December 15, 2021

Stove Kraft Limited: Ratings reaffirmed; Outlook revised to Positive

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-, reaffirmed; Outlook revised to Positive from Stable
Long Term – Term Loan	30.98	30.98	[ICRA]A-, reaffirmed; Outlook revised to Positive from Stable
Short Term – Non-fund based	35.00	35.00	[ICRA]A2+; reaffirmed
Long Term/Short-term - Interchangeable	(35.00)	(35.00)	[ICRA]A-/A2+; reaffirmed; Outlook revised to Positive from Stable
Total	**155.98**	**155.98**	

**Instrument details are provided in Annexure-1*

Rationale

The positive outlook in the rating of Stove Kraft Limited (SKL) takes into account the expected healthy revenue growth in FY2022 driven by stable demand for cookware and cooking appliances in the domestic market. Further, the rating takes into account SKL's strong financial risk profile aided by healthy revenue growth, strong capital structure and healthy coverage indicators in H1 FY2022. SKL's revenues grew by 75% in H1 FY2022 to Rs. 577.0 crore from Rs. 328.8 crore in H1 FY2021 on the back of expansion of sales volume supported by robust demand for kitchen appliances with increase in home-cooking and shift to branded products. In the medium term, 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. Overall, SKL is expected to achieve a revenue growth of ~30-35% in FY2022 on the back of strong volume growth supported by 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 16% in H1 FY2022 (as against 19% in FY2021) in turn supporting the margins. However, the company's profitability continues to remain vulnerable to volatility in raw material prices and SKL's gross margin declined to ~33% in H1 FY2022 from ~35% in FY2021 owing to steep rise in commodity prices. Further, the operating margins of SKL declined to 10.5% in H1 FY2022 from ~13.3% in FY2021 in line with decline in gross margins and increase in marketing expense in H1 FY2022. The company has taken a price hike of 5-10% on its products during Q2 FY2022 and Q3 FY2022 to support its margins going forward. The impact of high commodity prices and the hike in prices of SKL's product on the overall margins of the company will remain a key rating monitorable.

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 positively factors in the strong capital structure with gearing of 0.2 times as on September 30, 2021 and healthy debt coverage metrics with Total Debt/OPBIDTA of 0.4 times and interest cover of 8.9 times in H1 FY2022 on the back of low debt levels. Going forward, the company's debt levels are expected to remain low maintaining its strong capital structure and healthy debt coverage metrics.

The rating is, however, constrained by SKL's exposure to intense competition in the kitchen appliances space from other leading national and regional players. 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. The company has incurred a substantial capex in H1 FY2022 towards expanding its manufacturing capacity and ccommissioning a Hybrid solar rooftop plant and the impact of the same on the return indicators will remain a key rating monitorable for the company.

Key rating drivers and their description

Credit strengths

Established market position 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 overall sales volume of SKL expanded by ~63% in H1 FY2022 on the back of wider acceptance of SKL's brand coupled by stable demand in the domestic market. 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 700 distributors and ~63,000 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 42.3% of revenues in H1 FY2022 as compared to 32.7% in FY2021 on the back of increased online purchasing and improved internet penetration. The contribution of exports has been steadily increasing and in H1 FY2022, the exports contributed 11% of total revenue as compared to 10% contribution in FY2021. Exports achieved a growth of ~80.0% in H1 FY2022 to Rs. 63.0 crore from Rs. 35.0 crore in H1 FY2021 on the back of increased acceptance of SKL's brand and its products in the international market.

Healthy financial profile: SKL's operating income achieved a growth of ~75% in H1 FY2022 to Rs. 577.0 crore from Rs. 328.8 crore in H1 FY2021 on the back of of expansion of sales volume supported by robust demand for kitchen appliances with increase in home-cooking and shift to branded products. In the medium term, 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. SKL's financial profile is characterised by strong capital structure with gearing of 0.2 times as on September 30, 2021 and healthy debt coverage metrics with Total Debt/OPBIDTA of 0.4 times and interest cover of 8.9 times in H1 FY2022 on the back of low debt levels.

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 materials for the pressure cooker 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. SKL's gross margin declined to ~33% in H1 FY2022 from ~35% in FY2021 owing to steep rise in commodity prices. The company has taken a price hike of 5-10% on its products during Q2 FY2022 and Q3 FY2022 to support its margins during going forward. The impact of high commodity prices and the hike in prices of SKL's product on the overall margins of the company will remain a key rating monitorable. Rapid and significant changes in raw materials may affect the production price and consequently the market price of these products.

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. 13.3 crore as on September 30, 2021 and undrawn working capital lines of ~Rs. 43.1 crores as on October 31, 2021. The company's average utilisation of working capital limits has remained ~78% for the 12-month period ending October 2021. The company has a modest repayment obligation of ~Rs. 1.9 crore in FY2022 and ~Rs. 5.54 crore in FY2023, and the company's cash accruals are sufficient to service the debt obligation. The company has incurred capex of ~Rs. 63.5 crore in H1 FY2022 towards expanding its manufacturing capacity and ccommissioning a Hybrid solar rooftop (to reduce its power costs going forward). The company is planning to incur a further capex of Rs. 20.0-25.0 in H2 FY2022 towards commissioning Hybrid Solar rooftop plant which will decrease the power the cost from Rs. 1.3 crore per month to Rs. 0.3 crore per month supporting the margins. The company will be funding the capex from its internal accruals and there are no plans to take additional debt.

Rating sensitivities

Positive factors - ICRA could upgrade the ratings of SKL if there is an improvement in scale of operations while sustaining its healthy operating margins and maintaining its healthy financial profile.

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)

SKL Consolidated	FY2020	FY2021	H1 FY2022*
Operating Income (Rs. crore)	669.9	859.0	577.0
PAT (Rs. crore)	3.2	81.5	36.5
OPBDIT/OI (%)	5.2%	13.3%	10.5%
RoCE (%)	9.3%	33.7%	29.6%
Total Outside Liabilities/Tangible Net Worth (times)	-8.9	0.9	1.1
Total Debt/OPBDIT (times)	9.6	0.5	0.4
Interest Coverage (times)	1.7	6.1	8.9
DSCR (times)	1.1	3.8	7.0

**Unaudited; 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)*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Dec 15, 2021	Jul 02, 2021	Feb 09, 2021	Oct 08, 2020	-	Nov 13, 2018
1	Cash credit	Long-term	90.00	-	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB (Stable)	-	[ICRA]BB- (Stable) withdrawn
2	Term Loan	Long-term	30.98	19.6	[ICRA]A- (Positive)	[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]A2	[ICRA]A3+	-	[ICRA]A4 withdrawn
4	Interchangeable	Long term/ short term	(35.00)	-	[ICRA]A- (Positive)/ [ICRA]A2+	[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	Very 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- (Positive)
NA	Long-term - Term loan	Jan 12, 2021	7.0%	Jan 12, 2026	30.98	[ICRA]A- (Positive)
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-(Positive)/ [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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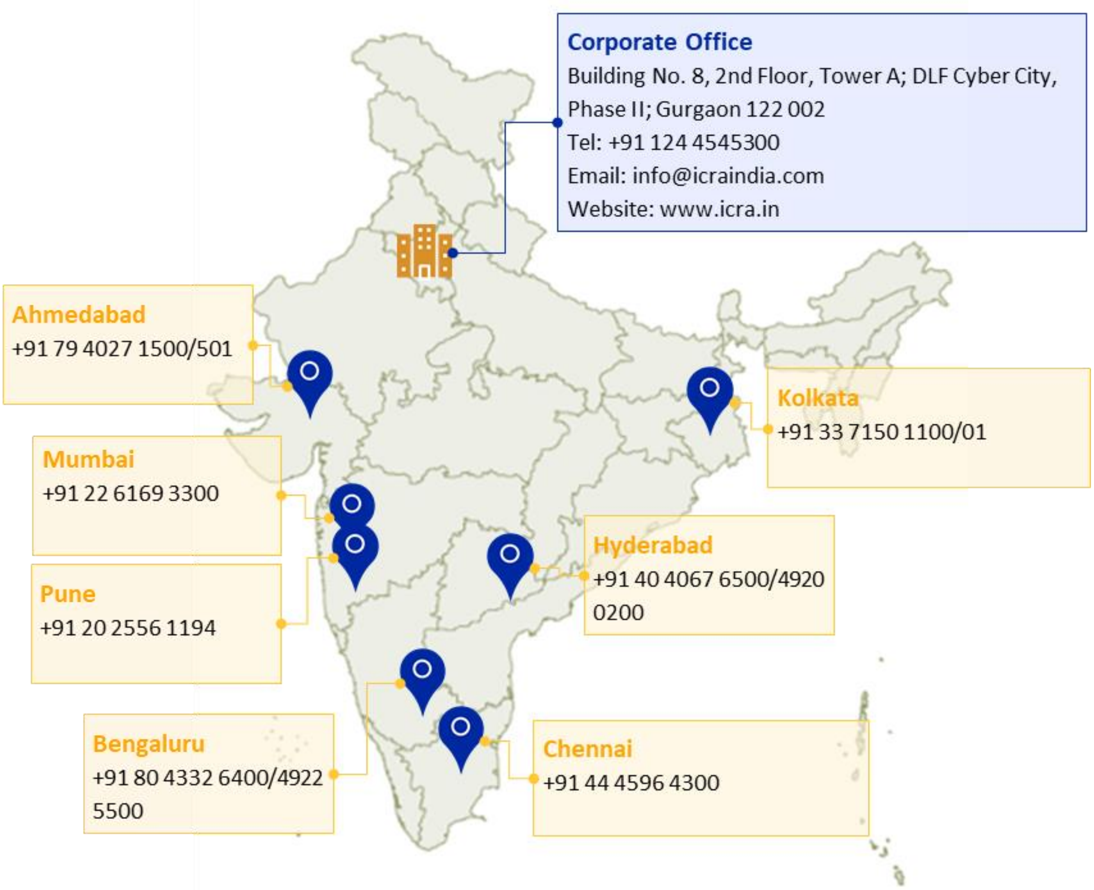

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