July 02, 2021

Stove Kraft Limited: Ratings upgraded to [ICRA]A- (Stable)/A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund based (CC)	90.00	90.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+(Positive)
Long Term – Term Loan	30.98	30.98	[ICRA]A- (Stable); upgraded from [ICRA]BBB+(Positive)
Short Term – Non-fund based	35.00	35.00	[ICRA]A2+; upgraded from [ICRA]A2
Long Term/Short-term - Interchangeable	(35.00)	(35.00)	[ICRA]A- (Stable)/A2+; upgraded from [ICRA]BBB+(Positive)/A2
Total	**155.98**	**155.98**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade takes into consideration the improvement in Stove Kraft Limited's (SKL) financial risk profile aided by healthy revenue growth, significant expansion in profitability in and sizeable reduction in debt levels resulting in robust improvement in debt coverage metrics in FY2021. SKL's revenues grew by 28% in FY2021 to Rs. 859.0 crore from Rs. 669.9 crore in FY2020 on the back of expansion of sales volume with increase in home-cooking (during the pandemic-induced lockdown) and a shift to branded products sale through E-commerce (sale of products of unorganised players not registered in e-commerce declined in FY2021 due to reduced footfall in retail shops on the backdrop of Covid-19 Pandemic). Further, the demand for SKL's product is supported by continuing favourable demographics, rising number of nuclear families and the change in consumption pattern resulting in shorter replacement cycles for pressure cooker and other cookware. Going forward, SKL is expected to achieve a revenue growth of ~20-25% in FY2022 on the back of stable demand for cookware and cooking appliances in the domestic market.

Further, the rating positively factors in the indigenisation strategy followed by the company leading to decline in sales contribution from traded goods to 19% in FY2021 (as against 28% in FY2020) and in turn supporting the increased margins. Further, the margins are supported by SKL's 'Cost-plus' model wherein any increase in prices of raw material is passed on the customers with a lag of one quarter. Overall, the operating margin of the company expanded in FY2021 to 13.3% from 5.2% in FY2020 on the back of increase in scale of operations coupled with cost rationalisation measures to improve the efficiency and decline in marketing and employee expense incurred by the company. However, the sustenance of the improved operating margin will remain a key rating monitorable going forward.

The rating positively factors in the decline in SKL's debt to Rs. 52.4 crore in FY2021 from Rs. 338.2 crore in FY2020 with the conversion of CCDs of Rs. 184.75 crore held by Sequoia Capital India Growth Investments (SCI-GI) to equity shares in January 2021 and Rs. 95.0 crore of fresh issues of equity shares post-IPO in February 2021, which was utilised to repay debt. Further, the company's working capital requirement declined in FY2021 on the back of decline in debtor days with the company utilising channel financing facilities (without recourse to SKL) to fund its receivables, resulting in significant improvement in the company's debt metrics. The expansion of margins leading to improved cash accruals coupled with decline in overall debt levels leading to modest repayment in the near-term has improved the liquidity position of the company.

The rating continues to draw comfort from SKL's healthy operational profile led by the strong presence of its flagship brand, Pigeon, in the kitchen appliances market in South India. This is supported by sizeable manufacturing capacities built up by the company over the last few years. The ratings draw comfort from its established pan-India multi-channel distribution network and diversified revenues from export sales.

The rating is, however, constrained by SKL's exposure to intense competition in the kitchen appliances space from other leading national and regional players. Further, company's profitability is vulnerable to volatility in raw material prices. However, the 'cost-plus' model followed by the company mitigates the risk to a certain extent. The company's business remains working capital-intensive in nature leading to sizeable funding requirements. However, the SKL has implemented a channel-funding program (without recourse to SKL) for sales done through e-commerce, OEM exports and general trade which has resulted in accelerated collections and mitigates the risk to a certain extent.

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 and has positioned itself as a value-for-money brand with a competitive price point. The Pigeon brand reported a sales growth of 22.3% in FY2021 to Rs. 707.0 crore from Rs. 578.0 crore in FY2020. The LED bulb segment achieved a growth of 63.4% in FY2021 to Rs. 54.0 crore in FY2021 from Rs. 33.0 crore in FY2020 on the back of wider acceptance of Pigeon LED brand leading to good market position in Karnataka. The company continues to invest in brand building through media and advertisement and, with the SKL's improved product mix and indigenization strategy, the company has the capability to scale up at short period of time as the demand increases.

Established domestic distribution network; exports offer revenue diversity – The company has a nationwide distribution network of 651 distributors and ~45,500 retail outlets, which has steadily expanded over the years. SKL's other brands such as Gilma and 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 32.7% of revenues in FY2021 as compared to 24.4% in FY2020 on the back of increased online purchasing on the backdrop of Covid-19, improved internet penetration. The contribution of exports has been steadily increasing and in FY2021, the exports contributed 10% of total revenue as compared to 7% contribution in FY2020. Exports achieved a growth of 70.0% in FY2021 to Rs. 88.4 crore from Rs. 52.0 crore in FY2020 on the back of increased acceptance of SKL's brand and its products in the international market.

Improvement in financial profile in FY2021: SKL's operating income achieved a growth of 28% in FY2021 to Rs. 859.0 crore from Rs. 669.9 crore in FY2020 on the back of expansion of sales volume in line with increase in home-cooking (during the pandemic-induced lockdown) and a shift to branded products sale through E-commerce (sale of products of unorganised players not registered in e-commerce declined in FY2021 due to reduced footfall in retail shops due to the Covid-19 Pandemic). Further, the demand for SKL's product is supported by continuing favourable demographics, rising number of nuclear families and the change in consumption pattern resulting in shorter replacement cycles for pressure cooker and other cookware. The company's operating margin expanded to 13.2% in FY2021 from 5.2% in FY2020 on the back of several cost rationalisation measures implemented with respect to employee costs, decline in marketing and advertising expenses, as well as other administration expenses, apart from increased indigenisation and automation in the manufacturing processes. However, the sustenance of the improved operating margin will remain a key rating monitorable going forward.

SKL's debt declined to Rs. 52.4 crore in FY2021 from Rs. 338.2 crore in FY2020 on the back of conversion of CCDs of Rs. 184.75 crore in January 2021, repayment of outstanding debt from Rs. 95.0 core of fresh issues of equity shares post-IPO and decline in working capital requirement with decline in debtor days. The reduction in overall debt levels coupled with expansion of operating margin has resulted in significant improvement in the company's debt metrics with a healthy capital structure with gearing of 0.2 times as on March 31, 2021 and strong coverage indicators with interest cover of 6.1 times in FY2021 and TD/OPBITDA of 0.5 times as on March 31, 2021.

Credit challenges

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, along with competition from other branded players such as TTK Prestige Ltd, Hawkins Cooker Ltd and Butterfly Gandhimathi Appliances Ltd, etc, which results in limited pricing power.

Vulnerability to fluctuating raw material prices - Aluminium and steel are the key raw material for the pressure cooker industry and cookware industry and is a chief cost component which accounts nearly 25% of the total value of raw material. The company's profitability remains vulnerable to raw material price increases as the prices of aluminium steel are volatile and subject to fluctuations arising from changes in domestic and international supply and demand, labour costs, competition, market speculation, government regulations and periodic delays in delivery. Rapid and significant changes in such raw materials may affect the production price and consequently the market price of these products. The company, however, follows a 'cost-plus' model wherein any increase in prices of raw material is passed on the customers with a lag of one quarter.

Moderate working capital intensity – The funding requirements of SKL are primarily in the nature of working capital borrowings. The company has to offer a credit of average two months to its channel partners and has a policy to maintain one-month inventory of raw-materials for its manufacturing facility. While credit from suppliers aids the working capital funding, SKL would require moderate level of working capital funding in the backdrop of high growth. However, SKL has implemented a channel funding program (without recourse to SKL) for sales done through e-commerce, OEM exports and general trade which has resulted in accelerated collections leading to low receivables and mitigates the risk to a certain extent.

Liquidity position: Adequate

SKL's liquidity position remain adequate with a cash balance of Rs. 37.3 crore as on March 31, 2021 and undrawn working capital lines of ~Rs. 11.5 crores as on April 30, 2021. The company's average utilisation of working capital limits has remained ~81% for the 12-month period ending April 2021. The company has a modest repayment obligation of Rs. 1.71 crore in FY2022 and Rs. 5.72 crore in FY2023, and the company's cash accruals are sufficient to service the debt obligation. The company is planning to incur a capex of ~Rs. 35.0-40.0 crore in FY2021 and the capex will be funded from internal accruals of the company.

Rating sensitivities

Positive factors - Sustenance of the improved operating margin while registering a healthy growth will be a key positive rating factor for the company.

Negative factors – The rating can be downgraded if the company witnesses a material decline in scale and profitability or if there is any stretch in the working capital cycle. Moreover, higher-than-expected debt-funded capex impacting debt coverage metrics can also trigger a downgrade. Total Debt/OPBDIT greater than 2.3 times on sustained basis may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of SKL

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 constitute 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 3.84 crore units spread across pressure cooker, induction cooker, LPG stoves, mixer grinder, etc. It forayed into LED manufacturing in FY2019 from its Bangalore facility, which has a capacity of 75,000 bulbs a day. The private equity player- Sequoia Capital–had invested Rs. 150 crores in the company during FY2010 to FY2014. ICRA notes that SKL has come out with an initial public offering (IPO) in January FY2021 with a partial exit to the investor and raised funds to reduce its debt levels. The compulsory convertible debentures subscribed by Sequoia Capital are entirely converted to equity before the IPO. Post IPO, Sequoia Capital continues to hold 12.45% of shares in the company.

Key financial indicators (audited)

Blue Standalone	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	640.9	669.9	859.0
PAT (Rs. crore)	0.6	3.2	81.5
OPBDIT/OI (%)	5.2%	5.2%	13.3%
RoCE (%)	8.1%	9.3%	33.7%
Total Outside Liabilities/Tangible Net Worth (times)	-7.8	-8.9	0.9
Total Debt/OPBDIT (times)	9.6	9.6	0.5
Interest Coverage (times)	1.9	1.7	6.1
DSCR (times)	1.4	1.1	3.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Jul 02, 2021	Feb 09, 2021	Oct 08, 2020		Nov13, 2018
1	Cash credit	Long-term	90.00	-	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Positive)**	**[ICRA]BBB (Stable)**		**[ICRA]BB- (Stable) withdrawn**
2	Term Loan	Long-term	30.98	22.6	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Positive)**	**[ICRA]BBB (Stable)**		**[ICRA]BB- (Stable) withdrawn**
3	Non Fund based	Short term	35.00	-	**[ICRA]A2+**	**[ICRA]A2**	**[ICRA]A3+**		**[ICRA]A4 withdrawn**
4	Interchangeable	Long term/ short term	(35.00)	-	**[ICRA]A- (Stable)/ [ICRA]A2+**	**[ICRA]BBB+ (Positive)/ [ICRA]A2**	**[ICRA]BBB (Stable)/ [ICRA]A3+**		

Complexity level of the rated instrument

Instrument Name	Complexity Indicator
Long Term - Fund Based (CC)	Simple
Long Term – Term Loan	Simple
Long Term/Short Term – Interchangeable	Simple
Short Term – Non Fund based	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	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]A-(Stable)
NA	Long-term - Term loan	Jan 12, 2021	NA	Jan 12, 2026	30.98	[ICRA]A-(Stable)
NA	Short-term – Non-fund based	NA	NA	NA	35.00	[ICRA]A2+
NA	Long-term/ Short-term Interchangeable	NA	NA	NA	(35.00)	[ICRA]A-(Stable)/ [ICRA]A2+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	SKL Ownership	Consolidation Approach
Stove Kraft India (Partnership firm) *	99%	Full Consolidation

**Stove Kraft India (Partnership firm) got dissolved in September 22, 2020.*

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