

# Butterfly Gandhimathi Appliances (BUTGAN)

CMP: ₹ 1390

Target: ₹ 1620 (17%)

Target Period: 12 months

BUY

February 24, 2022

## Stake sale to provide larger canvas for Butterfly brand

**About the stock:** Butterfly Gandhimathi (BGAL) is one of the leading manufacturers of kitchen & electrical appliances in India and sells its products branded as 'Butterfly'.

- The company is a market leader in India for SS LPG stoves & table top wet grinders and major supplier of mixer grinders & pressure cookers
- Over the last three years, BGAL has enhanced its focus on modern trade/online distribution channels to capture higher revenue growth

**Event:** Stake sale to Crompton Greaves Consumer Electricals (CGCEL).

- Butterfly Gandhimathi (BGAL) has approved sale of 55% stake held by promoter for a consideration of ₹ 1410 crore (including trademark cost of ₹ 30 crore) to Crompton Greaves Consumer (CGCEL). The deal values the company at ₹ 2526 crore (1.7x FY24E EV/sales, 25x FY24E earnings)
- CGCEL will also have to launch mandatory open offer to the public shareholders of Butterfly, for acquiring up to 26% stake in Butterfly at a price of ₹ 1,433.90 per equity share, aggregating up to ₹ 667 crore. The total acquisition cost (including open offer) would be up to ₹ 2,077 crore
- CGCEL will also acquire trademark rights for a consideration of ₹ 30.4 crore

**What should investors do?** Over the last three years, the stock price has appreciated at a CAGR of 75%.

- We maintain **BUY** recommendation on the stock

**Target Price and Valuation:** We value BGAL at ₹ 1620 i.e. 2x FY24E EV/sales.

**Key triggers for future price performance:**

- The acquisition would enable BGAL to access CGCEL's dealer network in new geographies (mostly north India), which will enable it to penetrate these markets faster and accelerate its revenue growth
- BGAL's appliances business is likely to benefit from CGCEL's pan-India presence in electrical goods stores
- BGAL has shown consistent improvement in financial performance parameters with working capital days, return ratios getting significantly enhanced in FY21. We expect it to maintain RoCE of ~30%+ in FY24E. We model revenue, earnings CAGR of 18%, 40%, respectively, in FY21-24E

**Alternate Stock Idea:** Besides BGAL, we also like TTK Prestige.

- TTK Prestige, over the years, has maintained its balance sheet strength with strong cash reserves (~₹ 500+ crore) and healthy RoIC of 30%+
- We have a BUY rating with a target price of ₹ 1270



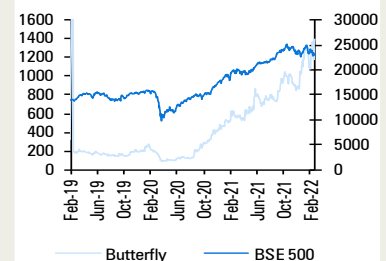
### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,498.0
Total Debt (FY21) (₹ crore)	13.3
Cash (FY21) (₹ crore)	7.3
EV (₹ crore)	2,504.0
52 Week H / L	1419 / 476
Equity Capital (₹ crore)	17.9
Face Value (₹)	10.0

### Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	64.8	64.8	64.8	64.8	64.8
FII	0.0	0.0	0.1	0.7	0.9
DII	9.2	7.6	8.7	9.1	9.5
Others	26.0	27.6	26.5	25.5	24.8

### Price Chart



### Recent event & key risks

- RM inflation impacts margins
- Key Risk:** (i) Inability to pass on higher RM costs (ii) Extended restrictions on trade can lower sales

### Research Analyst

Bharat Chhoda  
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa  
cheragh.sidhwa@icicisecurities.com

### Key Financial Summary

Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	652.0	678.7	869.6	-0.7	1,029.1	1,209.9	1,431.6	18.1
EBITDA	45.8	40.7	79.7	5.9	92.2	122.9	158.4	25.7
Adjusted PAT	9.6	4.0	36.2	23.9	44.4	73.0	98.7	39.8
P/E (x)	259.4	624.0	68.7		56.0	34.0	25.2	
EV/EBITDA (x)	57.2	64.8	30.9		27.0	20.2	15.5	
RoCE (%)	9.9	7.6	27.2		27.6	31.9	34.2	
RoE (%)	5.1	2.1	16.1		17.2	23.1	25.2	

Source: Company, ICICI Direct Research

## Key takeaways from CGCEL conference call

1. Post-acquisition of 55% stake, existing promoter's stake will reduce to 9% in Butterfly and they will be classified as public shareholder. The new management from CGCEL will take over key managerial positions in Butterfly
2. The industry size of small domestic appliances (such as LPG stove, mixer grinder, pressure cooker, wet grinder, etc) is pegged at ₹ 8000 crore. The segment is continuing to grow at 10-12% annually due to rising urbanisation and nuclear families
3. CGCEL is likely to utilise ~12 acre of land parcel in Tamil Nadu (acquired through current deal) to set up a new manufacturing unit in the near future
4. The 'Butterfly' trademark will remain either with CGCEL or with acquired entity. CGCEL would focus on expanding geographical presence of 'Butterfly' brand and also enhance the product portfolio over the medium term. The management is currently evaluating the capabilities of BGAL and would look at enhancing current capabilities and adding new capabilities if required
5. CGCEL expects to close the deal in FY22. Butterfly will remain a listed entity and the final call on de-listing will be taken by the board of directors of both the companies, going ahead

## Financial Summary

Exhibit 2: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
<b>Total operating income</b>	<b>869.6</b>	<b>1,029.1</b>	<b>1,209.9</b>	<b>1,431.6</b>	
Growth (%)	28.1	18.3	17.6	18.3	
Raw Material Expenses	506.1	613.8	699.8	823.6	
Employee Expenses	77.0	92.6	108.9	128.8	
Manufacturing & Other Expense	206.8	230.5	278.3	320.7	
Total Operating Expenditure	789.9	937.0	1,086.9	1,273.2	
<b>EBITDA</b>	<b>79.7</b>	<b>92.2</b>	<b>122.9</b>	<b>158.4</b>	
Growth (%)	129.7	15.6	33.4	28.9	
Depreciation	15.6	17.0	18.4	20.2	
Interest	17.4	13.3	8.8	8.4	
Other Income	1.6	1.5	1.8	2.1	
PBT	48.4	63.4	97.6	131.9	
Growth (%)	1,070.2	31.1	53.9	35.2	
Total Tax	12.2	19.0	24.6	33.2	
<b>PAT</b>	<b>36.2</b>	<b>44.4</b>	<b>73.0</b>	<b>98.7</b>	
Growth (%)	652.5	22.7	64.5	35.2	
<b>EPS (₹)</b>	<b>20.2</b>	<b>24.8</b>	<b>40.8</b>	<b>55.2</b>	

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Profit after tax	36.2	44.4	73.0	98.7	
Add: Depreciation	15.6	17.0	18.4	20.2	
(Inc)/dec in Current Assets	28.2	-95.2	-50.2	-78.9	
Inc/(dec) in CL and Provisions	112.7	52.0	9.0	45.5	
Others	-	-	-	-	
<b>CF from operating activities</b>	<b>192.6</b>	<b>18.2</b>	<b>50.1</b>	<b>85.6</b>	
(Inc)/dec in Investments	(0.1)	-	-	-	
(Inc)/dec in Fixed Assets	-10.0	-40.0	-25.0	-35.0	
(Inc)/dec in CWIP	0.2	-0.2	0.0	0.0	
Others	0.0	0.0	0.0	0.0	
<b>CF from investing activities</b>	<b>-9.9</b>	<b>-40.2</b>	<b>-25.0</b>	<b>-35.0</b>	
Issue/(Buy back) of Equity	-	-	-	-	
Inc/(dec) in loan funds	-147.6	1.7	-0.7	-0.6	
Others	-2.3	-9.8	-16.1	-21.7	
<b>CF from financing activities</b>	<b>-149.9</b>	<b>-8.0</b>	<b>-16.7</b>	<b>-22.4</b>	
Net Cash flow	32.9	-30.1	8.4	28.3	
Opening Cash	4.5	37.4	7.3	15.7	
<b>Closing Cash</b>	<b>37.4</b>	<b>7.3</b>	<b>15.7</b>	<b>44.0</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
<b>Liabilities</b>					
Equity Capital	17.9	17.9	17.9	17.9	
Reserve and Surplus	206.1	240.7	297.7	374.7	
Total Shareholders funds	224.0	258.6	315.6	392.6	
Total Debt	11.6	13.3	12.6	12.0	
Deferred Tax Liability	1.3	1.3	1.3	1.3	
Minority Interest / Others	-	-	-	-	
<b>Total Liabilities</b>	<b>236.8</b>	<b>273.2</b>	<b>329.4</b>	<b>405.8</b>	
<b>Assets</b>					
Gross Block	274.9	314.9	339.9	374.9	
Less: Acc Depreciation	111.5	128.5	146.8	167.1	
Net Block	163.4	186.4	193.1	207.8	
Capital WIP	2.8	3.0	3.0	3.0	
Total Fixed Assets	166.2	189.4	196.1	210.8	
Investments	0.3	0.3	0.3	0.3	
Inventory	177.9	239.7	258.5	305.9	
Debtors	74.4	112.8	139.2	164.7	
Loans and Advances	32.8	27.8	32.7	38.7	
Other Current Assets	-	-	-	-	
Cash	37.4	7.3	15.7	44.0	
Total Current Assets	322.4	387.5	446.2	553.3	
Current Liabilities	243.4	292.8	298.4	339.6	
Provisions	8.6	11.2	14.6	19.0	
Total Current Liabilities	252.0	304.1	313.0	358.6	
Net Current Assets	70.4	83.5	133.1	194.7	
Deferred Tax Assets	-	-	-	-	
<b>Application of Funds</b>	<b>236.8</b>	<b>273.2</b>	<b>329.4</b>	<b>405.8</b>	

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios					
(Year-end March)	FY21	FY22E	FY23E	FY24E	
<b>Per share data (₹)</b>					
EPS	20.2	24.8	40.8	55.2	
Cash EPS	28.9	34.3	51.1	66.5	
BV	125.3	144.6	176.5	219.6	
DPS	3.0	5.5	9.0	12.1	
Cash Per Share	20.9	4.1	8.8	24.6	
<b>Operating Ratios</b>					
EBITDA Margin (%)	9.2	9.0	10.2	11.1	
PBT Margin (%)	5.6	6.2	8.1	9.2	
PAT Margin (%)	4.2	4.3	6.0	6.9	
Inventory days	74.7	85.0	78.0	78.0	
Debtor days	31.2	40.0	42.0	42.0	
Creditor days	68.7	75.0	65.0	65.0	
<b>Return Ratios (%)</b>					
RoE	16.1	17.2	23.1	25.2	
RoCE	27.2	27.6	31.9	34.2	
<b>Valuation Ratios (x)</b>					
P/E	68.7	56.0	34.0	25.2	
EV / EBITDA	30.9	27.0	20.2	15.5	
EV / Net Sales	2.8	2.4	2.1	1.7	
Market Cap / Sales	2.9	2.4	2.1	1.7	
Price to Book Value	11.1	9.6	7.9	6.3	
<b>Solvency Ratios</b>					
Debt/EBITDA	0.1	0.1	0.1	0.1	
Debt / Equity	0.1	0.1	0.0	0.0	
Current Ratio	1.3	1.3	1.4	1.5	
Quick Ratio	0.6	0.5	0.6	0.7	

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

## ANALYST CERTIFICATION

I/We, Bharat Chhoda, MBA, Cheragh Sidhwa MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH00000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc. as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.