

# Butterfly Gandhimathi Appliances (BUTGAN)

CMP: ₹ 1340

Target: ₹ 1620 (21%)

Target Period: 12 months

BUY

February 15, 2022

## Operating leverage to aid margin improvement...

**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

**Q3FY22 Results:** BGAL reported subdued revenue growth on a high base with raw material inflation leading to pressure on gross margins.

- Revenue de-grew 13% YoY to ₹ 258 crore on a significantly high base
- Gross margins declined 189 bps YoY to 39.8% on account of higher raw material cost. Higher employee cost (up 250 bps YoY) led to EBITDA margin decline of 380 bps YoY to 8.2%
- EBITDA de-grew 41% YoY to ₹ 21.2 crore. Consequently, net profit declined 51% YoY to ₹ 9.1 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 company is planning a capex of ₹ 30 crore to enhance the plant capacity. The new capex would enable BGAL to have a peak revenue potential of ~ ₹ 1500 crore over the next two years
- Over the next four to five years the company is targeting revenue of ~₹ 2000 crore with early double digit margins
- 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 FY23E
- Expect sustained revenue growth and improved margin, going ahead. 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



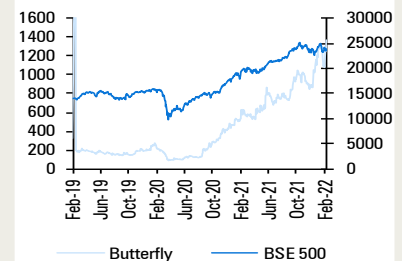
### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,401.0
Total Debt (FY21) (₹ crore)	13.3
Cash (FY21) (₹ crore)	7.3
EV (₹ crore)	2,407.0
52 Week H / L	1399 /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

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### 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)	250.1	601.6	66.3		54.0	32.8	24.3	
EV/EBITDA (x)	55.2	62.6	29.7		26.1	19.5	14.9	
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 of recent quarter

- Revenues de-grew in Q3FY22 due to shift of festival season sale in the previous quarter of Q2FY22. Due to the preponing of festive season this year sales got preponed to Q2FY22, which resulted in lower revenue in Q3FY22. Revenue growth was at 21.5% for nine months ending December 2021 vs FY21 for the same period
- Gross margins were under pressure during the quarter owing to high input cost, which the management has not fully passed on to customers. The company is expected to take a hike of mid-single digits in Q4FY22 to offset the input cost inflation and expects gross margins to gradually move up from Q3FY22 levels
- On the working capital front, net working capital days have increased from 48 days in 9MFY21 to 56 days in 9M FY22. The increase is mainly due to higher inventory days, which has increased owing to lower than expected sales in Q3FY22
- The management indicated that exports have large potential for the company and BGAL is engaging with ~15 distributors for countries where there is large Indian diaspora
- The company continues to focus on expanding its geographical presence in India. It is gradually increasing its presence and entering one or two states annually.
- BGAL currently manufactures around 85% of the products in-house, while 15% are outsourced. Over the next three years the company expects to increase outsourcing to ~ 30%
- On the margin front, the management indicated that it is targeting a margin of ~ 9% in FY22 and an early double digit margin in FY23
- The management indicated that e-commerce contributed around 30-40% of its revenues and it was growing more than peers in the e-commerce business. BGAL sells its products directly to large e-commerce websites
- The company is planning to launch new categories for both online and offline segments in the next few quarters

## Financial Summary

Exhibit 1: 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 2: 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 3: 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 4: 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	66.3	54.0	32.8	24.3	
EV / EBITDA	29.7	26.1	19.5	14.9	
EV / Net Sales	2.7	2.3	2.0	1.7	
Market Cap / Sales	2.8	2.3	2.0	1.7	
Price to Book Value	10.7	9.3	7.6	6.1	
<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

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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