

Stock Update Butterfly Gandhimathi Appliances Ltd.

December 01, 2021





Butterfly Gandhimathi Appliances Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Household Appliances	Rs 872.6	Buy in the band of Rs 870-875 & add more on dips to Rs 765-770 band	Rs 950	Rs 1016	2 quarters

HDFC Scrip Code	BUTGANEQNR
BSE Code	517421
NSE Code	BUTTERFLY
Bloomberg	BGAL IN
CMP Nov 30, 2021	872.6
Equity Capital (Rs cr)	17.9
Face Value (Rs)	10
Equity Share O/S (cr)	1.79
Market Cap (Rs cr)	1560.3
Book Value (Rs)	125.3
Avg. 52 Wk Volumes	73818
52 Week High	1070.0
52 Week Low	393.1

Share holding Pattern % (Sep 2021)	
Promoters	64.8
Institutions	9.8
Non Institutions	25.4
Total	100.0



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Butterfly Gandhimathi Appliances Limited (BGAL) is leading manufacturer of Kitchen and Electrical Appliances. Over the years, the company has diversified from being predominantly an LPG stove manufacturing company and a B2B company supplying majorly to State Govt; to a branded 'kitchen appliances' company with reasonably diversified product portfolio. BGAL has a solid foothold in the Southern market and an extensive distribution comprising 500+ exclusive distributors catering 25,000+ retail points across India. The company manufactures its core products (80%+) in-house ensuring better quality, high operating leverage and margins.

BGAL will be one of the biggest beneficiaries of the continued growth in the domestic kitchenware segment. The strong historical patronage of the "Butterfly" brand, continuous innovations and premium quality products will support revenue growth. We are positive on the company because of its established brand recognition, diversified product profile, and moderate financial risk profile. Strong presence of the company in all segments of domestic appliances industry including LPG stoves, Mixer Grinders, Cookers and Table Top Wet Grinders, planned new launches and expanded network of dealers will help the company to consolidate its recent gains further and grow ahead of the industry in the coming years. The management is focused on increasing the share of e-commerce, exports and modern retail channel to support growth going forward.

Earlier, we had issued [initiating coverage report](#) and [stock update report](#) on Butterfly Gandhimathi Appliances Ltd; both base case and bull case target prices for both reports were achieved well within our investment horizon. On account of its higher revenue growth and valuation discount compared to its larger peers, we are issuing stock update note, revising the target upwards.

Valuation & Recommendation:

BGAL has shown consistent improvement in financial performance parameters with lower working capital days, reduction in debt and improved return ratios. We expect it to maintain RoCE of 30%+ in FY24E. We expect revenue and earnings to grow at CAGR of 17.7% and 34.4%, respectively, over FY21-24E. We have assigned P/E multiple at reasonable discount compared to its listed larger peers. **We think the fair value of the stock is Rs 950 (21x Sep'23E EPS) and the bull case fair value is Rs 1016 (22.5x Sep'23E EPS) over the next two quarters. Investors can buy the stock in the band of Rs 870-875 (19.3x Sep'23E EPS) and add on dips to Rs 765-770 band (17x Sep'23E EPS).**



Financial Summary (standalone)

Particulars (Rs cr)	Q2FY22	Q2FY21	YoY-%	Q1FY22	QoQ-%	FY20	FY21	FY22E	FY23E	FY24E
Total Operating Income	403.1	288.8	39.6	144.4	179.2	678.7	869.6	1,094.0	1,262.4	1,418.7
EBITDA	46.5	34.3	35.7	7.8	494.1	40.8	79.7	101.7	126.2	147.5
Depreciation	4.4	3.7	19.1	3.8	16.6	13.9	15.6	17.0	17.8	18.7
Other Income	0.4	0.4	-7.3	0.4	-5.0	1.5	1.6	1.6	1.9	2.1
Interest Cost	3.3	4.6	-28.6	3.1	7.2	24.1	17.4	11.0	12.0	13.5
Tax	13.7	9.2	49.3	0.4	3022.7	0.2	12.2	22.8	24.8	29.6
PAT	25.5	17.2	48.2	0.9	2581.1	4.0	36.2	52.7	73.6	87.9
EPS (Rs)	14.2	9.6	48.2	0.5	2581.1	2.2	20.2	29.4	41.2	49.1
RoE-%						2.1	17.4	21.5	24.9	24.4
P/E (x)						391.3	43.2	29.6	21.2	17.8
EV/EBITDA						42.1	19.5	15.1	11.8	9.7

(Source: Company, HDFC sec)

Q2FY22 Result Review:

Butterfly Gandhimathi Appliances Ltd reported highest quarterly revenue and profitability in Q2FY22 with revenue at Rs 403.1cr, +39.6%/179.2% YoY/QoQ. High topline was supported by strong festive season demand (as Diwali was 10 days earlier this year). Demand for domestic kitchen, home appliance was robust in Q2 driven by stocking requirement by trade channels ahead of Q3 festive season. The company witnessed strong demand and growth was visible across all channels. Kitchen appliances and Cooker/Cookware both saw robust increase in revenue, up 39.1% and 62.7% YoY respectively. On the back of such strong topline numbers, the company revised its revenue growth guidance for FY22 from ~10-15% to ~20-25%. Given the high base of H2FY21, the management seems to be expecting some volume and margin pressure in H2FY22 as the company has already taken price hikes (which may fall short) during the period.

In Q2FY22, gross margins contracted due to RM pressures (despite price hikes) and stood at 37.6% as against 40% in the previous quarter (42.2% in Q2FY21). Operating leverage limited the impact on EBITDA Margin which stood at 11.5% as against 11.9% in the corresponding quarter previous year (5.4% in Q1FY22). The company reported EBITDA of Rs 46.5cr (up 35.7% YoY). The management guided for EBITDA margin level of +/- 50bps compared to FY21 level (9.2%). The company reported PAT of Rs 25.5cr, up 48.2% YoY. EPS for the quarter came in at Rs 14.24. The Board of Directors declared an interim dividend of Rs 3 per share for FY22.



Concall Key takeaways:

- **Robust Demand:** Reported highest revenue and profitability in the quarter due to huge demand both in offline and online channels. All product categories registered healthy growth during the quarter.
- **Revenue target & Export:** In next 4-5 years, the company is targeting revenue of Rs 2000cr with early double-digit margins. The management is also focused to improve its export revenue (target of Rs 200cr in next 2-3 years).
- **Gross margin & Price Hike:** High input cost impacted gross margins during the quarter. The management has taken a hike of ~5% in July 2021, but given the sharp rise in input material cost; gross margins contracted. The management is planning to take another rate hike in Nov/Dec 2021. Even with this hike it would be difficult to achieve 42% gross margin levels atleast for few quarters. RM prices are still very volatile. Reduction in product related schemes and discounts given to distributors and retailers would help improve gross margins.
- **Online Channel:** E-commerce contributed ~30-40% of its revenues and it was growing more than peers in the e-commerce business. The company sells the products directly to e-commerce websites.
- **Geographical Expansion:** New geographies have been contributing more in last few years; reporting over 30% CAGR in last three years (partly due to low base). Online sales have improved revenue from non-south regions. For retail reach and expansion, the company is gradually increasing its presence by entering one-two regions at a time, expanding there and then moving to the next region.
- **In-house & Outsourcing Mix:** The company currently manufactures around 85% of the products in-house. Over the next three years it expects increase in outsourcing share to ~30%
- **Product Extensions:** Currently, focus is more into kitchen and small appliances. No plans to enter into a larger appliances segment.
- **Capex:** Capex of Rs 30cr would enhance the plant capacity, and help in achieving revenue potential of ~Rs 1500cr over the next two years.

Key Triggers:

Domestic Market Opportunity:

Non-south regions have clocked a topline growth of ~37% CAGR over FY18-21 (on low base), with share improving from 15% in FY18 to 24% in FY21. Sales through online channel have improved growth in newer geographies where their retail presence is limited. Although the company does not have retail presence across India, its service centres (direct and through franchisee) helps deliver better after-sale



service and enhance its brand value. In next four-five years, the company expects non-south region sales to contribute ~35% to the topline. The company has low share of revenue from modern retail channel, the management highlighted their focus to improve sales from this channel which has huge potential. The management expects to increase its share to ~12-13% in the next 4-5 years. In addition, there is a large, untapped market with low penetration of several home and kitchen appliances in the country. Rising number of nuclear families, rapid urbanization, rising sales of affordable homes, increasing penetration of online channel in Tier 2+ cities, demand for branded products from rural areas among other factors are key growth drivers for kitchen appliances division. Also, a change in consumer behaviour with preference for branded products augurs well for established players like BGAL. Expansion into non-south regions and management's focus to improve its sales from modern retail channel coupled with strong industry tailwinds would support healthy topline growth.

Focus on Exports:

Butterfly Gandhimathi had low exports of Rs 10cr in FY21. The company has not focused on exports in a big way and it has been focusing on increasing share in domestic market. In the recent earnings concall, the management highlighted that the company is engaging with 15 distributors for countries where there is large Indian diaspora. The company would enhance its global footprint by growing customer base in the United Kingdom, Canada, USA, Middle East countries, among others. If there is some additional capacity at their disposal, the company could even explore the opportunity of private labelling. Exports have large potential for the company, BGAL would follow its peers by capitalising on this vast opportunity. It expects exports to deliver revenue to the tune of Rs 200cr in next 2-3 years. We think that BGAL could reach exports of Rs. 100-125cr over 2-3 years given the fact that domestic market is growing at a fast pace and is more profitable.

Domestic Manufacturing; Product innovation & extension:

BGAL's multi - plant manufacturing facilities with integrated operations providing a competitive edge to address market demand with superior quality products and just-in-time deliveries, without the burden of supply chain vulnerabilities or the dependence on imported components. More than 80% of the products are made in-house at its own manufacturing facilities, the company is well insulated from supply chain disruptions. Strong R&D capabilities coupled with the technical expertise have helped in launching innovative and industry defining, customer-centric products. The company has been in the forefront by delivering new innovative quality products.

Online channel; digital marketing initiatives:

Leveraging on its established position as an integrated manufacturer of kitchen appliances and its brand strength, the company will expand its pan India presence into unexplored markets adopting the phygital (physical+digital) model of engaging with the customer both



in the retail outlets and on a dynamic, on-line platform. Online sales account ~30-40% of the topline and has seen robust growth in the past couple of years. About Rs 224cr of sales in FY21 was to one ecommerce platform. The company is working towards enhancing its digital and social media presence.

Investment Rationale:

- Diversified Revenue Stream across Product categories
- Strong Brand Image in South India; Plans for geographical expansion
- Revenue Growth to be broad-based, supported by many channels
- Debt likely to remain lower, with limited capex requirement
- Non regulated/unorganized players losing their competitive edge.

Concerns:

High Competition Intensity: The industry is highly fragmented in the hands of several organized and unorganized players. The branded kitchen appliance industry is highly competitive, marked by branded players. While BGAL is a key player in South India, it faces competition from TTK Prestige (TTK), Preethi and numerous unorganised players. In the north, the company has limited footprint and has to compete with established players such as TTK, Hawkins, Sunflame, etc.

Volatility in raw material prices: Key raw materials, steel and aluminium prices are highly dependent on the global macroeconomic situation. Any significant move in prices can impact the operating margin as the price hike would be passed on with a lag considering the demand situation. Although BGAL has been able to leverage its brand successfully and pass on the increase in raw material prices, any significant rise in prices and the company's inability to pass on the rise can exert pressure on operating margins.

Geographical concentration risk: BGAL derived 76% of its revenues from South India in FY21, leading to geographical-concentration risks and exposes the company to any socio-economic or political risk. Nevertheless, with the gradual penetration into non-South Indian markets, foray into modern retail format stores across India and growing presence in e-commerce channel, these risks are likely to be mitigated over the medium term.

About the company:

Butterfly Gandhimathi Appliances Limited (BGAL) is one of the leading manufacturer of kitchen and electrical appliances established in 1986. Over the years, BGAL has diversified from being predominantly an LPG stove manufacturing company to a branded 'kitchen



Butterfly Gandhimathi Appliances Ltd.

appliances' company with reasonably diversified product portfolio. The company is a market leader in India for SS LPG stoves & table top wet grinders and major supplier of mixer grinders & pressure cookers. BGAL sells its products branded as "Butterfly" across the country through distributors, direct dealers, modern trade, online channels, oil marketing channel etc. Headquartered in Tamil Nadu, the company is a multi-product company with state-of-the-art-manufacturing unit, strong R&D and international industrial design facilities, mainly manufacturing LPG Stoves, Mixer Grinders, Table Top Wet Grinders and Pressure Cookers amongst others. In addition to kitchen appliances, the company trades in home appliances such as air coolers, electric fans, water heaters (geysers), electric water kettle, electric sandwich maker, electric bread toaster and emergency lanterns.

Butterfly brand, over the past three decades, has become a household name in South India. Besides Tamil Nadu, the company also markets its products in Kerala, Karnataka and Andhra Pradesh and has forayed into Maharashtra and Gujarat. It has pan-India presence with a strong distribution and channel network coupled with a dynamic on-line platform which enables the company to cater to a wide customer spectrum. More than 80% of the products are made in-house at the company's own manufacturing facilities. Over the last three years BGAL has enhanced its focus on modern trade/online distribution channels to capture higher revenue growth. Its branded sales revenue (excl. gas dealer channel) clocked 22.8% CAGR over FY18-21 led by growth in the branded kitchen appliances market, strong brand connect and expansion of product portfolio. BGAL is predominantly a South India player with the market contributing 76% to revenue and other markets contributing balance 24%. It has 700+ SKUs and a distribution network comprising 500+ exclusive distributors catering 25,000+ retail points across India. Strong presence of the company in all segments of Domestic appliances industry, planned new launches and expanded network dealers will help the company to consolidate its gain further and grow ahead of the industry in the coming years.

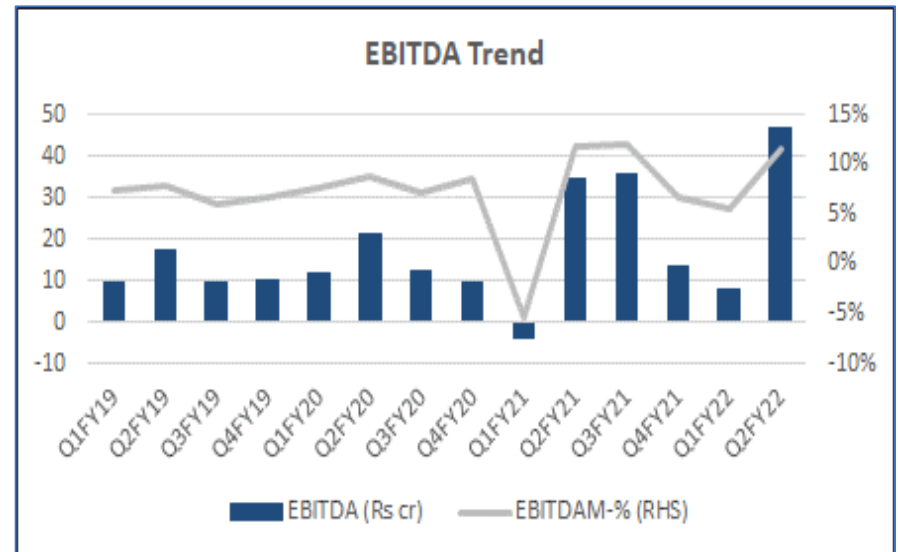
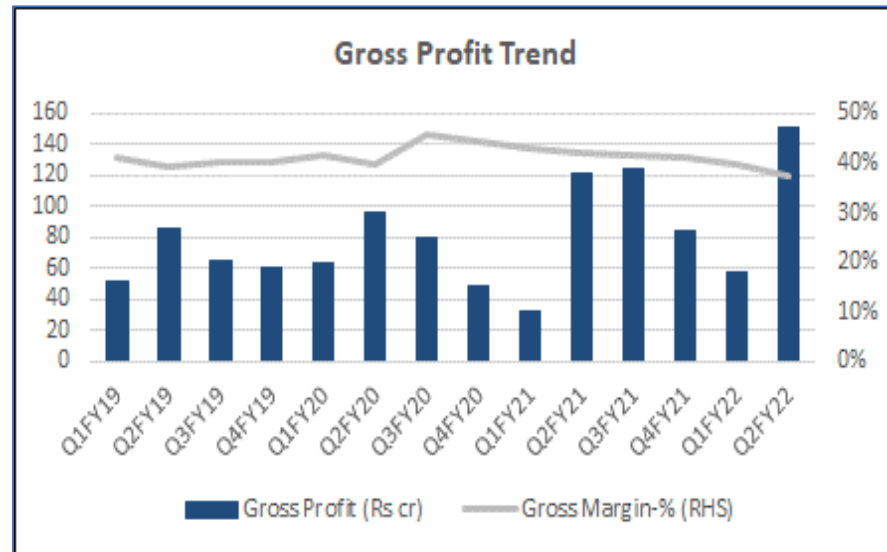
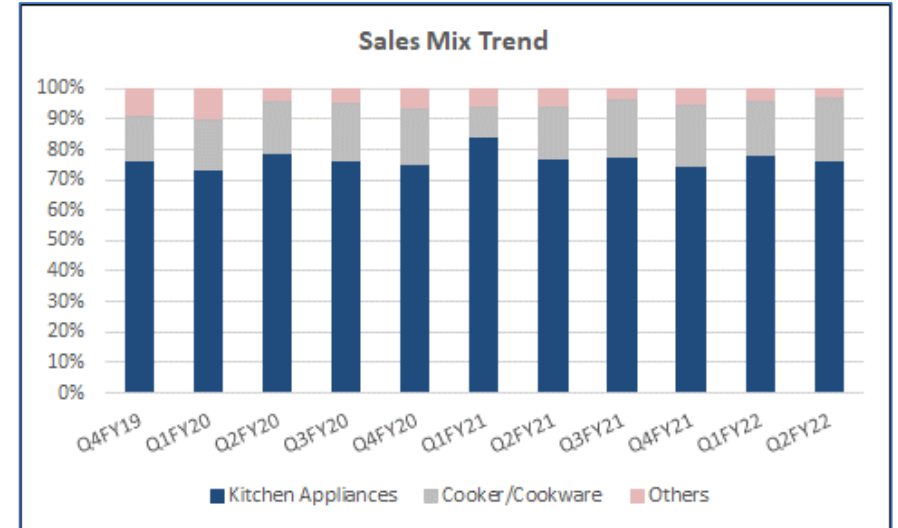
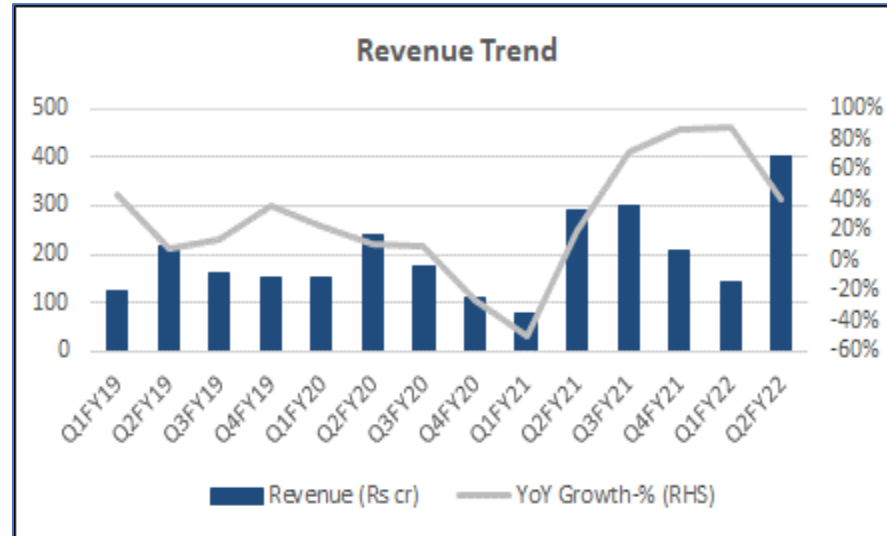
	Kitchen Appliances	Cooker/Cookware	Others
PRODUCTS	 LPG Stoves  Mixer Grinder  Electric Rice Cookers  Juicer Mixer Grinder	 Non-Stick Cookware  Pressure Cookers	 Hand Blender  Hand Mixer  Pop Up Toaster  Sandwich Maker
	 Wet Grinder  Chimney  Power Hobs  Built In Hobs	 Pressure Cookers	 Flasks  Electric Kettles  Water Bottles

(Source: Company, HDFC sec)



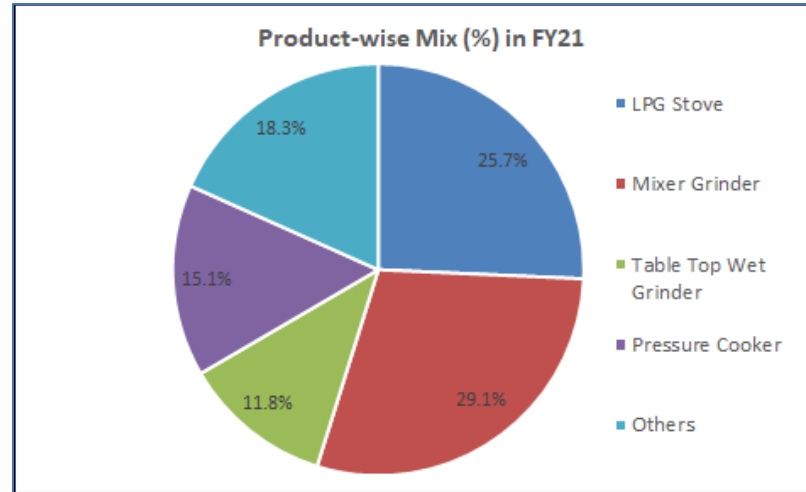
Butterfly Gandhimathi Appliances Ltd.

Story in Charts:





Butterfly Gandhimathi Appliances Ltd.



(Source: Company, HDFC sec)

Peer Comparison:

	Mcap (Rs cr)	Sales				EBITDA Margin-%				PAT			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Butterfly Gandhimathi Appliances Ltd	1,560	869.6	1,094.0	1,262.4	1,418.7	9.2	9.3	10.0	10.4	36.2	52.7	73.6	87.9
TTK Prestige Ltd	13,825	2,186.9	2,542.7	2,912.3	3,245.4	15.0	15.5	15.9	15.5	236.8	282.9	336.2	367.3
Stove Kraft Ltd	3,101	859.0	1,162.3	1,389.2	1,579.1	13.2	11.7	12.3	12.5	81.5	89.2	107.7	130.8

	RoE-%				P/E			
	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Butterfly Gandhimathi Appliances Ltd	17.4	21.5	24.9	24.4	43.2	29.6	21.2	17.8
TTK Prestige Ltd	16.8	17.4	18.3	17.8	56.9	48.9	41.1	37.6
Stove Kraft Ltd	27.0	25.4	25.2	24.5	35.6	34.8	28.8	23.7

(Note: Figures of TTK Prestige and Stove Kraft are consolidated numbers; Source: Bloomberg, Company, HDFC sec)



Butterfly Gandhimathi Appliances Ltd.

Financials – Standalone

Income Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	678.7	869.6	1094.0	1262.4	1418.7
Growth (%)	4.1	28.1	25.8	15.4	12.4
Operating Expenses	638.0	789.9	992.3	1136.2	1271.2
EBITDA	40.8	79.7	101.7	126.2	147.5
Growth (%)	-10.8	95.6	27.7	24.1	16.9
EBITDA Margin (%)	6.0	9.2	9.3	10.0	10.4
Depreciation	13.9	15.6	17.0	17.8	18.7
EBIT	26.8	64.1	84.8	108.5	128.8
Other Income	1.5	1.6	1.6	1.9	2.1
Interest expenses	24.1	17.4	11.0	12.0	13.5
PBT	4.1	48.4	75.4	98.4	117.5
Tax	0.2	12.2	22.8	24.8	29.6
PAT	4.0	36.2	52.7	73.6	87.9
Growth (%)	-58.3	806.5	45.6	39.7	19.4
EPS	2.2	20.2	29.4	41.2	49.1

Balance Sheet

As at March	FY20	FY21	FY22E	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	17.9	17.9	17.9	17.9	17.9
Reserves	174.8	206.1	248.0	307.3	377.3
Shareholders' Funds	192.7	224.0	265.9	325.2	395.2
Long Term Debt	32.3	11.6	19.6	24.6	19.6
Net Deferred Taxes	-2.3	1.3	9.3	9.3	9.3
Long Term Provisions & Others	0.6	1.1	1.1	1.3	1.4
Total Source of Funds	223.4	237.9	295.8	360.3	425.4
APPLICATION OF FUNDS					
Net Block & Goodwill	169.6	164.1	169.2	176.5	185.8
CWIP	2.3	2.1	0.0	0.0	0.0
Other Non-Current Assets	7.1	10.8	13.4	15.4	17.3
Total Non-Current Assets	179.1	177.0	182.6	191.9	203.1
Current Investments	0.0	0.0	0.0	0.0	0.0
Inventories	170.1	177.9	215.8	235.2	264.3
Trade Receivables	116.7	74.4	95.9	103.8	116.6
Cash & Equivalents	4.6	37.4	57.0	112.0	157.4
Other Current Assets	19.4	22.2	30.0	27.7	31.1
Total Current Assets	310.8	311.8	398.7	478.6	569.4
Short-Term Borrowings	126.9	16.8	12.8	12.8	12.8
Trade Payables	86.9	163.6	179.8	200.6	225.4
Other Current Liab & Provisions	52.8	70.6	92.9	96.8	108.8
Total Current Liabilities	266.5	251.0	285.5	310.2	347.1
Net Current Assets	44.3	60.9	113.2	168.4	222.3
Total Application of Funds	223.4	237.9	295.8	360.3	425.4



Butterfly Gandhimathi Appliances Ltd.

Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	4.1	48.4	75.4	98.4	117.5
Non-operating & EO items	2.0	7.7	5.5	-1.9	-1.7
Interest Expenses	23.8	16.8	11.0	12.0	13.5
Depreciation	13.9	15.6	17.0	17.8	18.7
Working Capital Change	-23.8	127.9	-28.7	-0.2	-8.6
Tax Paid	-2.8	-5.7	-22.8	-24.8	-29.6
OPERATING CASH FLOW (a)	17.3	210.6	57.4	101.3	109.8
Capex	-13.1	-12.7	-20.0	-25.0	-28.0
Free Cash Flow	4.3	197.9	37.4	76.3	81.8
Investments	0.0	0.0	0.0	0.0	0.0
Non-operating income	0.2	0.3	0.0	0.0	0.0
INVESTING CASH FLOW (b)	-12.9	-12.5	-20.0	-25.0	-28.0
Debt Issuance / (Repaid)	16.4	-142.9	4.0	5.0	-5.0
Interest Expenses	-23.4	-17.8	-11.0	-12.0	-13.5
FCFE	-2.7	37.1	30.4	69.3	63.3
Share Capital Issuance/ (Buy Back)	0.0	0.0	0.0	0.0	0.0
Dividend	0.0	-5.2	-10.7	-14.3	-17.9
Others	0.0	0.0	0.0	0.0	0.0
FINANCING CASH FLOW (c)	-7.0	-166.0	-17.7	-21.3	-36.4
NET CASH FLOW (a+b+c)	-2.5	32.2	19.7	55.0	45.4

One Year Price Chart



(Source: Company, HDFC sec)

Key Ratios

Particulars	FY20	FY21	FY22E	FY23E	FY24E
PROFITABILITY RATIOS (%)					
EBITDA Margin	6.0	9.2	9.3	10.0	10.4
EBIT Margin	4.2	7.6	7.9	8.7	9.2
APAT Margin	0.6	4.2	4.8	5.8	6.2
RoE	2.1	17.4	21.5	24.9	24.4
RoCE	8.3	21.8	31.4	33.4	33.2
Solvency Ratio (x)					
Debt/EBITDA	3.9	0.4	0.3	0.3	0.2
D/E	0.8	0.1	0.1	0.1	0.1
PER SHARE DATA (Rs)					
EPS	2.2	20.2	29.4	41.2	49.1
CEPS	10.0	28.9	38.9	51.1	59.6
Dividend	0.0	3.0	6.0	8.0	10.0
BVPS	107.8	125.3	148.7	181.9	221.0
Turnover Ratios (days)					
Debtor days	63	40	28	29	28
Inventory days	84	73	66	65	64
Creditors days	50	53	57	55	55
VALUATION					
P/E (x)	391.3	43.2	29.6	21.2	17.8
P/BV (x)	8.1	7.0	5.9	4.8	3.9
EV/EBITDA (x)	42.1	19.5	15.1	11.8	9.7
EV/Revenues (x)	2.5	1.8	1.4	1.2	1.0
Dividend Yield (%)	0.0	0.3	0.7	0.9	1.1
Dividend Payout (%)	0.0	14.8	20.4	19.4	20.3

(Source: Company, HDFC sec)



HDfC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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