT (Rs. crore)	1.9	2.8
OPBDITA/OI (%)	5.2%	5.3%
PAT/OI (%)	0.3%	0.4%
Total Outside Liabilities/Tangible Net Worth (times)	2.5	2.7
Total Debt/OPBDIT (times)	4.1	4.3
Interest Coverage (times)	1.9	1.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding as on March-2020	Rating	FY2020	FY2019	FY2018
					08-Oct-2020		13-Nov-2018	10-Oct-2017
1.	Cash Credit	Long Term	90.00	-	[ICRA]BBB (Stable)	-	[ICRA]BB-(Stable) withdrawn	[ICRA]BB-(Stable)
2.	Term Loan	Long Term	30.98	30.98	[ICRA]BBB (Stable)	-	[ICRA]BB-(Stable) withdrawn	[ICRA]BB-(Stable)
3.	Non fund Based	Short Term	35.00	-	[ICRA]A3+	-	[ICRA]A4 withdrawn	[ICRA]A4
4.	Interchangeable	Long Term/ Short Term	(35.00)	-	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-	-

Amount in Rs. Crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term Fund Based Cash Credit	NA	NA	NA	90.00	[ICRA]BBB(Stable)
NA	Long Term – Term Loan	NA	NA	NA	30.98	[ICRA]BBB(Stable)
NA	Short Term – Non Fund based	NA	NA	NA	35.00	[ICRA]A3+
NA	Long Term/ Short Term Interchangeable	NA	NA	NA	(35.00)	[ICRA]BBB(Stable)/ [ICRA]A3+

Source: Stove Kraft Limited

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