

May 31, 2024

Stove Kraft Limited: Ratings Reaffirmed and Assigned for enhanced limits

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	80.00	[ICRA]A- (Stable); reaffirmed
Short Term – Fund based – Interchangeable – (Sub limit of Cash Credit)	-	(80.00)	[ICRA]A2+; Assigned
Short Term – Fund Based - EPC/WCDL	-	95.00	[ICRA]A2+; Assigned
Long-term – Term Loan	30.98	20.89	[ICRA]A- (Stable); reaffirmed
Long-term/ Short-term – Interchangeable (Sub limit of working capital)	(35.00)	(130.00)	[ICRA]A- (Stable) / [ICRA]A2+; reaffirmed and assigned for enhanced limits.
Short Term – Non-Fund based - working capital	35.00	130.00	[ICRA]A2+; reaffirmed and assigned for enhanced limits.
Total	155.98	325.89	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation in ratings continues to factor in Stove Kraft Limited's (SKL) established market position and strong brand recall in the kitchen appliances segment and its diversified product offerings in value for money (VFM) category. The ratings also take into account the company's strong manufacturing infrastructure, its established domestic distribution network and its presence in the export markets wherein it supplies its products to large retail chains.

During FY2024, SKL witnessed a moderate revenue growth of 6.3%. While the company witnessed strong volume growth of ~21.4% in FY2024, the overall realisations declined considerably owing to the decline in commodity prices which were passed on to the customers resulting in an overall moderate revenue growth. Supported by improving gross margins (36.1% in FY2024 against 32.7% in FY2023), the company's operating profit margin (OPM) improved to 8.7% in FY2024 from 8.1% in FY2023. The margin improvement was supported by declining commodity price scenario in addition to increasing proportion of manufacturing revenues in SKL's overall revenues (trading revenues accounted only for ~10% of the company's revenues in FY2024). Going forward, with stabilization in commodity prices, ICRA expects SKL's volume, revenue growth and OPMs to be healthy in FY2025.

The ratings are constrained by SKL's exposure to change in consumer trends and intense competition from other established players in the kitchen appliances segment. Moreover, SKL remains vulnerable to price fluctuations of key inputs, i.e., aluminium and steel. SKL's moderate working capital intensity led by inventory and debtor requirements also constrains the ratings. During FY2024, SKL incurred capex of ~65-70 crore towards increasing its in-house manufacturing capacities, and opening ~105 new retail stores. As on March 31, 2024, the company had 171 retail stores (compared to 54 as on March 31, 2023). While the company did not draw down on any incremental term loans for the capex, the lease liabilities pertaining to the retail stores and higher working capital debt (on account of inventory holding requirements at the retail stores) resulted in total debt of ~Rs. 318.4 crore as on March 31, 2024 as compared to total debt of ~Rs. 234.7 crore as on March 31, 2023. The higher debt levels also resulted in moderation of TD/OPBDITA of the company to 2.7x as on March 31, 2024 compared to 2.3x as on March 31, 2023. The company plans to open ~100 new retail stores each fiscal and expects to incur capex of ~Rs. 45-50 crore in FY2025 towards commencing operations at its upcoming iron foundry and completing its ongoing capacity expansion. While

ICRA expects the company's coverage metrics to improve going forward on the back of improvement in the company's profitability, margin trajectory amidst the ongoing capex will be a key monitorable for the company.

The stable outlook on SKL's long-term rating reflects ICRA's opinion that SKL will continue to benefit from its established market position and its strong manufacturing capabilities.

Key rating drivers and their description

Credit strengths.

Established market position and diversified product portfolio – 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. In the medium term, the demand for SKL's products is expected to remain healthy 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 distributors and retail outlets, which has been steadily expanding over the years. The company is also setting up its own retail stores and expects to set up ~100 stores incrementally each fiscal over the next few years. SKL's other brands such as Gilma and Black + Decker are sold through an exclusive network of distributors and retailers. Moreover, SKL also has sizeable sales through e-commerce platforms and modern retail stores. The company also exports its products to wholesale customers in the US providing diversification to a certain extent.

Comfortable capital structure led by healthy net worth – Despite significant increase in SKL's debt levels in FY2024, the company continues to have a comfortable capital structure with gearing of 0.7x as on March 31, 2024 (compared to 0.6x as on March 31, 2023).

Credit challenges.

SKL's margins remain vulnerable to fluctuations in raw material prices – Aluminium and steel are the key raw materials for the pressure cooker and cookware industry and account for major part of the company's raw material costs. 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 benefit of declining input costs to its customers which has led to sizeable decline in its realisations in FY2024.

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. The company's inventory days increased in FY2024 compared to the past levels on account of higher inventory stocking requirements at its owned retail stores. Going forward, the company's working capital intensity is expected to remain in line with FY2024 trends.

Moderation in debt and coverage metrics – SKL's increasing working capital requirements and incremental lease liabilities on account of opening of new retail stores resulted in significant increase in the company's debt in FY2024. SKL's total debt increased to ~Rs. 318.4 crore (including lease liabilities of ~Rs. 110 crore) as on March 31, 2024 from ~Rs. 234.7 crore as on March 31, 2023. This resulted in the moderation of company's debt coverage metrics to a certain extent wherein TD/OPBDITA of the company to 2.7x as on March 31, 2024 compared to 2.3x as on March 31, 2023. Going forward, with expected healthy revenue growth and improvement in SKL's OPMs going forward, ICRA expects the coverage metrics to improve.

Exposure to consumer spending trends and intense competition from other branded players – SKL's sales, profitability and earnings 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 marketing and promotion spends.

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 utilization and healthy retained cash flows. The company's average utilisation of working capital limits has remained ~68% for the 12-month period ending March 2024. The company also utilizes non-recourse-based invoice discounting which helps it fund its working capital requirements. SKL's net cash accruals are expected to be sufficient to service its debt obligations of Rs. 5.12 crore in FY2025 and Rs. 4.89 crore in FY2026 and capex of ~Rs. 45-50 crore in FY2025. The company is expected to fund the capex from its internal accruals.

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 3.0 times (Total debt Includes lease liabilities) 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 C&F agents (for custom clearance), distributors and through retail outlets 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. ICRA has noted that 14.62% of the promoters' shareholding is pledged.

Key financial indicators (audited)

SKL Standalone	FY2022	FY2023	FY2024
Operating income	1,136.4	1,283.8	1,364.3
PAT	56.2	35.8	34.1
OPBDIT/OI	8.6%	8.1%	8.7%
PAT/OI	4.9%	2.8%	2.5%
Total outside liabilities/Tangible net worth (times)	1.0	1.2	1.5
Total debt/OPBDITA (times)	1.6	2.3	2.7
Interest coverage (times)	6.8	4.9	4.9

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	Type	Current rating (FY2025)			Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in May 31, 2024	Date & rating in FY2024 Dec 04, 2023	Date & rating in FY2023 Feb 16, 2023	Date & rating in FY2022 Dec 15, 2021	Date & rating in FY2022 Jul 02, 2021	
1 Cash credit	Long-term	80.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Positive)	[ICRA]A-(Stable)	
2 Fund based – Interchangeable – (Sub limit of Cash Credit)	Short-term	(80.00)	-	[ICRA]A2+	-	-	-	-	
3 Fund Based - EPC/WCDL	Short-term	95.00	-	[ICRA]A2+	-	-	-	-	
4 Term Loan	Long-term	20.89	10.0	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Positive)	[ICRA]A-(Stable)	
5 Non-Fund based - working capital	Short-term	130.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	
6 Interchangeable (Sub limit of working capital)	Long-term/short term	(130.00)	-	[ICRA]A-(Stable) / [ICRA]A2+	[ICRA]A-(Stable) / [ICRA]A2+	[ICRA]A-(Stable) / [ICRA]A2+	[ICRA]A-(Positive) / [ICRA]A2+	[ICRA]A-(Stable) / [ICRA]A2+	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based (Cash Credit)	Simple
Short Term – Fund based – Interchangeable – (Sub limit of Cash Credit)	Very simple
Short Term – Fund Based - EPC/WCDL	Very 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	80.00	[ICRA]A- (Stable)
NA	Short Term – Fund based – Interchangeable – (Sub limit of Cash Credit)	NA	NA	NA	(80.00)	[ICRA]A2+
NA	Short Term – Fund Based - EPC/WCDL	NA	NA	NA	95.00	[ICRA]A2+
NA	Long-term – fund based - Term Loan	FY2022	NA	FY2026	20.89	[ICRA]A- (Stable)
NA	Long-term/ Short-term – Interchangeable (Sub limit of working capital)	NA	NA	NA	(130.00)	[ICRA]A- (Stable) / [ICRA]A2+
NA	Short-term – Non-fund Based-working capital	NA	NA	NA	130.00	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

Mythri Macherla
+91 22 61143435
mythri.macherla@icraindia.com

Rahul Mhaskar
+91 700 0546087
rahul.mhaskar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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