

## Q4 performance dampens FY20 revenue growth...

Q4FY20 has been characterised by demand disruption in second half of March due to national lockdown announced due to spread of Covid-19. Butterfly Gandhimathi (BGAL) reported weak Q4FY20 results, with revenues down 26% YoY to ₹ 110.6 crore (as per management, BGAL lost revenue worth ₹ 40 crore due to Covid-19 disruptions). Kitchen appliances revenues declined 27% YoY to ₹ 83 crore while cooker/cookware revenues declined 6% to ₹ 21 crore. Gross margins improved 397 bps YoY to 44.3% owing to a favourable product mix and benign RM prices. However, given the fixed cost nature of the business (negative operating leverage), the company reported EBITDA loss of ₹ 4.5 crore (vs. EBITDA profit of ₹ 9.9 crore in Q4FY19). Consequently, BGAL reported a net loss of ₹ 7.7 crore.

### Focusing on cost reduction to lower impact of sales disruption

For 9MFY20, revenues grew ~13% but sales disruption due to Covid-19 in Q4FY20 led the company to report only 4% growth in FY20 to ₹ 678 crore. Q1FY21 is expected to see a significant fall in revenue due to the lockdown impacting first half of the quarter. To mitigate the impact, BGAL is mulling aggressively rationalising fixed overheads from current run rate of ₹ 10.0 crore/month to ₹ 8.0 crore/month (~20% cut). Also, the company is planning to reduce marketing spends that were at ₹ 65 crore in FY20 (10% of revenue). The working capital cycle of the company is likely to be stretched in FY21E with higher inventory/debtors levels owing to higher inventory in channels and probability of delay in receiving payments from channel partners due to sales disruption. BGAL is planning to take on additional debt of ~₹ 20-25 crore for short-term purpose to support its channel partners and expects the debt to revert to FY20 level by the end of FY21. However, we have factored in a marginally higher debt in FY21E compared to FY20 level.

### Valuation & Outlook

The performance during the festive period would be critical for revenues to gain momentum. The management has been focusing on increasing the share of non-traditional channels like e-commerce and large format stores. Non-traditional channels (e-commerce, LFS) continued to outpace traditional channels, with robust revenue growth of 83% YoY to ₹ 220.0 crore (32% of sales) in FY20. Revenues from the e-commerce space were at ₹ 145.0 in FY20 (vs. ₹ 45.0 crore in FY19). We model revenue de-growth of 18% in FY21 and growth of 22% in FY22. We expect a gradual improvement in margin profile and expect EBITDA margins to recover to 7.0% in FY22. However, this continues to be lower compared to its peers (EBITDA margin: 13-15%). The key monitorable would be revenue recovery, sustaining the growth and managing the working capital. We value the company on EV/sales and assign a multiple of 0.5x. We maintain **HOLD** rating with a revised target price of ₹ 130 (previous target price: ₹ 165).

### Key Financial Summary

| (₹Crore)      | FY19  | FY20A | FY21E | FY22E | CAGR (FY20-22E) |
|---------------|-------|-------|-------|-------|-----------------|
| Net Sales     | 652.0 | 678.7 | 559.4 | 681.2 | 0.2%            |
| EBITDA        | 45.8  | 40.7  | 32.5  | 47.9  | 8.4%            |
| PAT           | 9.6   | 4.0   | (9.1) | 9.2   |                 |
| EPS (₹)       | 5.4   | 2.2   | (5.1) | 5.2   |                 |
| P/E (x)       | 22.8  | 54.8  | -     | 23.7  |                 |
| EV/Sales (x)  | 0.5   | 0.5   | 0.7   | 0.5   |                 |
| EV/EBITDA (x) | 7.7   | 9.1   | 11.7  | 7.4   |                 |
| RoCE (%)      | 9.9   | 7.6   | 5.2   | 9.9   |                 |
| RoE (%)       | 5.1   | 2.1   | -5.0  | 4.8   |                 |

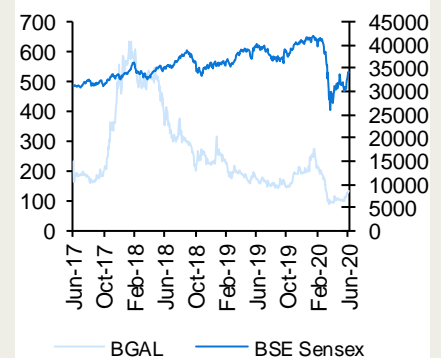
Source: ICICI Direct Research, Company



### Particulars

| Particular                     | Amount   |
|--------------------------------|----------|
| Market Capitalisation (₹Crore) | 218.1    |
| Debt (FY 20) (₹Crore)          | 159.2    |
| Cash (FY 20) (₹Crore)          | 4.5      |
| EV (₹Crore)                    | 372.8    |
| 52 week H/L                    | 285 / 85 |
| Equity Capital (₹Crore)        | 17.9     |
| Face Value (₹)                 | 10       |

### Price Chart



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## Key conference call takeaways

- Owing to Covid-19 disruptions, the company lost sales worth ₹ 40.0 crore in Q4FY20. Adjusting for the same, growth would have remained flattish YoY
- In the worst case scenario, the company expects revenues to de-grow by 20-25% in FY21E and has aimed to achieve break-even on the PBT levels
- The company is mulling aggressively rationalise fixed overheads from current run rate of ₹ 10.0 crore/month to ₹ 8.0 crore/month (~20% decline). Gross margins are expected to remain range bound in FY21E
- Advertisement and promotional expenditure were at ₹ 65.0 crore (10% of revenues) for FY20. The company is planning to reduce marketing expense by initially reducing expense on promotional scheme for dealers/distributors.
- Non-trade channels (e-commerce, LFS) continued to outpace traditional channels, with robust revenue growth of 83% YoY to ₹ 220.0 crore (32% of sales) in FY20. Revenues from the e-commerce space were at ₹ 145.0 in FY20 (vs. ₹ 45.0 crore in FY19)
- Overall revenues in FY20 grew 4.1% YoY to ₹ 678.7 crore. Retail channel sales (~90% of sales) reported healthy growth of 17% YoY. However, revenues from oil marketing channel sales (~10% of sales) declined 44% YoY
- On the category front, retail sales from mixer grinder, gas stoves and cookers grew 12%, 40%, 30% YoY, respectively, in FY20
- Currently, the company has 90 days of Inventory on the books while inventory in trade channel is around 30 days
- Total 80% of finished goods sold are manufactured in-house while the rest are sourced from China and India. The company is looking to completely shift its sourcing requirements to India
- Non-south markets have been growing at a swift pace over the last three years (50-55% annual growth). The contribution of non-south markets is now at 23% (up 400 bps YoY) as on FY20

## Financial summary

### Exhibit 1: Profit & Loss Statement

| (Year-end March)               | FY19         | FY20A        | FY21E        | FY22E        |
|--------------------------------|--------------|--------------|--------------|--------------|
| <b>Total operating income</b>  | <b>652.0</b> | <b>678.7</b> | <b>559.4</b> | <b>681.2</b> |
| Growth (%)                     | 20.6         | 4.1          | -17.6        | 21.8         |
| Raw Material Expenses          | 390.0        | 390.2        | 327.2        | 394.9        |
| Employee Expenses              | 70.1         | 78.9         | 69.9         | 80.4         |
| Manufacturing & Other Expenses | 146.1        | 168.9        | 129.8        | 158.0        |
| Total Operating Expenditure    | 606.2        | 638.0        | 526.9        | 633.3        |
| <b>EBITDA</b>                  | <b>45.8</b>  | <b>40.7</b>  | <b>32.5</b>  | <b>47.9</b>  |
| Growth (%)                     | 32.0         | -11.0        | -20.1        | 47.2         |
| Depreciation                   | 12.9         | 13.9         | 14.1         | 14.6         |
| Interest                       | 22.5         | 24.1         | 29.2         | 23.0         |
| Other Income                   | 2.0          | 1.5          | 1.7          | 2.0          |
| PBT                            | 12.4         | 4.1          | -9.1         | 12.3         |
| Growth (%)                     | 112.9        | -66.7        | PL           | LP           |
| Total Tax                      | 2.8          | 0.1          | 0.0          | 3.1          |
| <b>PAT</b>                     | <b>9.6</b>   | <b>4.0</b>   | <b>-9.1</b>  | <b>9.2</b>   |
| Growth (%)                     | 99.4         | -58.4        | PL           | LP           |
| <b>EPS (₹)</b>                 | <b>5.4</b>   | <b>2.2</b>   | <b>-5.1</b>  | <b>5.2</b>   |

Source: Company, ICICI Direct Research

### Exhibit 2: Cash Flow Statement

| (Year-end March)                    | FY19         | FY20A        | FY21E        | FY22E        |
|-------------------------------------|--------------|--------------|--------------|--------------|
| Profit after tax                    | 9.6          | 4.0          | -9.1         | 9.2          |
| Add: Depreciation                   | 12.9         | 13.9         | 14.1         | 14.6         |
| (Inc)/dec in Current Assets         | -6.0         | -31.5        | 10.0         | -2.5         |
| Inc/(dec) in CL and Provision       | 32.6         | 9.6          | -9.4         | 17.0         |
| Others                              | -            | -            | -            | -            |
| <b>CF from operating activities</b> | <b>49.1</b>  | <b>-4.0</b>  | <b>5.6</b>   | <b>38.3</b>  |
| (Inc)/dec in Investments            | (0.1)        | 0.0          | -            | -            |
| (Inc)/dec in Fixed Assets           | -14.2        | -15.7        | -12.0        | -15.0        |
| (Inc)/dec in CWIP                   | -4.8         | 3.6          | 0.0          | 0.0          |
| Others                              | 1.5          | -2.2         | 0.0          | 0.0          |
| <b>CF from investing activities</b> | <b>-17.6</b> | <b>-14.3</b> | <b>-12.0</b> | <b>-15.0</b> |
| Issue/(Buy back) of Equity          | -            | -            | -            | -            |
| Inc/(dec) in loan funds             | -44.8        | 15.4         | 12.7         | -27.9        |
| Others                              | 0.4          | -2.4         | 0.0          | 0.0          |
| <b>CF from financing activities</b> | <b>-44.4</b> | <b>13.0</b>  | <b>12.7</b>  | <b>-27.9</b> |
| Net Cash flow                       | -12.9        | -5.3         | 6.2          | -4.6         |
| Opening Cash                        | 22.7         | 9.8          | 4.5          | 10.7         |
| <b>Closing Cash</b>                 | <b>9.8</b>   | <b>4.5</b>   | <b>10.7</b>  | <b>6.1</b>   |

Source: Company, ICICI Direct Research

### Exhibit 3: Balance Sheet

| (Year-end March)            | FY19         | FY20A        | FY21E        | FY22E        |
|-----------------------------|--------------|--------------|--------------|--------------|
| <b>Liabilities</b>          |              |              |              |              |
| Equity Capital              | 17.9         | 17.9         | 17.9         | 17.9         |
| Reserve and Surplus         | 171.5        | 174.8        | 165.7        | 174.9        |
| Total Shareholders funds    | 189.4        | 192.7        | 183.6        | 192.8        |
| Total Debt                  | 143.7        | 159.2        | 171.9        | 143.9        |
| Deferred Tax Liability      | 0.4          | (1.3)        | (1.3)        | (1.3)        |
| Minority Interest / Others  | -            | -            | -            | -            |
| <b>Total Liabilities</b>    | <b>333.6</b> | <b>350.5</b> | <b>354.1</b> | <b>335.4</b> |
| <b>Assets</b>               |              |              |              |              |
| Gross Block                 | 249.2        | 264.9        | 276.9        | 291.9        |
| Less: Acc Depreciation      | 82.0         | 95.9         | 110.1        | 124.7        |
| Net Block                   | 167.2        | 168.9        | 166.8        | 167.2        |
| Capital WIP                 | 6.5          | 3.0          | 3.0          | 3.0          |
| Total Fixed Assets          | 173.7        | 171.9        | 169.8        | 170.2        |
| Investments                 | 0.2          | 0.2          | 0.2          | 0.2          |
| Inventory                   | 142.1        | 170.1        | 168.6        | 166.1        |
| Debtors                     | 117.1        | 116.9        | 119.6        | 121.3        |
| Loans and Advances          | 22.6         | 26.2         | 15.1         | 18.4         |
| Other Current Assets        | -            | -            | -            | -            |
| Cash                        | 9.8          | 4.5          | 10.7         | 6.1          |
| Total Current Assets        | 291.6        | 317.8        | 314.0        | 311.9        |
| Current Liabilities         | 123.2        | 130.8        | 118.8        | 132.4        |
| Provisions                  | 6.5          | 8.6          | 11.1         | 14.5         |
| Total Current Liabilities   | 129.7        | 139.3        | 129.9        | 146.9        |
| Net Current Assets          | 161.9        | 178.4        | 184.1        | 165.0        |
| Deferred Tax Assets         | (2.2)        | -            | -            | -            |
| <b>Application of Funds</b> | <b>333.6</b> | <b>350.5</b> | <b>354.1</b> | <b>335.4</b> |

Source: Company, ICICI Direct Research

### Exhibit 4: Key Ratios

| (Year-end March)            | FY19  | FY20A | FY21E | FY22E |
|-----------------------------|-------|-------|-------|-------|
| <b>Per share data (₹)</b>   |       |       |       |       |
| EPS                         | 5.4   | 2.2   | -5.1  | 5.2   |
| Cash EPS                    | 12.6  | 10.0  | 2.8   | 13.3  |
| BV                          | 105.9 | 107.8 | 102.7 | 107.8 |
| DPS                         | 0.0   | 0.0   | 0.0   | 0.0   |
| Cash Per Share              | 5.5   | 2.5   | 6.0   | 3.4   |
| <b>Operating Ratios</b>     |       |       |       |       |
| EBITDA Margin (%)           | 7.0   | 6.0   | 5.8   | 7.0   |
| PBT Margin (%)              | 1.9   | 0.6   | -1.6  | 1.8   |
| PAT Margin (%)              | 1.5   | 0.6   | -1.6  | 1.4   |
| Inventory days              | 79.5  | 91.5  | 110.0 | 89.0  |
| Debtor days                 | 65.5  | 62.9  | 78.0  | 65.0  |
| Creditor days               | 55.6  | 57.8  | 62.0  | 58.0  |
| <b>Return Ratios (%)</b>    |       |       |       |       |
| RoE                         | 5.1   | 2.1   | -5.0  | 4.8   |
| RoCE                        | 9.9   | 7.6   | 5.2   | 9.9   |
| <b>Valuation Ratios (x)</b> |       |       |       |       |
| P/E                         | 22.8  | 54.8  | -     | 23.7  |
| EV / EBITDA                 | 7.7   | 9.1   | 11.7  | 7.4   |
| EV / Net Sales              | 0.5   | 0.5   | 0.7   | 0.5   |
| Market Cap / Sales          | 0.3   | 0.3   | 0.4   | 0.3   |
| Price to Book Value         | 1.2   | 1.1   | 1.2   | 1.1   |
| <b>Solvency Ratios</b>      |       |       |       |       |
| Debt/EBITDA                 | 3.1   | 3.9   | 5.3   | 3.0   |
| Debt / Equity               | 0.8   | 0.8   | 0.9   | 0.7   |
| Current Ratio               | 2.2   | 2.3   | 2.4   | 2.1   |
| Quick Ratio                 | 1.2   | 1.1   | 1.1   | 1.0   |

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: <-15%



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