January 23, 2017

Stovekraft Private Limited

Instrument	Amount (Rs crore)	Rating Action (January 2017)
Long term scale - Fund based	83.0 (enhanced from Rs. 54.74 crore)	[ICRA]BB- (Negative) reaffirmed
Short term scale - Fund based	Nil (reduced from Rs. 25.00 crore)	-
Long term scale – Term Loan	9.0[1]	[ICRA]BB- (Negative) assigned
Short term scale - Non fund based	32.0 (enhanced from Rs 25.0 crore)	[ICRA]A4 reaffirmed
Total	**124.0**	

Rating Action

ICRA has assigned a long-term rating of [ICRA]BB- (pronounced ICRA double B minus) with a 'Negative' outlook for Rs 9.0 crore[1] term loan of Stovekraft Private Limited ('SKPL' / 'the company'). ICRA has reaffirmed the long term rating of [ICRA]BB- (pronounced ICRA double B minus) with a 'Negative' outlook for the Rs. 83.0 crore (enhanced from Rs 54.74 crore) fund based facilities of the company. ICRA has also reaffirmed the short term rating of [ICRA]A4 (pronounced ICRA A four) for the Rs. 32.0 crore (enhanced from Rs 25.0 crore) non-fund based limits of the company.

Rationale

The ratings take into account the deterioration in financial profile of SKPL on account of operating and net losses reported by the company during FY2016. The company's margins were impacted by inventory adjustments and provisions following stock verification and review of slow moving inventory, as well as lower than expected revenue growth due to loss of market share in certain segments such as direct sales to oil marketing companies. The losses have further widened the balance sheet funding mismatches and strained the liquidity position of the company, as reflected in the low current ratio, stretched payable days and consistently high utilization of working capital limits. The rating is also constrained by the weakened capital structure and debt coverage metrics on account of the losses incurred; moreover, considering that the private equity investments in the company carry a buy back provision, the adjusted gearing levels are significantly higher at 2.91 times as on March 2016.

The rating, however, continues to take into account the established presence of the company in the domestic kitchen appliances industry, particularly in southern Indian market. The company's sales from the retail segment for Pigeon branded products has seen stable growth over the last two years, which has also been aided by the competitive pricing offered by the company for its products.

Going forward, ability of the company to show recovery in profit margins and correction of balance sheet funding mismatches through raising of long-term funds would be the key rating monitorables.

[1] amount outstanding as on December 2016

Key rating drivers

Credit Strengths

- Established presence as a manufacturer of kitchen appliances with significant presence in South India and well known brands such as Pigeon and Gilma
- Rising consumerism and increasing penetration of organized segment augurs well for future demand
- Stable sales from retail segment, aided by competitive pricing

Credit Weakness

- Weak balance sheet position characterized by mismatch between long term sources of funding and long term application of funds
- Strained the liquidity position of the company, as reflected in the low current ratio, stretched payable days and consistently high utilization of working capital limits
- High adjusted gearing levels given that the private equity investments carry a buy-back provision.
- Operating and net losses reported by the company during FY2016

Description of key rating drivers highlighted above:
The financial profile of the company has further weakened during FY2016, due to operating and cash losses suffered. The losses have been due to lower than expected revenue growth, certain provisions and write-off of slow moving inventory and dip in revenue in the direct sales to oil marketing companies segment. The weakened P&L performance has further deteriorated the balance sheet position of the company. The working capital requirements during FY2016 was primarily funded through high utilization of fund-based WC facilities and stretching of creditors, thereby adversely impacting the liquidity profile of the company.

The current ratio has further decreased to 0.63 times as on March 2016 from 0.66 times as on March 2015. The creditors have increased from Rs 70 crore (as on March 2015) to Rs 92 crore (as on March 2016); moreover, utilization of fund based working capital limits has remained consistently high in recent months. The capital structure of SKPL remains stretched as evidenced by the high gearing ratio of 2.91x as on March 2016.

Analytical approach:

Links to applicable Criteria
<u>Corporate Credit Ratings: A Note on Methodology</u>

About the Entity:

Stovekraft Private Limited (SKPL) is a Bangalore based company engaged in the manufacture and sale of a wide range of kitchen appliances. The company markets its products under two brands: ‘Pigeon’ and ‘Gilma’. Products sold under the ‘Pigeon’ brand through multi-brand retailers include pressure cookers, LPG gas stoves and non-stick cookware. Under the ‘Gilma’ brand, SKPL markets chimneys, hobs and a range of kitchen appliances including mixer-grinders, wet grinders, microwave ovens, etc, besides catering to the growing modular kitchen segment. The company has a strong presence in Southern India with states such as Karnataka, Kerala, Tamil Nadu and Andhra Pradesh being the major markets. SKPL’s manufacturing facilities are located at Ramanagara, Karnataka, and Baddi, Himachal Pradesh.

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable**.**

Rating History for last three years:

Table: Rating History

Sl No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month - year & rating	Month - year& Rating in FY2017	Month - year& Rating in FY2016	Month - year& Rating in FY2015
				January 2017	November 2016	February 2016	April 2014
1	Term loan	Long term	9.0	[ICRA]BB- (Negative)	-	-	-
2	Cash Credit	Long term	83.0	[ICRA]BB- (Negative)	[ICRA]BB- (Negative)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
3	Non-fund based	Short term	32.0	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4

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
Details of Instruments

Name of the instrument	Date of issuance	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term loan	2013	2018	9.0[1]	[ICRA]BB- (Negative)
Cash Credit	-	-	83.0	[ICRA]BB- (Negative)
Non-fund based	-	-	32.0	[ICRA]A4

Source: Stovekraft Private Limited

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