

## Margin profile needs to improve...

Revenues for the quarter grew 22% YoY to ₹ 152 crore driven by strong growth across all segments. Kitchen appliances grew 16% YoY to ₹ 111 crore whereas cooker/cookware segment grew 40% to ₹ 26.0 crore. Gross margins improved marginally by 30 bps YoY to 41.7%. EBITDA grew 27% YoY to ₹ 11.7 crore as higher other expenses (up 31% YoY to ₹ 33 crore) curtailed EBITDA growth to a certain extent. EBITDA margins expanded 30 bps YoY to 7.7%. In spite of higher depreciation and interest expense, which were up 13% and 18% YoY to ₹ 5.9 crore and ₹ 3.8 crore respectively, PAT came in at ₹ 2.2 crore vs. ₹ 1.3 crore in Q1FY19.

## Margin uptick, working capital - Key parameters to watch

BGAL has a lower margin profile compared to peers and is striving to improve its margins that are in the 7-8% range compared to peers having margin in the range of 13-15%. Also, working capital management remains the key parameter to observe over the next two years as the company scales up its ambitious growth plans (management is aiming at ~20% revenue growth in FY20). The company is targeting improvement in debtors, inventory days to improve its working capital position. Interest cost as percentage of EBITDA still continues to be elevated at 51% for Q1FY20 (49% in FY19, 52% in FY18). Optimised working capital cycle will aid in reducing interest cost and would continue to be key monitorable over FY20E, FY21E.

## Focus on alternate channels to drive revenue growth

On the segmental front, kitchen appliances grew 16% YoY to ₹ 111 crore while cookers/cookware grew robustly by ~40% YoY to ₹ 26 crore in Q1FY20. LPG stove, pressure cooker, which contribute 33% and 13% of total revenues, respectively, are experiencing a demand revival owing to increased penetration of Pradhan Mantri Ujjwala Yojana (PMUY). Alternate channels like online, modern retail, CSD, corporate sales have shown good traction and grew ~ 70% in FY19. The company is concentrating on enhancing the share of alternate channels for accelerating revenue growth. We expect revenues to grow at a CAGR of 13% YoY in FY19-21E. We expect the EBITDA margin to be ~7-8% for FY20E, FY21E as the management focuses on achieving revenue growth by scaling up business from non-south geographies and maintaining its market share in southern India.

## Valuation & Outlook

The management is targeting a revenue growth of ~20% over the next few years with a gradual improvement in margin profile, which continues to remain lower at ~7.5% compared to its peers (EBITDA margin: 13-15%). The key monitorable would be sustaining the growth and managing the working capital. We value the company on EV/sales and assign a multiple of 0.5x with a **HOLD** rating with a target price of ₹ 165.



### Particulars

#### Stock Data

Particular	Amount
Market Capitalisation (₹ Crore)	268.2
Debt (FY19) (₹ Crore)	143.7
Cash (FY19) (₹ Crore)	9.8
EV (₹ Crore)	402.1
52 week H/L	372 /143
Equity Capital (₹ Crore)	17.9
Face Value (₹)	10

### Key Highlights

- Kitchen appliances grew 16% YoY while cooker/cookware segment grew 40% YoY
- Despite robust revenue growth, EBITDA margins improved marginally by 30 bps YoY to 7.7%
- Maintain HOLD with revised target price of ₹ 165

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### Key Financial Summary

(₹ Crore)	FY18	FY19A	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	540.6	652.0	743.1	835.5	13.2%
EBITDA	34.7	45.8	58.2	67.2	21.1%
PAT	4.8	9.6	16.0	21.2	48.9%
EPS (₹)	2.7	5.4	8.9	11.9	
P/E (x)	68.1	34.2	20.5	15.4	
EV/Sales (x)	0.8	0.6	0.5	0.5	
EV/EBITDA (x)	12.5	8.8	6.9	6.0	
RoCE (%)	6.1	9.9	12.4	13.6	
RoE (%)	2.7	5.1	7.8	9.4	

**Exhibit 1: Variance Analysis**

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Revenue	152.1	N/A	124.4	22.3	149.5	1.7	Revenue growth driven by 40% and 16% growth in cooker and kitchen appliance segments, respectively
Raw Material Expense	88.7	N/A	73.0	21.5	89.2	-0.5	
Employee Expenses	18.4	N/A	16.9	9.0	15.9	15.3	
Other Expenses	33.3	N/A	25.3	31.4	34.5	-3.6	
EBITDA	11.7	N/A	9.3	26.9	9.9	18.7	
EBITDA Margin (%)	7.7	N/A	7.4	29 bps	6.6	111 bps	EBITDA margins improved owing to strong growth in sales of retail channel
Depreciation	3.7	N/A	3.2	18.0	3.1	19.7	
Interest	5.9	N/A	5.2	13.5	6.0	0.0	
PBT	2.2	N/A	1.3	67.9	1.8	24.4	
Tax Outgo	0.1	N/A	0.1	N/A	0.7	N/A	
PAT	2.2	N/A	1.3	74.9	1.1	104.3	

**Key Metrics**

Segmental sales

Appliances	111.4	N/A	96.4	15.6	114.4	-2.6
Cooker / Cookware	26.0	N/A	18.5	40.5	22.0	18.2
Others	14.7	N/A	9.5	54.7	13.1	12.2
Total Branded Sales	152.1	N/A	124.4	22.3	149.5	1.7
Government Orders	0.0	N/A	0.0	N/A	0.0	N/A

Source: Company, ICICI Direct Research

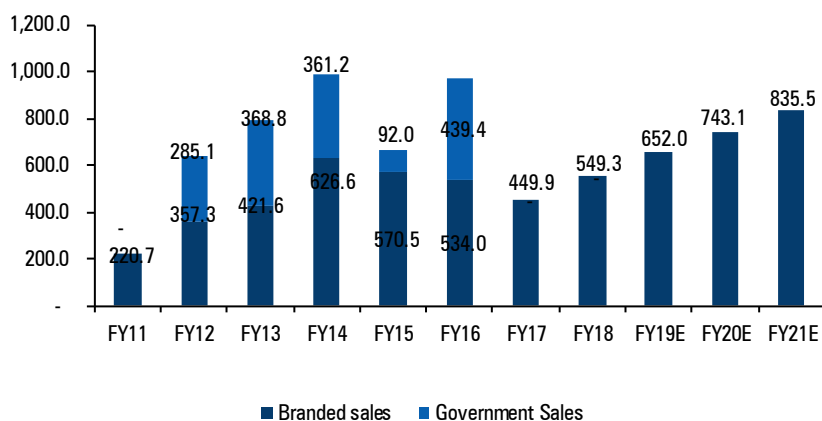
**Exhibit 2: Change in estimates**

	FY19E	FY20E			FY21E		
(₹ Crore)	Actual	Old	New	% Change	Old	New	% Change
Revenue	652.0	722.0	743.1	2.9	812.0	835.5	2.9
EBITDA	45.8	54.4	58.2	7.1	62.9	67.2	6.8
EBITDA Margin (%)	7.0	7.5	7.8	30 bps	7.7	8.0	30 bps
PAT	9.6	13.3	16.0	20.1	18.1	21.2	17.3
EPS (₹)	5.4	7.4	8.9	20.7	10.2	11.9	16.5

Source: Company, ICICI Direct Research

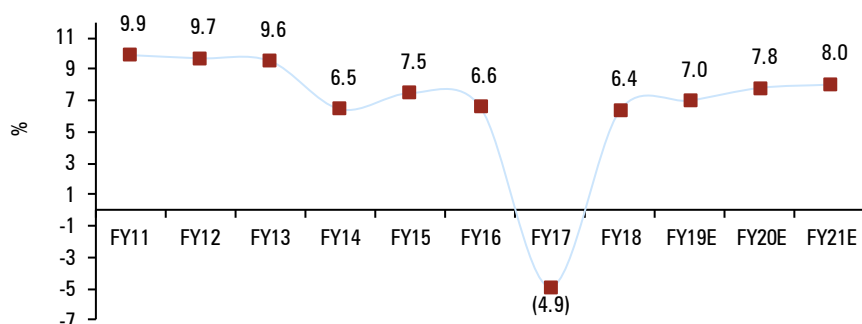
## Financial story in charts

Exhibit 3: Revenue trajectory



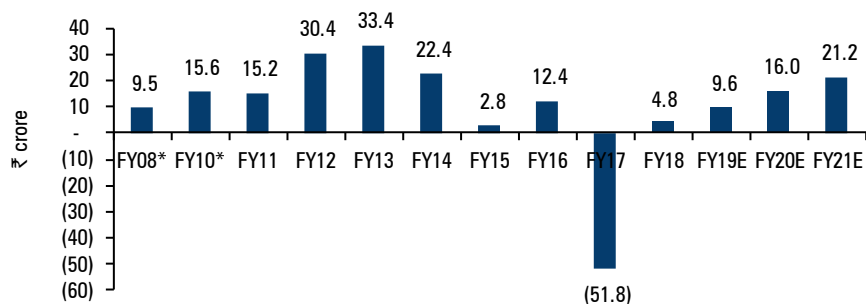
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 5: PAT trend



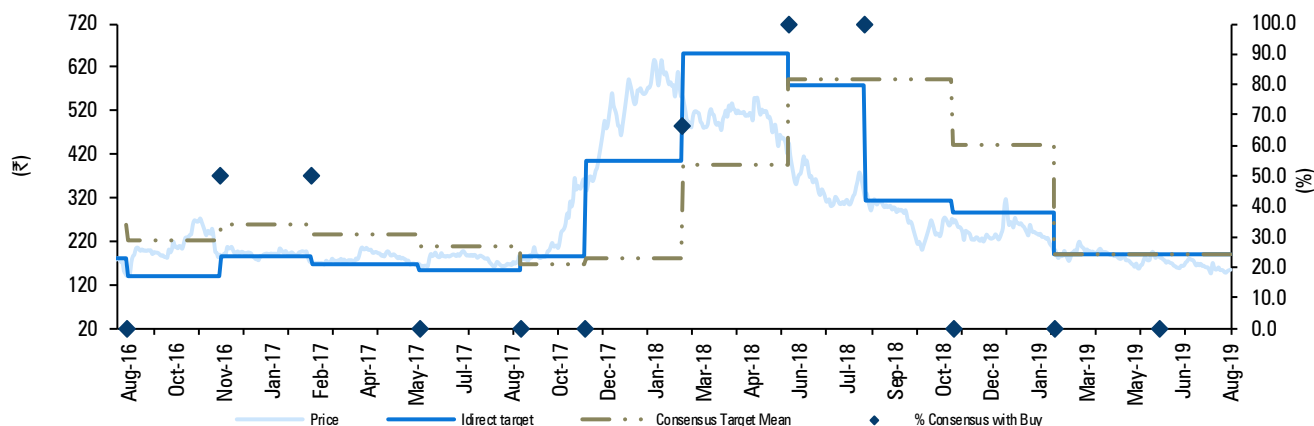
Source: Company, ICICI Direct Research

Exhibit 6: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	540.6	33.5	2.7	LP	68.1	12.5	2.7	6.1
FY19E	652.0	20.6	5.4	99.4	34.2	8.8	5.1	9.9
FY20E	743.1	14.0	8.9	66.7	20.5	6.9	7.8	12.4
FY21E	835.5	12.4	11.9	33.0	15.4	6.0	9.4	13.6

Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	V.m.chettiar & Sons India Pvt. Ltd.	30-Jun-19	19.6%	3.51	0.00
2	LLM Appliances, Ltd.	30-Jun-19	17.0%	3.05	0.00
3	Seshadri (V M)	30-Jun-19	7.0%	1.25	0.00
4	Narayanan (Lakshmi V M)	30-Jun-19	5.6%	1.00	0.00
5	Reliance Nippon Life Asset Management Limited	30-Jun-19	5.4%	0.96	-0.04
6	Sundaram Asset Management Company Limited	30-Jun-19	4.2%	0.75	-0.03
7	Balasubramaniam (V M)	30-Jun-19	3.2%	0.57	0.00
8	IDFC Asset Management Company Private Limited	30-Jun-19	2.8%	0.50	0.00
9	Gangadharam (V M)	30-Jun-19	2.8%	0.49	0.00
10	Kumaresan (V M)	30-Jun-19	2.7%	0.49	0.00

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Investor name	BUY		SELL	
	Value (Mn)	Shares (Mn)	Value (Mn)	Shares (Mn)
Khanna (Dolly)	0.02	0.01	Reliance Nippon Life Asset Management Limited	-0.09
			Sundaram Asset Management Company Limited	-0.06

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	65.1	65.0	65.0	65.0	65.0
FII	1.1	1.1	1.1	1.0	1.0
DII	6.8	12.8	13.0	13.4	13.3
Others	27.0	21.1	20.9	20.7	20.7

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
<b>Total operating Income</b>	<b>540.6</b>	<b>652.0</b>	<b>743.1</b>	<b>835.5</b>
Growth (%)	33.5	20.6	14.0	12.4
Raw Material Expenses	315.3	390.0	436.0	488.4
Employee Expenses	57.3	70.1	83.2	93.6
Manufacturing & Other Expense	133.3	146.1	165.7	186.3
Total Operating Expenditure	505.9	606.2	684.9	768.3
<b>EBITDA</b>	<b>34.7</b>	<b>45.8</b>	<b>58.2</b>	<b>67.2</b>
Growth (%)	LP	32.0	27.2	15.4
Depreciation	12.4	12.9	14.0	14.8
Interest	18.1	22.5	23.7	24.6
Other Income	1.6	2.0	2.2	2.5
PBT	5.8	12.4	22.8	30.3
Growth (%)	-111.0	112.9	84.0	33.0
Total Tax	1.0	2.8	6.8	9.1
<b>PAT</b>	<b>4.8</b>	<b>9.6</b>	<b>16.0</b>	<b>21.2</b>
Growth (%)	LP	99.4	66.7	33.0
<b>EPS (₹)</b>	<b>2.7</b>	<b>5.4</b>	<b>8.9</b>	<b>11.9</b>

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
<b>Liabilities</b>				
Equity Capital	17.9	17.9	17.9	17.9
Reserve and Surplus	162.3	171.5	187.5	208.7
Total Shareholders funds	180.2	189.4	205.4	226.6
Total Debt	188.5	143.7	150.9	158.5
Deferred Tax Liability	(0.4)	0.4	0.4	0.4
Minority Interest / Others	-	-	-	-
<b>Total Liabilities</b>	<b>368.3</b>	<b>333.6</b>	<b>356.7</b>	<b>385.5</b>
<b>Assets</b>				
Gross Block	235.0	249.2	263.3	279.4
Less: Acc Depreciation	69.1	82.0	96.0	110.8
Net Block	165.9	167.2	167.3	168.7
Capital WIP	1.8	6.5	-	-
Total Fixed Assets	167.7	173.7	167.3	168.7
Investments	0.1	0.2	0.2	0.2
Inventory	125.1	142.1	162.9	183.1
Debtors	130.6	117.1	132.3	148.8
Loans and Advances	20.0	22.6	22.3	22.6
Other Current Assets	-	-	-	-
Cash	22.7	9.8	16.4	23.8
Total Current Assets	298.4	291.6	333.9	378.3
Current Liabilities	91.7	123.2	136.3	150.7
Provisions	5.4	6.5	8.4	11.0
Total Current Liabilities	97.1	129.7	144.7	161.7
Net Current Assets	201.3	161.9	189.2	216.6
Deferred Tax Assets	(0.8)	(2.2)	-	-
<b>Application of Funds</b>	<b>368.3</b>	<b>333.6</b>	<b>356.7</b>	<b>385.5</b>

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after tax	4.8	9.6	16.0	21.2
Add: Depreciation	12.4	12.9	14.0	14.8
(Inc)/dec in Current Assets	-61.3	-6.0	-35.8	-37.0
Inc/(dec) in CL and Provisions	-2.0	32.6	15.0	16.9
Others	-	-	-	-
<b>CF from operating activities</b>	<b>-46.1</b>	<b>49.1</b>	<b>9.2</b>	<b>16.0</b>
(Inc)/dec in Investments	(0.0)	(0.1)	-	-
(Inc)/dec in Fixed Assets	-11.0	-14.2	-14.1	-16.1
(Inc)/dec in CWIP	2.5	-4.8	6.5	0.0
Others	0.8	1.5	-2.2	0.0
<b>CF from investing activities</b>	<b>-7.8</b>	<b>-17.6</b>	<b>-9.8</b>	<b>-16.1</b>
Issue/(Buy back) of Equity	-	-	-	-
Inc/(dec) in loan funds	44.7	-44.8	7.2	7.5
Others	-0.7	0.4	0.0	0.0
<b>CF from financing activities</b>	<b>44.0</b>	<b>-44.4</b>	<b>7.2</b>	<b>7.5</b>
Net Cash flow	-9.9	-12.9	6.5	7.4
Opening Cash	32.6	22.7	9.8	16.4
<b>Closing Cash</b>	<b>22.7</b>	<b>9.8</b>	<b>16.4</b>	<b>23.8</b>

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
<b>Per share data (₹)</b>				
EPS	2.7	5.4	8.9	11.9
Cash EPS	9.6	12.6	16.7	20.2
BV	100.8	105.9	114.9	126.8
DPS	0.0	0.0	0.0	0.0
Cash Per Share	12.7	5.5	9.2	13.3
<b>Operating Ratios</b>				
EBITDA Margin (%)	6.4	7.0	7.8	8.0
PBT Margin (%)	1.1	1.9	3.1	3.6
PAT Margin (%)	0.9	1.5	2.1	2.5
Inventory days	84.5	79.5	80.0	80.0
Debtor days	88.2	65.5	65.0	65.0
Creditor days	37.9	55.6	55.0	55.0
<b>Return Ratios (%)</b>				
RoE	2.7	5.1	7.8	9.4
RoCE	6.1	9.9	12.4	13.6
RoIC	1.4	3.0	4.7	5.9
<b>Valuation Ratios (x)</b>				
P/E	68.1	34.2	20.5	15.4
EV / EBITDA	12.5	8.8	6.9	6.0
EV / Net Sales	0.8	0.6	0.5	0.5
Market Cap / Sales	0.5	0.4	0.4	0.3
Price to Book Value	1.8	1.7	1.6	1.4
<b>Solvency Ratios</b>				
Debt/EBITDA	5.4	3.1	2.6	2.4
Debt / Equity	1.0	0.8	0.7	0.7
Current Ratio	3.1	2.2	2.3	2.3
Quick Ratio	1.8	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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Sell: <-15%



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