8th February 2021

To,

BSE Limited, (Security Code: 543260)
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai - 400 001

NSE Limited, (Security Code: STOVEKRAFT)
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex, Bandra (East),
Mumbai – 400 051

Dear Sirs,

Sub: **Intimation of Revised Credit Rating of Stove Kraft Limited ("the Company") by ICRA Limited**

Pursuant to Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, we wish to inform you that ICRA has upgraded the following ratings to the Company for its Line of Credit aggregating Rs. 155.98 crores:

Bank Facilities	Revised Rating	Previous Rating
Long Term Rating	[ICRA]BBB+ (Positive)	[ICRA]BBB (Stable)
Short Term Rating	[ICRA]A2	[ICRA]A3+

We request you to take the above on your records and acknowledge receipt.

Thanking you,
Yours faithfully,
For Stove Kraft Limited

Shashidhar SK
CFO & Company Secretary

Stove Kraft Limited
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Kanakapura Taluk, Ramanagara District, Bengaluru, India- 562 112
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CIN: U29301KA1999PLC025387 stovekraft.com

February 08, 2021

Stove Kraft Limited- Ratings upgraded to [ICRA]BBB+ (Positive)/ [ICRA]A2

Summary of rating(s) outstanding

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Long Term - Fund-based (CC)	90.00	90.00	[ICRA]BBB+(Positive)
Long Term - Term Loan	30.98	30.98	[ICRA]BBB+(Positive)
Short Term - Non-fund based	35.00	35.00	[ICRA]A2
Long Term/ Short Term – Interchangeable	(35.00)	(35.00)	[ICRA]BBB+(Positive)/ [ICRA]A2
Total	**155.98**	**155.98**	

Rationale

Stove Kraft Limited (SKL) recently concluded its initial public offering of Rs 412.62 crores which comprised of Rs 95 crore of fresh issue and balance Offer for sale (OFS). The OFS provided partial exit to the private equity investors, who continue to hold 12.45% in the company. The rating upgrade considers the above equity infusion and the company's plan to retire its term debt and reduce its bank limits utilisation which will result in an improved capital structure and debt coverage metrics. Moreover, the positive outlook on the ratings reflects ICRA's view that the operational and financial profile will continue to demonstrate improvements if the company is able to sustain its operating margins over a growing topline.

The rating continues to draw comfort from SKL's healthy operational profile of Stove Kraft Limited (SKL), led by the strong presence of its flagship brand, Pigeon, in the kitchen appliances market in South India supported by sizeable manufacturing capacities built up by the company over the last few years. The rating draws comfort from SKL's established pan-India multi-channel distribution network and diversified revenues from export sales. Further, SKL has achieved healthy operating margins quarter on quarter with a growing topline supported by cost optimisation measures. The rating is, however continued to be constrained by SKL's exposure to stiff competition in the kitchen appliances space and susceptibility of its margins to adverse movements in key input prices. The company's business also remains working capital intensive leading to sizeable funding requirements, more so in its high growth phase.

Key rating drivers and their description

Credit strengths

Established brand 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. Being positioned as a value-for-money brand with a competitive price point, the Pigeon brand reported Rs. 610-crore revenues in FY2020 against Rs. 441 crore in FY2016, indicating a growth of ~11%. The company is focussed to move away from low-margin segments such as oil company stove-related business and Government tenders, which resulted in slower growth. The Pigeon brand's contribution to the revenues, including exports, has been Rs 261 crore (77% of total revenue) in 6M FY2021, which was Rs 611 crore (86% of total revenue) in FY2020 and Rs 516 crore (77% of total revenue) in FY2019. The LED bulb segment has also received an encouraging response garnering a good market position in Karnataka with sales of Rs. 33 crore, accounting for ~5% of SKL's revenues in FY2020 and around Rs 22 crore in 6M FY2021. The improved product mix has also aided in profit expansion.

Established domestic distribution network, exports offering revenue diversity – The company has a nationwide distribution network of 400 distributors and ~40,000 retailers, which has steadily expanded over the years. SKL's other brands such as Gilma and the licensing arrangement for 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 25% of revenues in FY2020, further growing by 37% in 6M FY2021 owing to the pandemic. About 9% of the company's sales came from exports to large super market chain in the USA and Mexico, as well as branded sales in Middle-Eastern countries, thus offering revenue diversity. The export segment has witnessed a healthy traction in the current year.

Healthy performance in 6M FY2021 – SKL witnessed a revenue growth of ~4% in 6M FY2021 compared to the corresponding previous period, particularly led by sales during Q2. Its operating profit margin rose to around 13.8% in 6M FY2021 compared to 6.1% in 6M FY2020 and 5.3% in FY2020. This improvement has been due to several cost rationalisation measures implemented during the last two to three quarters with respect to employee costs, marketing and advertising, as well as other administration expenses, apart from increased indigenisation and automation in the manufacturing processes. While higher demand for kitchen appliances in the lockdown and better export order book supported its revenue growth, the higher product volumes aided in profit expansion on an improved cost structure. Higher cash accruals and implementation of early payment solutions[1] have aided working capital funding. Nevertheless, the company's ability to sustain the performance going forward remains crucial.

Successful conclusion of IPO – The company successfully completed its IPO in January 2021 and will be utilising the fresh issues proceeds to retire its term debt and reduce its working capital limit utilisation. Consequently, SKL's capital structure and leverage are expected to considerably improve. Moreover, improved profit margins would result in better debt coverage metrics.

Credit challenges

Moderate working capital funding requirements- At present, SKL has sizeable manufacturing capabilities which it has built over the years and thus it does not have any major debt funded capex plans in the medium term. Thus, funding requirements are largely towards working capital. The company has to offer credit of average 2 months to its channel partners and also has to maintain moderate inventory levels to serve its large national network. While credit from suppliers aids the working capital funding, SKL would require moderate level of working capital funding in the backdrop of high growth. ICRA notes that the company has brought its e-commerce, OEM exports and general trade into channel funding program for accelerated collections. Although, it's ability to continue to generate healthy accruals and limit its working capital cycle with payment solutions apart from recovering aged debtors from one particular client remains to be seen.

Vulnerability to fluctuating raw material prices – The company's profitability remains exposed to volatility in raw material prices, mainly aluminium and steel. Moreover, it is exposed to forex fluctuations as it imports traded goods and raw materials and is also an exporter. The risks are partly mitigated by SKL's hedging policies.

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 and the competition from other branded players such as TTK Prestige, Hawkins Cookers and Butterfly Gandhi Mati, etc, which results in limited pricing power. Nevertheless, the long-term domestic demand outlook for this segment remains favourable.

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[1]SKL has implemented receivable discounting through a service provider for its general trade network. Further, it is almost implementing similar solutions for its e-commerce business. These initiatives are expected to shorten SKL's working capital cycle going forward.

Liquidity position: Adequate

The liquidity position of company remains adequate with availability of undrawn limits and absence of any major long term debt repayment going forward. The existing limit utilisation for past four months also remained at around 70% for the fund based limits.

Rating sensitivities

Positive factors – The company's rating could be upgraded if it demonstrates sustainability of its improved operating margins while registering healthy growth.

Negative factors – Given the positive outlook, a rating downgrade over the next one year is less likely. However, a change in outlook to Stable or a downgrade in rating could happen if the company witnesses decline in scale and profitability or if there is any stretch in the working capital cycle and higher than expected debt funded capex impacting debt coverage. Specific credit metric could be Debt/OPBDIT of 2.5 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable.
Consolidation/Standalone	The ratings are based on standalone financial profile of the company.

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 constitutes 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 2.23 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 crore 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. The investor had already converted a part of the debentures in FY2019.

Key financial indicators (audited)

SKL	FY2020	6M FY2021
Operating Income (Rs. crore)	669.9	328.8
PAT (Rs. crore)	2.8	28.8
OPBDIT/OI (%)	5.3%	13.8%
PAT/OI (%)	0.4%	8.8%
Total Outside Liabilities/Tangible Net Worth (times)	2.7	2.2
Total Debt/OPBDIT (times)	4.3	1.4
Interest Coverage (times)	1.7	4.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jna 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Feb 05, 2021	Oct 08, 2020		Nov 13, 2018	Oct 10, 2017
1	Cash credit	Long-term	90.00	-	[ICRA]BBB+ (Positive)	[ICRA]BBB (Stable)		[ICRA]BB- (Stable) withdrawn	[ICRA]BB- (Stable)
2	Term Loan	Long-term	30.98	28.56	[ICRA]BBB+ (Positive)	[ICRA]BBB (Stable)		[ICRA]BB- (Stable) withdrawn	[ICRA]BB- (Stable)
3	Non Fund based	Short term	35.00	-	[ICRA]A2	[ICRA]A3+		[ICRA]A4 withdrawn	[ICRA]A4
4	Interchangeable	Long term/ short term	(35.00)	-	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A3+			

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 click here

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]BBB+(Positive)
NA	Long Term - Term loan	NA	NA	NA	30.98	[ICRA]BBB+(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]BBB+ (Positive)/ [ICRA]A2

Source: *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.

For more information, visit www.icra.in

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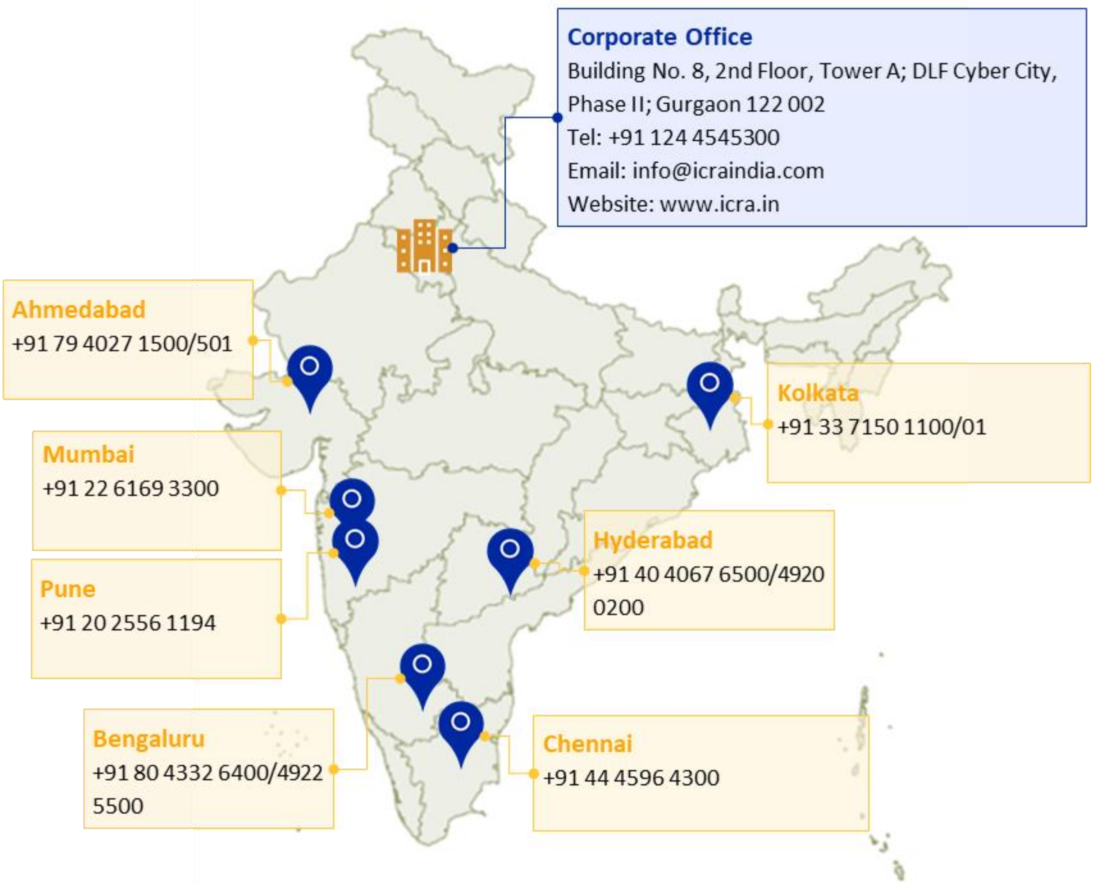
Branches



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