Greenchef Appliances Limited

April 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	63.55 (Enhanced from 60.90)	CARE BBB-; Stable	Revised from CARE BB+; Positive
Short-term bank facilities	1.00	CARE A3	Revised from CARE A4+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to long-term bank facilities of Greenchef Appliances Limited (GAL) factors in improving capital structure post capital raising through Initial Public Offer (IPO). Proceeds of the IPO would be utilised towards consolidating its manufacturing units and setting up a backward integration unit. CARE Ratings Limited (CARE Ratings) expects that the company's operating margins would improve by 150-250 bps post completion of capex, which otherwise has been lower than its peers in a highly competitive market. Ratings continue to derive strength from extensive industry experience of promoters in a similar line of business, reasonably wide distributor network with diversified product portfolio. Ratings are constrained by moderate debt coverage indicators and working capital intensive operations. Ratings also factor in GAL's presence in highly competitive market with geographical concentration risk and its margins are susceptible to raw material price volatility and its operations being exposed to consumer spending trends.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Total operating income (TOI) more than ₹500 crore, PBDIT margins of 8% and total debt to profit before interest, lease rentals, depreciation, and taxes (TD/PBIDLT) less than 2x.

Negative factors

- PBDIT margin less than 5% or TD/PBDIT more than 4.5x

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE Ratings' expectation that the company will sustain improvement in its profitability and achieve operational efficiency post implementation of planned capex.

Detailed description of key rating drivers:

Key strengths

Improved capital structure

The company raised net proceeds of ₹48.47 crore by way of IPO in July 2023, resulting in significant improvement in its capital structure. With these proceeds, the company would be able to fund its capex requirement for consolidating its otherwise scattered manufacturing units and setting up plastic component manufacturing unit. CARE Ratings expects that company's overall gearing would remain below unity in the near-to-medium term following the IPO issue and improvement in profitability margins.

Improving profitability despite moderate scale of operations

GAL's scale has remained at similar level of ₹327.9 crore in FY23 as against ₹336.30 crore in FY22 due to intense competition in the home appliance market. CARE Ratings expects that company's sales would remain at similar levels in FY24. However, PBILDT margin improved significantly to 6.26% in FY23 from 2.47% in FY22 due to correction in raw materials prices. In CARE Ratings' opinion, the company's PBDIT margin would improve by 150-250 bps in the medium term considering synergies from consolidating its production and distribution facilities in Bengaluru to a single unit.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Diversified product portfolio with indigenous manufacturing facility
The company has its own manufacturing facility and manufactures several home appliances including LPG gas stoves, pressure cooker, and mixer grinder Among others, which has resulted in reduced dependency on imports and also helped it maintain quality of products offered.

Widespread distributor presence
GAL has 12 branches across India and around 450+ distributors catering to consumers in Karnataka, Tamil Nadu, Maharashtra, Rajasthan, Orissa, Gujarat, and UP among others. The company has presence in Bihar, and Haryana and is planning to expand to Himachal Pradesh, Punjab, and Jammu Kashmir.

Extensive industry experience of promoters
GAL is promoted by Sukhlal Jain and his family members, who are engaged in manufacturing domestic appliances since 1999. He has more than four decades of experience in a similar line of business. His sons, Praveen Kumar and Vikas Kumar actively participate in day-to-day business operations of. Praveen Kumar is the MD and takes care of sales and marketing and Vikas Kumar handles production.

Key weaknesses

Working capital intensive operations
GAL's operations remained working capital intensive due to higher inventory maintained for different SKU's and higher credit period offered to distributors, given its presence in highly competitive and fragmented industry. Generally, the company maintains around 50 days of finished goods and around raw material industry of around 20 days and it offers around 90 days of credit period to its distributors. The company gets an average credit period of around 30-45 day. The average working capital utilisation stood at around 80% for 12-months ended February 2024.

Margins are susceptible to raw material price volatility
GAL's primary raw materials are aluminium sheets, steel sheets and metal scraps, plastic parts, copper wires, and electrical components among others, prices of which are linked to global commodity prices and fluctuations in raw material prices directly impact price of products or profit margins for manufacturers. Hence, operating margin is thin and is susceptible to volatility in raw material prices. Increase in raw material prices has to be absorbed by the company, as it is difficult to pass on the increase in price to consumers owing to low brand recognition. The company has intense competition from well-known brands such as Hawkins Butterfly, and Prestige among others.

Exposed to Geographical concertation risk
GAL's business is concentrated in the South with ~60% of business from South India and about ~50% comes from Karnataka alone, leading to geographical concentration risk. However, GAL's penetration in the north and west in the previous few years have diversified the risk to certain extent.

Exposure to consumer spending trends and intense competition from other branded players
GAL'S sales, profitability and cash accruals are closely linked to overall macro-economic conditions, consumer confidence and spending patterns owing to the nature of its products. Its sales remain vulnerable to consumers' changing tastes and preferences, and competition from other branded players such as TTK Prestige Ltd., Hawkins Cooker Ltd. and Butterfly Gandhimathi Appliances Ltd. Stove kraft Ltd, among others, which results in limited pricing power and necessitates market and promotion spends.

Project risk
The company is building a large manufacturing unit for consolidation of all its existing units near the outskirts of Bangalore at an estimated cost of ₹52 crore. IPO proceeds of ₹30 crore has been earmarked towards capex and balance is funded using a mix of term loan and internal accruals. The planned capex will help in expansion of existing capacities, addition of new product lines and backward integration, leading to operational efficiencies. The project is being undertaken in phases, in which, Phase one primarily concentrates on consolidation of all units and increasing capacities. Second phase is entering new product segments and backward integration. Construction of factory premises is in final stages and existing facilities will be shifted to the new unit by July 2024.

Liquidity: Adequate

GAL's liquidity remained adequate, as the project cash accruals is expected to cover debt repayments sufficiently translating into satisfactory debt service coverage ratio (DSCR). Working capital utilisation was moderately high at 80% in 12-months ended February 29, 2024. As on September 30, 2023, the company had cash and cash equivalents of ₹41.59 crore.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer durables	Consumer durables	Household appliances

GAL established in Bengaluru, is engaged in manufacturing and marketing kitchen appliances such as gas stove, cooker, chimney, and mixer-grinder, among others. The company is promoted and managed by Sukhlal Jain and his family.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	336.30	327.90	150.29
PBILDT	8.31	20.53	8.74
PAT	0.51	9.87	3.90
Overall gearing (times)	1.30	1.08	N/A
Interest coverage (times)	1.50	4.08	3.61

A: Audited, UA: Unaudited, N/A: Not Available; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: CRISIL & Brickworks continue to maintain the company's rating under 'Issuer not Cooperating' vide PRs dated May 2023 and March 2024 respectively, as the company did not cooperate in providing information.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	49.50	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	-	December 2030	14.05	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantee	-	-	-	-	1.00	CARE A3

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT	49.50	CARE BBB-; Stable	-	1)CARE BB+; Positive (17-Mar-23) 2)CARE BB; Stable; ISSUER NOT COOPERATING* (27-Jul-22)	1)CARE BB+; Stable (16-Jun-21)	1)CARE BB; Stable; ISSUER NOT COOPERATING* (27-Oct-20) 2)CARE BB+; Stable (29-May-20)
2	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)Withdrawn (17-Mar-23) 2)CARE A4; ISSUER NOT COOPERATING* (27-Jul-22)	1)CARE A4+ (16-Jun-21)	1)CARE BB; Stable; ISSUER NOT COOPERATING* (27-Oct-20) 2)CARE BB+; Stable (29-May-20)
3	Non-fund-based - ST-Bank Guarantee	ST	1.00	CARE A3	-	1)CARE A4+ (17-Mar-23) 2)CARE A4; ISSUER NOT COOPERATING* (27-Jul-22)	1)CARE A4+ (16-Jun-21)	1)CARE A4; ISSUER NOT COOPERATING* (27-Oct-20) 2)CARE A4+ (29-May-20)
4	Fund-based - LT-Term Loan	LT	14.05	CARE BBB-; Stable	-	1)CARE BB+; Positive (17-Mar-23) 2)CARE BB; Stable; ISSUER NOT COOPERATING* (27-Jul-22)	1)CARE BB+; Stable (16-Jun-21)	-

*Issuer did not cooperate; based on best available information.
LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Karthik Raj K Director **CARE Ratings Limited** Phone: +91-80-4662 5555 E-mail: karthik.raj@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Himanshu Jain Associate Director **CARE Ratings Limited** Phone: +91-80-4662 5528 E-mail: himanshu.jain@careedge.in Sourav Dalan Analyst **CARE Ratings Limited** E-mail: Sourav.dalan@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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