Butterfly Gandhimathi Appliances Limited

January 03, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Term Loan	25.00	[ICRA]BBB(Stable); Assigned
Total	**25.00**	

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB (pronounced ICRA triple B) to the Rs. 25.0 crore term loans of Butterfly Gandhimathi Appliances Limited[1] ('BGAL' / 'the company'). The outlook on long-term rating is 'Stable'.

Rationale

The rating favorably factors BGAL's established presence in the domestic kitchen appliances segment and strong market share in South India aided by its healthy brand recall and wide distribution network. The rating is however constrained by the deterioration in BGAL's financial profile in FY2017 and H1FY2018 affected by lower sales, and higher operating and interest costs. Nevertheless, BGAL's liquidity position is comfortable with average working capital utilization of 52% on sanctioned bank lines in the last one year and cash balance of Rs. 17.3 crore as of September 2017. The rating also considers the geographical concentration related risks, high competition prevalent in the cookware and kitchen appliances industry leading to pricing pressures, and vulnerability of margins to volatility in raw material prices.

Outlook: Stable

ICRA believes BGAL to improve its financial profile by improvement in revenues and profitability. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability is witnessed despite intense competition in the domestic kitchen appliances industry. The outlook may be revised to 'Negative' if the company reports lower than expected improvement in operational performance resulting in stretch in working capital cycle and weakening liquidity.

Key rating drivers

Credit strengths

Established presence in South India with strong brand repute – BGAL has been in the kitchen appliances segment for over three decades, wherein the company manufactures and sells LPG (liquefied petroleum gas) stoves, mixers, pressure cookers etc under the brand 'Butterfly'. Apart from its established market presence in the retail segment, BGAL also managed to win and execute government deals in the past. BGAL executed large orders from Tamil Nadu Civil Supplies Corporation (TNCSC) and has also been a beneficiary towards supplying LPG stoves as part of the Pradan Mantri Ujjawal Yojana Scheme (PMUY). BGAL has also tied up with modern retail outlets providing alternative channel of revenues.

[1] *100 lakh = 1 crore = 10 million*

Favourable demand outlook under PMUY scheme – Introduced in May 2016 by the Government of India, PMUY scheme aims to provide free LPG connections to over 5 crore families by end of the year 2019. For FY2017, around 3.32 crore domestic LPG connections were released by the government of which 2.0 crore LPG connections released was on account of PMUY scheme (60% of total new connections). BGAL has been one of the key suppliers of LPG stoves under the scheme and will remain benefited from the new connections to be provided, thus providing visibility to revenues.

Credit weaknesses

Deterioration in financial profile during FY2017 - BGAL's financial risk profile witnessed sharp deterioration in FY2017 marked by lower sales and sharp net losses. BGAL reported revenue de-growth of 55% YoY in FY2017 largely due to the absence of orders from TNCSC, which was completed in FY2016. Excluding the TNCSC orders, the sales de-growth was ~16% attributed to factors like slower off-take of PMUY orders, fall in retail demand due to currency demonetisation. Fall in revenues coupled with elevated operating costs as spend on brand promotions remained high, resulted in operational loss during FY2017. In H1FY2018, the revenue and margin performance has been better although affected by the impact of Goods and Services Tax (GST) rollout. Performance in next one year is likely to improve with steady sales expected from PMUY scheme, recovery in retail demand and BGAL's entry into modern retail formats. Amidst the scale benefits, control over operating costs will be critical for expansion in profit margins and improvement in debt coverage metrics.

Geographical concentration risk, with sales largely concentrated in South India - BGAL derived 84% of its revenues from South India in H1FY2018 leading to geography related concentration risks. With the penetration efforts into non-south market coupled with foray into modern retail format stores across India, these risks are likely to be mitigated over the medium term.

High competitive intensity - The domestic kitchen appliances industry is competitive; BGAL faces intense competition from other branded and unbranded players across product categories, which pose pressure on pricing and margins.

Vulnerability of margins to volatile raw material prices – BGAL's operating margins is inherently thin mainly due to pricing pressures from peers; this coupled with movement in raw material prices and higher spends on advertisements and brand promotions results in lower profit margins. Going forward, margin improvement will remain contingent on the stable scale growth, and control over operating costs amidst volatile price movement of raw materials (aluminium, steel etc).

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

Incorporated in 1986, Butterfly Gandhimathi Appliances Limited (BGAL) is primarily engaged in manufacturing, marketing and distribution of kitchen appliances and products in the domestic market. BGAL was initially promoted as a private limited company and later was converted into a public limited company in 1990. Key product segments of BGAL include LPG stoves, mixer grinders, table-top wet grinders (TTWG), pressure cookers, pressure pans and flasks among others. In addition to kitchen appliances, the company also trades in home appliances such as air coolers, electric fans, water heaters and emergency lanterns.

Over the years, BGAL has diversified from being predominantly an LPG stove manufacturing company to a ‘kitchen appliances’ company with reasonably diversified product portfolio. While BGAL has pan-India presence, the company derives majority of its revenues from South India. BGAL markets and sells its products through distributors, direct dealers, modern retail stores, institutional clients and oil marketing companies (OMCs for LPG stoves). Apart from this, the company has two exclusive retail outlets (one each in Chennai & Pondicherry); however, the revenues from the same remain negligible at present.

In FY2017, BGAL reported a net loss of Rs. 55.5 crore on an operating income of Rs. 404.9 crore, as compared to a net profit of Rs. 12.4 crore on an operating income of Rs. 905.2 crore in the previous year. For H1 FY2018, BGAL reported a net profit of Rs. 2.9 crore on an operating income of Rs. 286.9 crore.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	905.2	404.9
PAT (Rs. crore)	12.4	(55.5)
OPBDIT/ OI (%)	7.1%	-6.0%
RoCE (%)	12.6%	-9.3%
Total Debt/ TNW (times)	0.9	0.8
Total Debt/ OPBDIT (times)	3.2	(5.7)
Interest coverage (times)	1.9	(1.1)
NWC/ OI (%)	28.4%	29.8%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating January 2018	Date & Rating in FY2017 -	Date & Rating in FY2016 -	Date & Rating in FY2015 -
1	Term Loan	Long Term	25.00	**25.00**	**[ICRA]BBB (Stable)**	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	28-Feb-15	NA	FY2022	25.00	[ICRA]BBB (Stable)

Source: Butterfly Gandhimathi Appliance Limited

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About ICRA Limited:

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