October 10, 2017

Stovekraft Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long Term – Fund-based – Working Capital Limits	80.00	[ICRA]BB- reaffirmed, outlook revised from Negative to Stable
Long Term – Term Loans	4.50	[ICRA]BB- reaffirmed, outlook revised from Negative to Stable
Long Term – Unallocated	14.50	[ICRA]BB- reaffirmed, outlook revised from Negative to Stable
Short Term –Non-fund Based	25.00	[ICRA]A4, reaffirmed
Total	**124.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB- (pronounced ICRA double B minus) assigned to the Rs. 80.0-crore[1] fund-based facilities, Rs. 4.50-crore term-loan facilities, and Rs. 14.50-crore unallocated facilities of Stovekraft Private Limited (SKPL)[2]. ICRA has also reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) assigned to the Rs. 25.0-crore non-fund based limits of the company. The outlook on the long-term rating has been revised to ‘Stable’ from ‘Negative’.

Rationale

The revision in outlook factors in the recovery in the profitability margins of the company over the last 18 months, following a four-year period of under-performance on account of loss-making Tamil Nadu Civil Supplies Corporation (TNCSC) contract and losses incurred on slow-moving inventory. The recovery in operating margins was aided by reduction in revenue contribution from sales to government and public-sector enterprises which entailed lower margins, coupled with growth in revenues from higher margin-accretive branded product sales. The growth in sales of branded products was supported by established market position of the company’s brands – Pigeon and Gilma, especially in the South Indian market; the diversified product portfolio and competitive pricing. The ratings are, however, constrained by the stretched liquidity position of the company as reflected by the low current ratio, stretched payable days and consistently high utilisation of working-capital limits. Further, intense competition in the kitchen appliances industry with well-entrenched players limits the pricing flexibility and exposes the profitability margins to input price fluctuation risks. ICRA also notes that a portion of the private equity (PE) investments into the company carry a buy-back provision. In the event of such a buy-back, the credit metrics could be adversely impacted. These apart, the company’s ability to achieve revenue growth while maintaining adequate profitability margins and improve its liquidity position will be the key rating sensitivities, going forward.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Key rating drivers

Credit strengths

- **Established brand and diversified product profile:** The company has a diversified product profile offering LPG stoves, pressure cookers, non-stick cookware, induction cook-tops etc. under the Pigeon and Gilma brands, which have an established presence in the domestic kitchen-appliances industry, particularly in South Indian market. The company has recently entered into a licence agreement for manufacturing, distributing, marketing and selling certain domestic appliances of Black & Decker, which is also expected to support the revenue growth, going forward.
- **Improvement in margins in FY2017:** The margins of the company recovered in FY2017, with the movement of revenue mix towards better-margin products and business segments.

Credit weaknesses

- **Leveraged capital structure and stretched liquidity position: The liquidity position of the company remains stretched, as reflected by the low current ratio, stretched payable days and consistently-high utilisation of working-capital limits. The high dependence on working capital borrowings have resulted in high debt levels and leveraged capital structure.**
- **Intense competition in cookware/kitchen-appliances industry:** The branded kitchen appliances industry is highly competitive, with established players such as TTK Prestige Ltd., Hawkins Cookers Ltd., Butterfly Gandhimathi Appliances Ltd., etc. The intense competition necessitates continuous spending on advertisement and promotions.
- **Susceptibility of operating margin to volatility in input prices:** SKPL's margins are susceptible to volatility in prices of steel and aluminium, which constitute key input materials.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Corporate Credit Rating Methodology

About the company:
Stovekraft Private Limited (SKPL) is a Bangalore-based company involved in the manufacturing and sales of a wide range of kitchen appliances. The company markets its products under two brands: 'Pigeon' and 'Gilma'. The 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 South India with major markets in states like Karnataka, Kerala, Tamil Nadu and Andhra Pradesh. SKPL's manufacturing facilities are located at Ramanagara, Karnataka, and Baddi, Himachal Pradesh. SKPL entered into slump-sale agreement with Saya Industries (SI), merging the operations of the two entities effective from March 31, 2016. The company had received private-equity investment of Rs. 150.0 crore from Sequoia Capital over FY2010 to FY2014.

The company reported a net profit of Rs. 1.15 crore on an operating income of Rs. 510.53 crore in FY2017 compared to a net loss of Rs. 25.25 crore on an operating income of Rs. 347.07 crore in FY2016.

Key Financial Indicators (Audited)

	FY2016^	FY2017
Operating Income (Rs. crore)	521.60	510.53
PAT (Rs. crore)	-23.62	1.15
OPBDIT/ OI (%)	0.63%	5.00%
RoCE (%)	-4.83%	11.09%
Total Debt/ TNW (times)	1.95	1.67
Total Debt/ OPBDIT (times)	30.81	3.41
Interest coverage (times)	0.21	1.71
NWC/ OI (%)	1.8%	0.2%

OI: Operating Income; 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);
NWC: Net Working Capital;
^consolidated financials of SKPL and Saya Industries

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

<table>
<tr><th rowspan="3">S. No.</th><th rowspan="3">Instrument</th><th colspan="3">Current Rating (FY2018)</th><th colspan="5">Chronology of Rating History for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated (Rs. crore)</th><th>Date & Rating</th><th colspan="2">Date & Rating in FY2017</th><th>Date & Rating in FY2016</th><th>Date & Rating in FY2015</th></tr>
<tr><th>Oct 2017</th><th>Jan 2017</th><th>Nov 2016</th><th>Feb 2016</th><th>April 2014</th></tr>
<tr><td>1</td><td>Working Capital Facilities</td><td>Long-term</td><td>80.0</td><td>[ICRA]BB- (Stable)</td><td>[ICRA]BB- (Negative)</td><td>[ICRA]BB- (Negative)</td><td>[ICRA]BB (Stable)</td><td>[ICRA]BB (Stable)</td></tr>
<tr><td>2</td><td>Term Loan</td><td>Long-term</td><td>4.5</td><td>[ICRA]BB- (Stable)</td><td>[ICRA]BB- (Negative)</td><td>[ICRA]BB- (Negative)</td><td>[ICRA]BB (Stable)</td><td>[ICRA]BB (Stable)</td></tr>
<tr><td>3</td><td>Unallocated</td><td>Long-term</td><td>14.5</td><td>[ICRA]BB- (Stable)</td><td>[ICRA]BB- (Negative)</td><td>[ICRA]BB- (Negative)</td><td>[ICRA]BB (Stable)</td><td>[ICRA]BB (Stable)</td></tr>
<tr><td>4</td><td>Non-fund based</td><td>Short-term</td><td>25.0</td><td>[ICRA]A4</td><td>[ICRA]A4</td><td>[ICRA]A4</td><td>[ICRA]A4</td><td>[ICRA]A4</td></tr>
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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 No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Long Term – Fund Based – Working Capital Limits				80.0	[ICRA]BB- (Stable)
	Long Term – Term Loans	FY2014		FY2019	4.5	[ICRA]BB- (Stable)
	Long Term – Unallocated				14.5	[ICRA]BB- (Stable)
	Short Term –Non Fund Based				25.0	[ICRA]A4

Source: the company

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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