

Butterfly Gandhimathi Appliances Limited

December 31, 2018

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 (Stable); reaffirmed
Total	25.00	25.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors Butterfly Gandhimathi Appliances Limited's (BGAL) 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 also considers BGAL's improving financial performance during FY2018 and H1FY2019 marked by strong growth in revenues and cash accruals supported by favourable demand for the product segments it caters and also due to improvement in capacity utilization post its entry into avenues like e-commerce, modern retail etc. Nevertheless, BGAL's capital structure and coverage indicators remain moderate due to higher debt levels with increasing working capital requirements. BGAL's working capital requirements increased as at end of FY2018 due to elongated receivables, although part of the same has been collected in H1 FY2019.

BGAL's liquidity position remains moderate with ~80% working capital utilization against the sanctioned lines (for the period October'17 to September'18). The rating also considers the geographical concentration related risks with 83% of BGAL's revenues (in FY2018) derived from South India, high competition prevalent in the cookware and kitchen appliances industry leading to pricing pressures, and vulnerability of margins to volatility in raw material prices. Going forward, BGAL's revenue visibility is healthy aided by stable demand expected from the traditional segments and strong growth expected in the modern retail. BGAL's ability to improve its earnings, working capital cycle and debt coverage indicators will be critical monitorables.

Outlook: Stable

ICRA believes BGAL to improve its financial profile by improvement in revenues and profitability. The outlook may be revised to 'Positive' with sustained growth in revenues and improvement in profitability and working capital cycle leading to enhanced credit profile. The outlook may be revised to 'Negative' with sharp deterioration in cash accruals and stretch in working capital cycle.

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 (TNCS) 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.

One of the major beneficiaries under the PMUY scheme – Introduced in May 2016 by the Government of India, Pradhan Mantri Ujjwala Yojana (PMUY) scheme was mooted to provide free LPG connections to over 5 crore families, which was later increased to 8 crore families by end of 2019. BGAL has been one of the key beneficiaries of the scheme and has been one of the primary suppliers of LPG stoves in South India. The number of LPG connections increased in the current year and has accordingly supported the revenue growth of the company in FY2019.

Improving revenues and earnings– Following a weak performance in FY2017, BGAL reported a revenue growth of 33.5% in FY2018 and 18.5% in H1 FY2018 driven by stable orders from traditional products, favorable order book from PMUY scheme and entry into new avenues such as e-commerce, modern retail etc. This in turn improved the capacity utilization of the plant and supported the uptick in operating margins due to economies of scale. BGAL’s operating margins improved from -6% (FY2017) to 6.4% (FY2018). During H1 FY2019, in line with the revenue expansion, BGAL recorded operating margins of 7.7% (4.8% H1 FY2018).

Credit challenges

Moderate capital structure and coverage indicators during FY2018 - BGAL’s capital structure deteriorated from 0.9x (March 31, 2017) to 1.2x (March 31, 2018) marked by sharp increase in debt levels from Rs.139.6 crore (March 31, 2017) to Rs.208.1 crore (March 31, 2018). The debt levels increased because of higher working capital requirements due to elongated collection cycle amidst lower creditors. Despite the increase in debt levels, the coverage indicators remained moderate at interest coverage ratio of 1.9x as on March 31, 2018. During H1 FY2019, improvement in working capital cycle coupled with healthy accruals supported the debt indicators, with improvement in gearing level to 0.8x and interest coverage ratio of 2.4x as on September 30, 2018. The company’s ability to sustain its operating margins and coverage indicators while improving its working capital cycle will be key to improve its overall financial profile.

Geographical concentration risk, with sales largely concentrated in South India - BGAL derived 83% of its revenues from South India in FY2018 leading to geography related concentration risks. With the penetration into non-south market and 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).

Liquidity Position:

The cash flow position of BGAL have improved in the recent quarters on the back of better working capital management coupled with healthy accrual generation. Further, the company’s liquidity derives comfort from the limited capital expenditure plans coupled with the 20% buffer on sanctioned bank limits during the period October’17 to September’18.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	Not Applicable

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 FY2018, BGAL reported a net profit of Rs. 4.8 crore on an operating income of Rs. 540.5 crore, as compared to a net profit of Rs. 55.5 crore on an operating income of Rs. 404.9 crore in the previous year. For H1 FY2019, BGAL reported a net profit of Rs. 7.6 crore on an operating income of Rs. 341.7 crore.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	404.9	540.5
PAT (Rs. crore)	-55.5	4.8
OPBDIT/OI (%)	-6.0%	6.4%
RoCE (%)	-9.2%	6.7%
Total Debt/TNW (times)	0.9	1.2
Total Debt/OPBDIT (times)	-6.5	6.0
Interest coverage (times)	-1.1	1.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Dec 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Term Loan	Long Term	25.00	25.00	[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-15	NA	FY2022	25.00	[ICRA]BBB (Stable)

Source: BGAL.

Annexure-2: List of entities considered for consolidated analysis- Not Applicable

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