February 16, 2023

Stove Kraft Limited: Ratings reaffirmed; outlook revised from Positive to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based (Cash Credit)	90.00	90.00	[ICRA]A- (Stable); ratings reaffirmed and outlook revised from Positive to Stable
Long-term – Term Loan	30.98	30.98	[ICRA]A- (Stable); ratings reaffirmed and outlook revised from Positive to Stable
Long-term/ Short-term – Interchangeable	(35.00)	(35.00)	[ICRA]A- (Stable) / [ICRA]A2+; ratings reaffirmed and outlook revised from Positive to Stable
Short-term – Non-fund Based	35.00	35.00	[ICRA]A2+; reaffirmed
Total	**155.98**	**155.98**	

**Instrument details are provided in Annexure-I*

Rationale

The change in the outlook represents ICRA's expectation of moderation in Stove Kraft Limited's (SKL) credit metrics led by pressure on the operating margins and higher than anticipated debt. While the company has registered healthy revenue growth and an increase in indigenisation, its debt levels have risen substantially owing to growing working capital fund requirements as well as long-term debt towards capex. Apart from this, the company was only partly able to pass on input cost inflation, which along with growing overheads impacted its operating margins. ICRA expects the operating margins to remain at a similar range owing to competitive pressures and the company's brand philosophy of being in the value for money (VFM) category. Consequently, SKL's leverage and coverage metrics are expected to be moderate in the near to medium term over earlier expectations.

Nevertheless, ICRA expects SKL to maintain its established market position in the kitchen appliances segment and its diverse product offerings in the VFM category. SKL is expected to grow through higher market penetration in the medium term. Also, SKL has an extensive distributor network of more than 700 distributors in 27 states and five union territories of India and 12 distributors for its export products. The carrying and forwarding (C&F) agents and distributors are, in turn, connected with a dealer network of over 1,21,000 retail outlets. SKL has a current order book of six months for its exports, which too will support revenue growth. The ratings also take comfort from the healthy capital structure of the company on account of its healthy net worth.

The ratings are constrained by SKL's exposure to change in consumer trends and intense competition from the established reputed players. Moreover, SKL remains vulnerable to price fluctuations of key inputs, i.e., aluminium and steel. The moderate working capital intensity led by inventory and debtor requirement also constrains the ratings.

Key rating drivers and their description

Credit strengths

Established market position and healthy revenue growth – SKL has developed a strong presence as a manufacturer of kitchen appliances such as pressure cookers, LPG stoves, non-stick cookware, induction cook tops, etc. It has 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 VFM brand (Pigeon) with a competitive price point. The overall revenues of SKL grew by ~15% in 9M FY2023 vis-à-vis 9M FY2022 on the back of growing acceptance of SKL's brand, new product offerings coupled by stable demand in the domestic market. In the medium term, the demand for SKL's products is supported by continuing favourable demographics, a rising number of nuclear families and the change in consumption patterns, resulting in shorter replacement cycles for pressure cookers and other cookware.

Established domestic distribution network; exports offer revenue diversity – The company has a nationwide distribution network of 700 distributors and ~1,21,000 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; although there has been a moderation in demand from this segment post return to normalcy after the Covid affected period. The contribution of exports has been steadily increasing, and in H1 FY2023, exports drove 13% of its total revenues over 7% in FY2022. SKL has a confirmed order book of six months from its export clients, e.g., Walmart.

Comfortable capital structure led by healthy net worth – SKL's debt levels have risen over FY2022 and the current fiscal, however it continues to have a comfortable capital structure with gearing of 0.4 time as on September 30, 2022. This is led by its healthy net worth of Rs. 399.4 crore, which had increased post its initial public offering in January 2021.

Credit challenges

Vulnerability of margins 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 for nearly 25% of the total value of raw material. Thus, SKL's profitability remains vulnerable to raw material price increases as the prices of aluminium steel are volatile. As part of its positioning as a VFM brand, SKL passes on the surge in input costs to end consumers only partly and has taken only limited selling price hikes. SKL's gross margin marginally improved to ~32.9% in 9M FY2023 from ~32.6% in 9M FY2022 and 31.5% in FY2022, although it stood lower than ~35% margins reported in FY2021. ICRA notes that while provisioning for bad debts has reduced in the current fiscal, SKL's operating margins are expected to remain under pressure in the medium term, given the intense competitive nature of the industry.

Moderation in coverage metrics – SKL was under capex mode in FY2022 for which it utilised credit facilities from the bank. Moreover, its working capital needs have been growing on the back of healthy revenue growth. SKL's total debt levels rose to Rs. 174.2 crore (including lease liabilities of Rs. 11.3 crore) as on September 30, 2022, on account of increased supplier's credit and working capital loans. Thus, with expectation of moderate margin and higher than envisaged debt levels, ICRA's expects SKL's coverage metrics to be moderate compared to earlier expectations.

Exposure to consumer spending trends and intense competition from other branded players – SKL's sales, profitability and cash accruals are closely linked to the overall macro-economic conditions, consumer confidence and spending patterns owing to 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 and necessitates market and promotion spends.

Moderate working capital intensity led by inventory and debtor requirements – SKL's working capital cycle is moderate given its need to store raw material inventory for smooth operations as well as credit offered to its distribution channels. While it has started using supplier's credit to fund part of its raw material purchases, it has been utilising non-recourse-based invoice discounting for its receivables for a specific set of channel partners. With a growing scale, SKL's working capital funding requirements are also growing.

Environmental and Social Risks

Environmental considerations: Environmental risks for players in SKL's industry include use of and handling of hazardous waste materials and waste disposal practices. These standards expose SKL to the risk of environmental costs and liabilities including liabilities associated with past activities. SKL has signed an MoU with a vendor to collect hazardous waste as per the Karnataka State Pollution Control Board (KSPCB), including disposing off the same as per KSPCB's advisory.

Social considerations: SKL is exposed to social risks, including implementation of labour rights and maintaining corporate governance. SKL works towards improving the quality of lives of the local communities near its manufacturing facilities. SKL supporting causes like provision of sanitary facilities in schools in rural areas and institutions that provide vocational training there.

Liquidity position: Adequate

SKL's liquidity position remains adequate as reflected by moderate working capital limit utilisation and the limited free cash balances maintained. The company's average utilisation of total working capital limits has remained ~76% for the nine-month period ending December 2022. The company also utilises non-recourse-based invoice discounting, which helps it fund its working capital requirements. SKL's cash accruals are sufficient to service the debt obligations of ~Rs. 1.63 crore in FY2023 and Rs. 4.9 crore in FY2024 along with capex of ~Rs. 20-25 crore in H2 FY2023 and ~Rs. 60 crore in FY2024. The company will be funding the capex from its internal accruals and long-term supplier's credit; 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 its scale of operations along with profitability and liquidity, resulting in better debt coverage metrics.

Negative factors – The rating can be downgraded if the company witnesses a material decline in its scale and profitability, or if there is any stretch in the working capital cycle leading to weakened liquidity on a sustained basis. Moreover, higher than expected debt-funded capex impacting debt coverage metrics can also trigger a downgrade. Further, Total Debt/OPBDITA greater than 2.3 times on a 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 ratings, ICRA has considered the standalone financials of SKL.

About the company

Incorporated in 1999 by Mr. Rajendra Gandhi, SKL is involved in manufacturing and retailing a wide range of kitchen solutions under the '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 its home solutions consist of various household utilities, including LED bulbs and oxymeters. The company sells its products through its dealer distributor network, e-commerce platforms and a few exclusive brand outlets. The company operates through nine C&F agents (for custom clearance), over 700 distributors and through more than 1,21,000 retail outlets (with 65 exclusive Gilma stores) across 27 states and five union territories in India. It exports Pigeon products to 12 countries and acts as a vendor to principals like Walmart Inc. in the US and Mexico.

SKL has two manufacturing plants in Bangalore and Baddi (Himachal Pradesh), with a production capacity of 2.23 crore units of pressure cookers, induction cookers, LPG stoves, mixer grinders, etc. It forayed into LED manufacturing in FY2019 from its Bangalore facility, which has a production capacity of 75,000 bulbs a day. ICRA has noted that 9.08% of the promoter's shareholding is pledged.

Key financial indicators (audited)

SKL Standalone	FY2021	FY2022	9M FY2023
Operating income	859.0	1136.4	1005.8
PAT	81.2	56.2	42.2
OPBDIT/OI	13.3%	8.6%	9.5%
PAT/OI	9.5%	4.9%	4.2%
Total outside liabilities/Tangible net worth (times)	0.9	1.0	-
Total debt/OPBDITA (times)	0.5	1.6	-
Interest coverage (times)	5.9	6.8	9.2

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in	Date & rating in FY2022		Date & rating in FY2021		Date & rating in FY2020
					Feb 16, 2023	Dec 15, 2021	Jul 02, 2021	Feb 09, 2021	Oct 08, 2020	-
1	**Cash credit**	Long-term	90.00	-	[ICRA]A- (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB (Stable)	-
2	**Term Loan**	Long-term	30.98	17.14	[ICRA]A- (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB (Stable)	-
3	**Non-Fund based**	Short-term	35.00	-	[ICRA]A2+	ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A3+	
4	**Interchangeable**	Long-term/ short term	(35.00)	-	[ICRA]A- (Stable) / [ICRA]A2+	[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 instruments

Instrument	Complexity Indicator
Long Term - Fund Based (Cash Credit)	Simple
Long Term – Term Loan	Simple
Long Term/Short Term – Interchangeable	Simple
Short Term – Non-Fund based	Very 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 are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	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**	FY2022	NA	FY2026	30.98	[ICRA]A- (Stable)
NA	**Long-term/ Short-term – Interchangeable**	NA	NA	NA	(35.00)	[ICRA]A- (Stable) / [ICRA]A2+
NA	**Short-term – Non-fund Based**	NA	NA	NA	35.00	[ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis - NA

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 022 61143400
kinjal.shah@icraindia.com

Sheetal Sharad
+91 124 4545308
sheetal.sharad@icraindia.com

Susovan Mondal
+91 124 4545392
susovan.mondal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches