

February 17, 2020

## Butterfly Gandhimathi Appliances Limited: Rating reaffirmed; outlook revised to Positive

### 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 (Positive); outlook revised to Positive from Stable
<b>Total</b>	<b>25.00</b>	<b>25.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in the outlook to Positive considers the improvement in the financial performance of Butterfly Gandhimathi Appliances Limited (BGAL) in FY2019 and 9M FY2020. The company's revenues increased by a healthy 20.6% in FY2019 and 13.1% in 9M FY2020, supported by higher traction of liquefied petroleum gas (LPG) stoves in FY2019 and robust growth in alternate channels such as e-commerce and modern trade in 9M FY2020. Aided by an increasing scale, better product mix and higher absorption of fixed costs, the company's operating margins expanded to 8.0% in 9M FY2020 (compared to 7.1% in 9M FY2019), while net profits grew by ~38% YoY in 9M FY2020. With the growth in earnings, the company's coverage indicators improved, but remained moderate (interest coverage ratio of 2.5 times for 9M FY2020), given its dependence on working capital limits (average utilisation at ~82.0% of the sanctioned limits in the 12-months period that ended in December 2019). The rating also factors in 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 130% in 9M FY2020).

The rating remains constrained by the geographical-concentration risks with ~85% of BGAL's revenues (in H1 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. Going forward, BGAL's revenue visibility will remain healthy, aided by stable demand expected from the traditional segments and strong growth anticipated in e-commerce and modern retail. ICRA notes that the company has debt-funded capex plans of Rs. 19.0 crore in FY2021 (to be funded by term loans of Rs. 15.0 crore and balance through internal accruals), primarily towards capacity expansion of pressure cookers and in-house manufacturing of motors. BGAL's ability to improve its working capital cycle and debt coverage indicators (amid the debt-funded capex) will be critical monitorables.

## 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 (TNCS). 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).

**Improvement in financial profile with healthy revenue growth, improved margins, capitalisation and coverage indicators:** The company reported a healthy revenue growth of 20.6% in FY2019 (aided by higher traction of LPG stoves for PMUY scheme) and 13.1% in 9M FY2020 (aided by robust growth in e-commerce and modern retail segments). Improving scale, better product mix and higher absorption of fixed costs resulted in the company's operating margins expanding to 8.0% in 9M FY2020 (7.1% in 9M FY2019), while its net profits increased by ~38% YoY in 9M FY2020. With rise in earnings and scheduled repayment of term loans, the capitalisation and coverage indicators improved with gearing and Total Debt/OPBITDA at 0.9 times and 2.7 times, respectively as on September 30, 2019 (1.2 times and 6.0 times as on March 31, 2018). Interest coverage, albeit moderate, improved to 2.5 times as on December 31, 2019 vis-à-vis 2.2 times as on December 31, 2018.

**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

**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 85% of its revenues from South India in H1 FY2020, leading to geographical-concentration risks. Nevertheless, with the penetration into non-South

Indian markets (which witnessed ~36% YoY revenue growth in H1 FY2020), 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 is **adequate** with expected cash profits of over Rs. 30 crore for FY2020 and undrawn lines of credit of Rs. 34.7 crore as on December 31, 2019. The company also had cash and liquid balances of Rs. 5.4 crore as on September 30, 2019. The average working capital utilisation was ~82% of the sanctioned limits during January 2019–December 2019. BGAL has debt repayment obligation of Rs. 9.9 crore and has capital expenditure plans of Rs. 7.0-8.0 crore for FY2020. For FY2021, the company has capital expenditure of Rs. 19.0 crore, which is to be funded through term loans of Rs. 15.0 crore and balance through internal accruals. Overall, ICRA expects BGAL to be able to meet its near-term commitments through internal generation of cash.

### Rating sensitivities

**Positive triggers:** Sustained growth in scale of operations and earnings, improved geographical diversification and better working capital management will be the key triggers for a rating upgrade. Specific metrics that could lead to an upgrade would be Interest coverage more than 3.0 times on a sustained basis.

**Negative triggers:** Negative pressure will emanate with sharp deterioration in the earnings or higher-than-expected debt-funded capex resulting in weakened liquidity and debt protection metrics. Specific metric that could lead to a downgrade would be interest coverage less than 2.5 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
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 FY2019, BGAL reported a net profit of Rs. 9.6 crore on an operating income (OI) of Rs. 652.0 crore compared to a net profit of Rs. 4.8 crore on an OI of Rs. 540.6 crore in the previous year. For 9M FY2020, BGAL reported a net profit of Rs. 11.7 crore on an OI of Rs. 568.0 crore compared to a net profit of Rs. 8.5 crore on an OI of Rs. 502.5 crore.

## Key financial indicators (Audited)

Standalone	FY2018	FY2019
Operating Income (Rs. crore)	540.6	652.0
PAT (Rs. crore)	4.8	9.6
OPBDIT/OI (%)	6.4%	7.1%
RoCE (%)	6.7%	9.8%
Total Debt/TNW (times)	1.2	0.8
Total Debt/OPBDIT (times)	6.0	3.3
Interest Coverage (times)	1.9	2.0
DSCR (times)	1.1	1.1

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 (FY2020)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on Mar 31, 2019	Date & Rating 17-Feb-20	Date & Rating in FY2019 31-Dec-18	Date & Rating in FY2018 3-Jan-18	Date & Rating in FY2017 -	Date & Rating in FY2016 -
1 Term Loan	Long Term	25.00	12.20	[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 [click here](#)

## 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 (Positive)

Source: Company

## ANALYST CONTACTS

**Subrata Ray**

+91 22 6114 3408

[subrata@icraindia.com](mailto:subrata@icraindia.com)

**K Srikumar**

+91 44 45964318

[ksrikumar@icraindia.com](mailto:ksrikumar@icraindia.com)

**William Charles**

+91 44 4297 4305

[william.charles@icraindia.com](mailto:william.charles@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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