

Butterfly Gandhimathi (BUTGAN)

₹ 268

Tepid topline growth...

- Revenues for Q2 grew 8.2% YoY to ₹ 217.3 crore. The tepid topline growth was probably on account of weak Onam sales due to floods in Kerala and shift of festival season to Q3FY19. On the segmental front, kitchen appliances grew 7% YoY to ₹ 175.1 crore whereas cooker/cookware segment grew robustly by 10% YoY to ₹ 33 crore
- Gross margins for the quarter fell 86 bps YoY to 39.4%. Employee expense increased 26% YoY to ₹ 19.3 crore. Lower other expense as a percentage to sales (down 155 bps YoY 22.7%) curtailed the decline in EBITDA margin. Subsequently, EBITDA margins declined 56 bps YoY to 7.8%. Absolute EBITDA came in flattish at ₹ 17.0 crore
- Higher finance cost (up 58% YoY to ₹ 5.6 crore) and lower other income (down 86% to 0.14 crore) further impacted the profitability. Hence, PAT for the quarter declined 45% YoY to ₹ 6.3 crore

Focus on improving working capital

BGAL is focusing on improving its working capital cycle with the aim of improving balance sheet liquidity and reduction of debt. In a bid to improve the working capital cycle the company is focusing on collection from debtors and also providing channel financing. Also, BGAL is planning to increase the supplier credit days and reduce inventory days through optimised sale planning. High interest cost owing to working capital intensive nature of the business is negatively impacting the profitability. Interest cost as percentage to EBITDA was at 52% in FY18, 42% in H1FY19. Optimised working capital cycle would aid in reducing the interest burden and would be the key monitorable in FY19, FY20.

Revenue growth to pick up in H2FY19

On the segmental front, kitchen appliances grew 7% YoY to ₹ 175 crore while cookers/cookware grew robustly by ~10% YoY to ₹ 33 crore in Q2FY19. The cooker segment has seen a revival owing to increased penetration of Pradhan Mantri Ujjwala Yojana (PMUY). However, BGAL's growth was impacted by weak Onam sales due to Kerala floods, a high base (Q2FY18 cooker/cookware segment grew 33%) and a shift in festive season to Q3FY19. After achievement of the initial PMUY target of 5 crore new LPG connections, the momentum in cooker sales is expected to continue driven by extension of the PMUY target to 8 crore with a budget outlay ₹ 12800 crore. BGAL has adequate manufacturing capacity with utilisation rate hovering around 50-55%. Hence, there are no major capex plans, going forward. We expect revenues to grow at a CAGR of 14% YoY in FY18-20E. Given the fixed cost nature of the business, we expect operating leverage benefits to kick in with EBITDA margins set to gradually inch up from 6.4% in FY18 to 7.6% in FY20E.

Improvement in margin profile, working capital – key monitorables...

For FY18, a stretched working capital cycle led to negative cash flow generation and increase in debt by 31% YoY to ₹ 188.5 core (D/E: 1.0x). Also, the margin profile of BGAL (EBITDA margin: 7-8%) continues to remain lower (owing to lower profitability of non-south markets) compared to its peers (EBITDA margin: 13-15%). We value the company on EV/sales and assign a multiple of 1.0x, with a revised target price of ₹ 285.

Rating matrix	
Rating	: Hold
Target	: ₹ 285
Target Period	: 12 months
Potential Upside	: 6%

What's changed?	
Target	Changed from ₹ 315 to ₹ 285
EPS FY19E	Changed from ₹ 5.5 to ₹ 5.1
EPS FY20E	Changed from ₹ 9.5 to ₹ 8.6
Rating	Unchanged

Quarterly performance					
	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	217.3	201.0	8.2	124.4	74.7
EBITDA	17.0	16.9	0.9	9.3	83.8
EBITDA (%)	7.8	8.4	-56 bps	7.4	39 bps
PAT	6.3	11.5	(44.9)	1.3	405.3

Key financials				
(₹ crore)	FY17	FY18E	FY19E	FY20E
Net Sales	405	541	624	708
EBITDA	(20)	35	45	54
Net Profit	(52)	5	9	15
EPS (₹)	(29.0)	2.7	5.1	8.6

Valuation summary				
	FY17	FY18E	FY19E	FY20E
P/E	NA	99.7	52.1	31.2
Mcap/Sales	1.2	0.9	0.8	0.7
EV to EBITDA	NA	18.6	14.3	11.9
Price to book	2.7	2.7	2.5	2.3
RONW (%)	-29.6	2.7	4.9	7.5
ROCE (%)	(9.9)	6.1	8.1	9.8

Stock data	
Particular	Amount
Market Capitalisation (₹ Crore)	479.2
Debt (FY18) (₹ Crore)	188.5
Cash (FY18) (₹ Crore)	22.7
EV (₹ Crore)	645.0
52 week H/L	661 /99
Equity Capital (₹ Crore)	17.9
Face Value (₹)	10

Price performance				
	1M	3M	6M	12M
Butterfly Gandhimathi	20.4	-24.5	-48.2	-20.9
TTK Prestige	17.9	8.2	11.7	6.3
Hawkins Cookers	9.1	3.7	2.7	14.0

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Variance analysis

	Q2FY19	Q2FY19E	Q2FY18	YoY (%)	Q1FY19	QoQ (%)	Comments
Revenue	217.3	N/A	201.0	8.2	124.4	74.7	Revenue growth was impacted by weak Onam sales due to Kerala floods
Raw Material Expense	131.7	N/A	120.1	9.7	73.0	80.5	
Employee Expenses	19.3	N/A	15.3	25.9	16.9	14.2	
Other Expenses	49.4	N/A	48.8	1.2	25.3	94.9	
EBITDA	17.0	N/A	16.9	0.9	9.3	83.8	
EBITDA Margin (%)	7.8	N/A	8.4	-56 bps	7.4	39 bps	
Depreciation	3.3	N/A	3.1	5.1	3.2	3.3	
Interest	5.9	N/A	3.7	58.1	5.2	11.6	Interest cost rises sharply by 58% YoY
PBT	8.0	N/A	11.1	-27.6	1.3	501.0	
Tax Outgo	1.7	N/A	-0.4	N/A	0.1	N/A	
PAT	6.3	N/A	11.5	-44.9	1.3	405.3	Subdued operational performance and increased interest cost negatively impacted PAT

Key Metrics

Segmental sales

Appliances	175.1	N/A	163.3	7.2	96.4	81.6
Cooker / Cookware	33.1	N/A	30.2	9.6	18.5	78.9
Others	8	N/A	7.5	6.7	8.2	-2.4
Total Branded Sales	216.2	N/A	201.0	7.6	123.1	75.6
Government Orders	0.0	N/A	0.0	N/A	0.0	N/A

Source: Company, ICICI Direct Research

Change in estimates

₹ (Crore)	FY18E		FY19E			FY20E		
	Actual	Old	New	% Change	Old	New	% Change	
Revenue	540.6	623.7	623.7	0.0	708.5	708.5	0.0	
EBITDA	34.7	43.8	45.1	2.9	54.1	54.1	0.0	
EBITDA Margin (%)	6.4	7.0	7.2	20 bps	7.6	7.6	0 bps	
PAT	4.8	9.9	9.2	-6.5	16.9	15.3	-9.3	
EPS (₹)	2.7	5.5	5.1	-6.2	9.5	8.6	-9.3	

Source: Company, ICICI Direct Research

Company Analysis

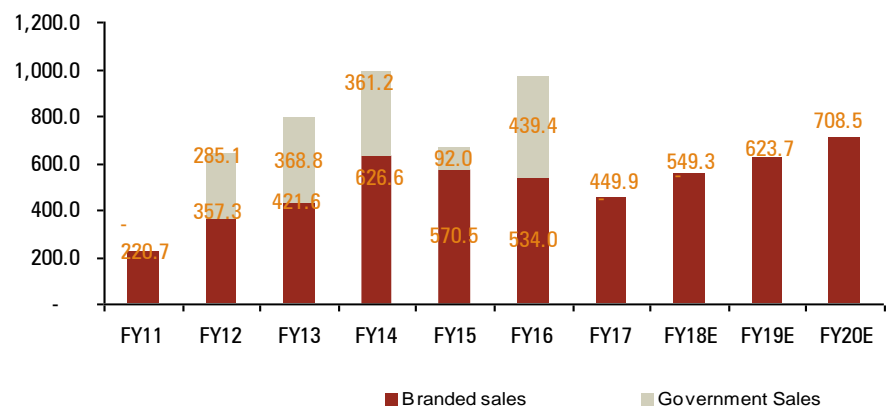
Revenue expected to grow at 14% CAGR in FY18-20E

FY17 was a challenging year for the company. The year witnessed revenue de-growth of 55% YoY to ₹ 402.3 crore on account of various variables: a) absence of government orders, b) demonetisation impacting consumer sentiments and c) drought conditions, Vardah cyclones denting sentiments in southern areas. We believe the worst is behind. BGAL is expected to post better growth rates ahead.

FY18 was a turnaround year for BGAL with a recovery across all parameters. Improvement in consumer sentiment and low base effect were key growth triggers. Revenues for FY18 grew significantly by 33.5% YoY to ₹ 540.6 crore. We expect revenues to grow at a strong trajectory on account of: a) uptick in consumer sentiments, b) foraying into LFS and online distribution channel to provide additional impetus, c) new LPG connections to be released by the government under PMUY scheme and d) increased penetration in non-south markets.

The company has already expanded its geographical reach and enhanced its product portfolio providing it the capability to compete with other brands on a pan-India level. BGAL spent ₹ 57 crore on advertisement & sales promotion expense (10% of gross sales) in FY18 and is expected to continue its brand promotion efforts in newer markets. The contribution from non-south markets should increase from current level of ~15%. The management aims to increase the non-south region share to ~25% over the next three years.

Exhibit 1: Revenue trajectory

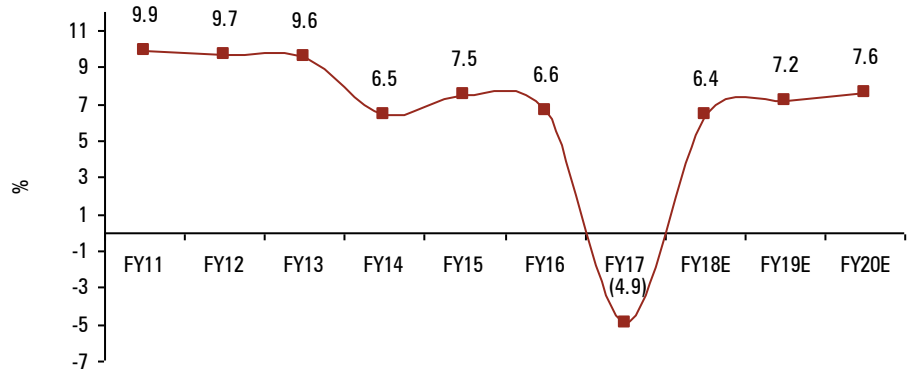


Source: Company, ICICI Direct Research

Better utilisation levels to gradually improve profitability

EBITDA for FY18 came in at ₹ 34.7 crore vs. EBITDA loss of ₹ 19.8 crore in FY17 with margins of 6.4%. Given the fixed cost nature of the business, we expect operating leverage benefit to kick in. In addition, efforts towards enhancing product mix would support profitability growth. Hence, we expect EBITDA to grow at a CAGR of 25% in FY18-20E.

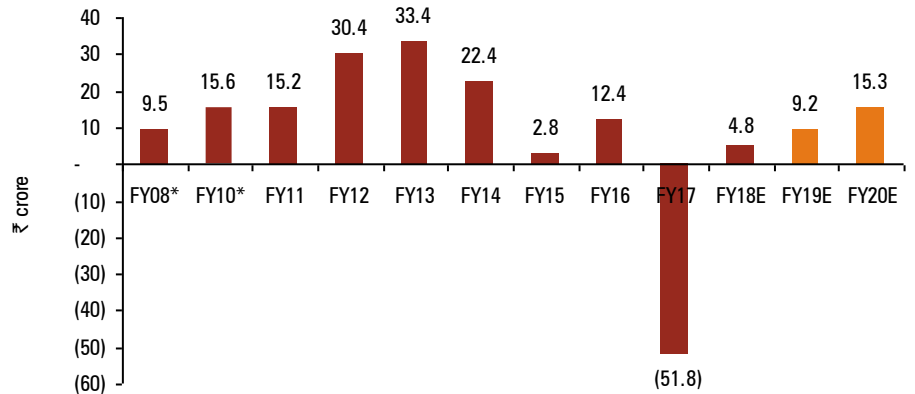
Exhibit 2: EBITDA margin trend



Source: Company, ICICI Direct Research

BGAL reported a significant recovery in profitability, with PAT coming in at ₹ 4.8 crore vs. net loss of ₹ 51.8 crore. With healthy revenue and EBITDA growth, we expect PAT to increase to ₹ 15.3 crore by FY20E.

Exhibit 3: PAT trend



Source: Company, ICICI Direct Research

Valuation

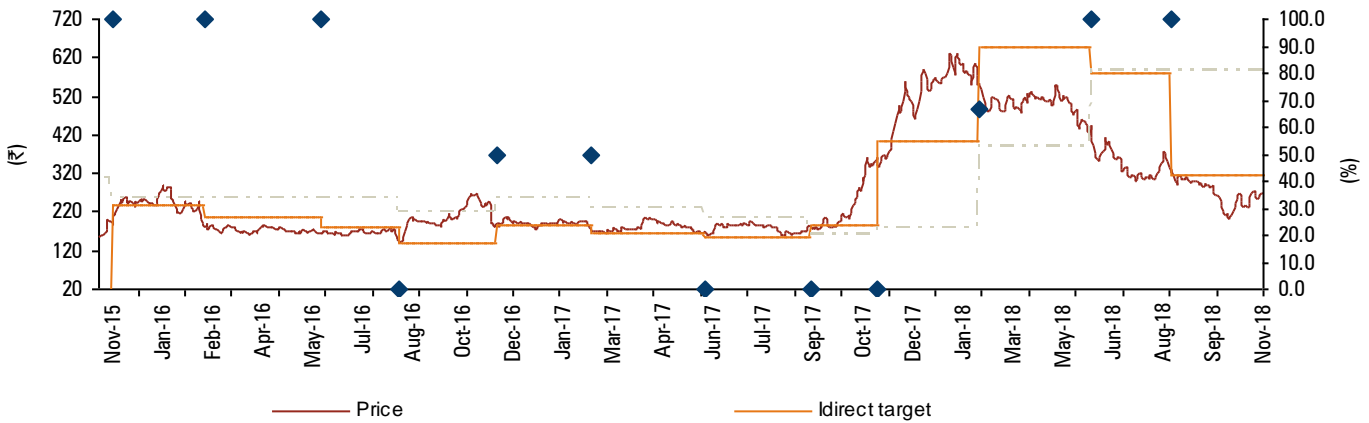
BGAL has an intensive working capital business model (~135 days) compared to other industry players. For FY18, stretched working capital cycle led to negative cash flow generation and increase in debt by 31% YoY to ₹ 188.5 core (D/E: 1.0x). Also, the margin profile for BGAL (EBITDA margin: 7-8%) continues to remain lower (owing to lower profitability of non-south markets) compared to its peers (EBITDA margin: 13-15%). We value the company on EV/sales and assign a multiple of 1.0x, with a revised target price of ₹ 285.

Exhibit 4: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	404.9	(55.1)	(29.0)	NA	NA	NA	-29.6	-9.9
FY18E	540.6	33.5	2.7	-109.3	99.7	18.6	2.7	6.1
FY19E	623.7	15.4	5.1	91.6	52.1	14.3	4.9	8.1
FY20E	708.5	13.6	8.6	66.6	31.2	11.9	7.5	9.8

Source: Company, ICICI Direct Research

Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICI Direct Research

Key events

Mar-10	On the back of expanded capacity, the company continued to report healthy revenue growth. Revenues grew 48.2% YoY to ₹ 49.2 crore in Q5FY10
Sep-10	rise, the operational performance was impacted owing to higher costs
Nov-10	Revenues grow 50% YoY to ₹ 79.8 crore. Albeit, operating margin declined 70 bps YoY to 11.1%
May-11	Revenues grow 48.7% YoY to ₹ 68.5 crore in Q1FY12
Jul-11	Bags first order from the Tamil Nadu government worth ₹ 285 crore
Dec-11	While revenue growth continues led by both branded and government sales growth, interest costs started to rise owing to increasing debt. This impacted the profitability of the company
Jun-13	Launches 50 new SKUs during the year thereby boosting sales growth
Oct-13	After several quarters of strong growth, revenues remain flat at ₹ 101 crore while operating margin dipped marginally (30 bps to 11%), PAT de-grew 23.3% YoY to ₹ 6.
May-14	Launches four new product categories, 60 new SKUs and expanded pan-India presence to all states
Aug-15	Bags order worth ₹ 90 crore from Pondicherry Cooperative Wholesale Stores for Butterfly brand TTWG & Mixer Grinder products
Nov-16	Launches 57 new SKUs in H1FY17
Mar-17	Launches 65 new SKUs in FY17

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	V.m.chettiar & Sons India Pvt. Ltd.	30-Sep-18	19.6%	3.51	0.00
2	LLM Appliances, Ltd.	30-Sep-18	17.0%	3.05	0.00
3	Seshadri (V M)	30-Sep-18	7.0%	1.25	0.00
4	Reliance Nippon Life Asset Management Limited	30-Sep-18	5.6%	1.00	0.00
5	Narayanan (Lakshmi V M)	30-Sep-18	5.6%	1.00	0.00
6	Sundaram Asset Management Company Limited	30-Sep-18	3.7%	0.67	0.01
7	Balasubramaniam (V M)	30-Sep-18	3.2%	0.57	0.00
8	Gangadharam (V M)	30-Sep-18	2.8%	0.49	0.00
9	Kumaresan (V M)	30-Sep-18	2.7%	0.49	0.00
10	IDFC Asset Management Company Private Limited	30-Sep-18	2.7%	0.48	0.17

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoter	65.1	65.1	65.1	65.1	65.0
FII	0.6	0.6	1.2	1.1	0.4
DII	13.8	13.6	12.1	6.8	12.8
Others	20.5	20.7	21.6	27.0	21.9

Recent Activity

BUY			SELL		
Investor name	Value (Mn)	Shares (Mn)	Investor name	Value (Mn)	Shares (Mn)
IDFC Asset Management Company Private Limited	0.56	0.17			
Sundaram Asset Management Company Limited	0.02	0.01			

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Total operating Income	404.9	540.6	623.7	708.5	
Growth (%)	-55.1	33.5	15.4	13.6	
Raw Material Expenses	247.3	315.3	362.8	412.1	
Employee Expenses	50.5	57.3	64.9	72.3	
Manufacturing & Other Expense	127.0	133.3	150.9	170.0	
Total Operating Expenditure	424.7	505.9	578.6	654.4	
EBITDA	-19.8	34.7	45.1	54.1	
Growth (%)	PL	LP	29.9	20.0	
Depreciation	11.6	12.4	13.1	13.8	
Interest	23.5	18.1	20.7	20.5	
Other Income	1.7	1.6	1.9	2.1	
PBT	-53.2	5.8	13.2	21.9	
Growth (%)	-377.3	-111.0	125.8	66.6	
Total Tax	-1.4	1.0	3.9	6.6	
PAT	-51.8	4.8	9.2	15.3	
Growth (%)	LP	PL	91.6	66.6	
EPS (₹)	-29.0	2.7	5.1	8.6	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Profit after tax	-51.8	4.8	9.2	15.3	
Add: Depreciation	11.6	12.4	13.1	13.8	
(Inc)/dec in Current Assets	186.9	-60.8	-35.4	-27.7	
Inc/(dec) in CL and Provisions	-52.5	-2.0	14.6	16.0	
Others	-	-	-	-	
CF from operating activities	94.3	-45.6	1.5	17.4	
(Inc)/dec in Investments	(0.1)	(0.0)	-	-	
(Inc)/dec in Fixed Assets	-9.3	-11.0	-11.4	-13.7	
(Inc)/dec in CWIP	-1.3	2.5	1.8	0.0	
Others	-4.0	0.0	0.0	0.0	
CF from investing activities	-14.7	-8.5	-9.6	-13.7	
Issue/(Buy back) of Equity	-	-	-	-	
Inc/(dec) in loan funds	-48.4	44.7	18.9	-2.1	
Others	-11.9	-0.4	7.1	0.0	
CF from financing activities	-60.3	44.3	25.9	-2.1	
Net Cash flow	19.2	-9.9	17.8	1.6	
Opening Cash	13.4	32.6	22.7	40.5	
Closing Cash	32.6	22.7	40.5	42.1	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Liabilities					
Equity Capital	17.9	17.9	17.9	17.9	
Reserve and Surplus	157.3	162.3	171.5	186.9	
Total Shareholders funds	175.2	180.2	189.4	204.8	
Total Debt	143.8	188.5	207.4	205.3	
Deferred Tax Liability	0.5	(0.1)	7.0	7.0	
Minority Interest / Others	-	-	-	-	
Total Liabilities	319.5	368.7	403.8	417.1	
Assets					
Gross Block	224.0	235.0	246.4	260.1	
Less: Acc Depreciation	56.7	69.1	82.2	95.9	
Net Block	167.3	165.9	164.2	164.2	
Capital WIP	4.2	1.8	-	-	
Total Fixed Assets	171.5	167.7	164.2	164.2	
Investments	0.1	0.1	0.1	0.1	
Inventory	108.8	125.1	141.8	159.2	
Debtors	90.8	130.6	146.9	165.0	
Loans and Advances	14.9	19.6	21.8	14.2	
Other Current Assets	-	-	-	-	
Cash	32.6	22.7	40.5	42.1	
Total Current Assets	247.0	298.0	351.1	380.4	
Current Liabilities	95.2	91.7	104.6	118.5	
Provisions	3.9	5.4	7.0	9.1	
Total Current Liabilities	99.1	97.1	111.7	127.7	
Net Current Assets	147.9	200.9	239.5	252.8	
Deferred Tax Assets	-	-	-	-	
Application of Funds	319.5	368.7	403.8	417.1	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Per share data (₹)					
EPS	-29.0	2.7	5.1	8.6	
Cash EPS	-22.5	9.6	12.5	16.3	
BV	98.0	100.8	105.9	114.5	
DPS	0.0	0.0	0.0	0.0	
Cash Per Share	18.2	12.7	22.7	23.6	
Operating Ratios					
EBITDA Margin (%)	-4.9	6.4	7.2	7.6	
PBT Margin (%)	-13.1	1.1	2.1	3.1	
PAT Margin (%)	-12.8	0.9	1.5	2.2	
Inventory days	98.1	84.5	83.0	82.0	
Debtor days	81.9	88.2	86.0	85.0	
Creditor days	53.8	37.9	40.0	42.0	
Return Ratios (%)					
RoE	-29.6	2.7	4.9	7.5	
RoCE	-9.9	6.1	8.1	9.8	
RoIC	-18.1	1.4	2.6	4.2	
Valuation Ratios (x)					
P/E	NA	99.7	52.1	31.2	
EV / EBITDA	NA	18.6	14.3	11.9	
EV / Net Sales	1.5	1.2	1.0	0.9	
Market Cap / Sales	1.2	0.9	0.8	0.7	
Price to Book Value	2.7	2.7	2.5	2.3	
Solvency Ratios					
Debt/EBITDA	NA	5.4	4.6	3.8	
Debt / Equity	0.8	1.0	1.1	1.0	
Current Ratio	2.5	3.1	3.1	3.0	
Quick Ratio	1.4	1.8	1.9	1.7	

Source: Company, ICICI Direct Research

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Hold: Up to +/-10%;

Sell: -10% or more;



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