June 24, 2020 Revised

Butterfly Gandhimathi Appliances Limited : [ICRA]BBB reaffirmed; outlook revised to Stable and rating withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based: Term Loans	25.00	25.00	[ICRA]BBB reaffirmed; outlook revised to Stable from Positive and rating withdrawn
Total	**25.00**	**25.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has revised the outlook on the long-term rating of Butterfly Gandhimathi Appliances Limited (BGAL/the company) to Stable from Positive and has withdrawn the long-term rating of [ICRA]BBB (pronounced ICRA triple B) assigned to the Rs. 25.00 crore bank facilities of the company.

The [ICRA]BBB rating is withdrawn in accordance with ICRA's policy on withdrawal and suspension at the request of the company, based on no-due certificate provided by its banker.

The revision in outlook to Stable considers the lower-than-expected company's performance in FY2020 and the sharp contraction expected in the revenues and margins for FY2021 owing to the lackluster demand anticipated due to the Covid-19 pandemic. Although the company's revenues had increased by a healthy 13.0% on a y-o-y basis in 9M FY2020, revenue degrew by 26.0% in Q4 FY2020 owing to the pandemic-led lockdown imposed in March 2020, thus resulting in moderate 4% revenue growth for FY2020. The company's operating margins contracted to 6.0% in FY2020 (compared to 7.1% in FY2019) owing to operating losses in Q4 FY2020, while cash profits declined by ~23% YoY in FY2020. With the decline in earnings and higher debt levels owing to increase in working capital borrowings, the company's coverage indicators weakened, with Total Debt/ OPBITDA of 4.2 times as on March 31, 2020 (PY: 3.3 times as on March 31, 2019) and interest coverage ratio of 1.7 times for FY2020 (PY: 2.0 times). With the company already losing ~50 days of sales in Q1 FY2021 owing to the lockdown, and with demand expected to remain subdued owing to the weak macroeconomic situation and rising incidence of Covid-19 cases in South India especially Tamil Nadu (its key operational market), the company is expected to post sharp decline in revenues and margins for FY2021. The company has undrawn working capital lines of ~Rs. 30.0 crore as of May 2020 and incremental covid emergency credit lines of Rs. 10.5 crore sanctioned by one of its lenders in May 2020. The company has availed moratorium relief on some of its term loans for the period of March to Aug 2020. The company has minimal capex plans in FY2021.

The rating is constrained by the geographical-concentration risks with ~77% of BGAL's revenues (in FY2020) derived from South India, stiff competition in the cookware and kitchen appliances industry leading to pricing pressures, and vulnerability of margins to volatility in raw material prices. Nevertheless, the rating is supported by the company's established presence in the domestic kitchen appliances segment, extensive experience of the promoters in the industry, diversified product profile, strong market share in South India aided by its healthy brand recall and wide distribution network, and improving presence across alternate channels (which grew over 70% in FY2019 and over 83% in FY2020). Albeit there is sharp slowdown in sales expected from traditional retail channels, the revenues are expected to be supported to an extent with increasing traction witnessed from alternate channels primarily e-commerce from June 2020 onwards.

Key rating drivers and their description

Credit strengths

Established presence in South India with strong brand recall: BGAL is one of the leading players in the kitchen appliances segment in South India, having a strong brand image and business profile supported by over three decades of experience of the promoters. The company manufactures and sells LPG stoves, mixers, pressure cookers, etc. under the brand Butterfly. Apart from its established market presence in the retail segment, BGAL had also managed to win and execute Government deals in the past, wherein it executed large orders from Tamil Nadu Civil Supplies Corporation (TNCSC). The company has also been a preferred supplier of LPG stoves in South India as a part of the Pradhan Mantri Ujjwala Yojana Scheme (PMUY).

Healthy operational profile with diversified revenue stream across product categories: BGAL has a fairly diversified product profile spread over 20+ product categories and 687+ stock keeping units (increasing from 651+ SKUs in FY2018), which is ably supported by its robust distribution network and focussed marketing initiatives. In H1 FY2020, mixer grinders and LPG stoves contributed to 31.5% and 29.9%, respectively of the revenues, while pressure cooker and table-top wet grinder (TTWG) generated 15.9% and 11.0%, respectively of the revenues. With the company tying-up with alternate sales channels such as modern trade, online, canteen services departments (CSD) etc., the launch of premium products in FY2020 and planned expansion in other geographies, the revenues are expected to be diversified further going forward.

Credit challenges

Sharp revenue and margin contraction expected for FY2021 on account of steep demand drop owing to the pandemic: Despite having a 13% y-o-y growth in revenues in 9M FY2020, the company's revenues increased by a moderate 4.1% in FY2020, owing to significant decline in revenues in Q4 FY2020. Owing to the lockdown imposed in March 2020, the company lost about Rs. 50.0 crore of revenues, resulting in a y-o-y revenue decline of 26.0% in Q4 FY2020 to Rs. 110.6 crore (Rs. 149.5 crore in Q4 FY2019). Owing to operating losses posted by the company in Q4 FY2020, the operating margin witnessed contraction by 100 bps to 6.0% in FY2020 from 7.0% and the net margins declined to 0.6% in FY2020 from 1.5% in FY2019. With decline in earnings and higher debt levels, the coverage indicators weakened with Total Debt/OBBITDA and interest coverage at 4.2 times and 1.7 times, respectively as on March 31, 2020 (3.3 times and 2.0 times as on March 31, 2019). With the company losing about 50 days of sales in Q1 FY2021 owing to the lockdown imposed due to the pandemic and subdued demand expected going forward amidst the weak macroeconomic conditions, ICRA expects the company to post sharp decline in revenues and margins for FY2021. The company's revenues, is however expected to be supported to an extent by increasing traction witnessed through alternate channels like e-commerce from June 2020 onwards (The company generated Rs. 145.0 crore of revenues from e-commerce in FY2020 vis-à-vis Rs. 45.0 crore in FY2019).

Intense competition: The domestic kitchen appliances industry is highly competitive. As a result, BGAL faces competition from other branded and unbranded players across product categories. While competition in the industry shall continue to remain a challenge on the pricing front, BGAL's increasing focus on margin-accretive products shall partly insulate the impact.

Geographical-concentration risk with sales largely concentrated in South India: BGAL derived 77% of its revenues from South India in FY2020, leading to geographical-concentration risks. Nevertheless, with the penetration into non-South Indian markets, foray into modern retail format stores across India and growing presence in e-commerce channel, these risks are likely to be mitigated over the medium term.

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 amid volatile price movement of raw materials (aluminium, steel, etc.).

Liquidity position: Adequate

BGAL's liquidity position is **adequate** with undrawn working capital lines of ~Rs. 30.0 crore as on May 31, 2020. The company has also availed Covid emergency credit loan of Rs. 10.5 crore from one of its lenders in May 2020. As against these sources of cash, the company has term loan repayment obligations of Rs. 11.8 crore for FY2021, after factoring in the moratorium relief availed by the company on some of its term loans for the period of March to Aug 2020. For FY2021, the company is expected to have minimal capex plans of ~Rs. 2-5.0 crore, which is to be funded through internal accruals.

Rating sensitivities: NA

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA policy on Withdrawal and Suspension of Credit rating
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Incorporated in 1986, Butterfly Gandhimathi Appliances Limited (BGAL) primarily manufactures, markets and distributes 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. The key product segments of BGAL include LPG stoves, mixer grinders, TTWGs, pressure cookers, pressure pans and flasks among others. In addition to kitchen appliances, the company 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 the company has pan-India presence, it derives most of its revenues from South India. BGAL markets and sells its products through distributors, direct dealers, modern retail stores, e-commerce websites, institutional clients and oil marketing companies (OMCs for LPG stoves). Apart from this, the company has two exclusive retail outlets (one each in Chennai and Pondicherry). However, the revenues from the same remain negligible at present.

In FY2020, BGAL reported a net profit of Rs. 4.0 crore on an operating income (OI) of Rs. 678.7 crore compared to a net profit of Rs. 9.6 crore on an OI of Rs. 652.0 crore in the previous year.

Key financial indicators (Audited)

Standalone	FY2018	FY2019
Operating Income (Rs. crore)	652.0	678.7
PAT (Rs. crore)	9.6	4.0
OPBDIT/OI (%)	7.1%	6.0%
RoCE (%)	9.8%	8.1%
Total Outside Liabilities/TNW (times)	1.4	1.5
Total Debt/OPBDIT (times)	3.3	4.2
Interest Coverage (times)	2.0	1.7
DSCR (times)	1.1	1.2

Source: Company; PAT: Profit after tax, OPBDIT: Operating profit before depreciation, interest and taxes, RoCE: Return on capital employed, TNW: Tangible net worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on Mar 31, 2020	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					24-June-20	17-Feb-20	31-Dec-18	03-Jan-18
1	Term Loan	Long Term	25.00	8.33	[ICRA]BBB (Stable); withdrawn	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[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-2015	NA	FY2022	25.00	[ICRA]BBB (Stable); withdrawn

Source: Company

Corrigendum

Document dated June 24, 2020 has been corrected with the revision as detailed below:

- Section Re: Header line on Page number 1 has been revised to "Butterfly Gandhimathi Appliances Limited: [ICRA]BBB reaffirmed; outlook revised to Stable and rating withdrawn" from "Butterfly Gandhimathi Appliances Limited: [ICRA]BBB reaffirmed; outlook revised to Positive and rating withdrawn"

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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