

# CRISIL IER Independent Equity Research

## Butterfly Gandhimathi Appliances Ltd

**Q3FY14 Results Update**

Enhancing investment decisions

## Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

### About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

### About CRISIL Research

CRISIL Research is India's largest independent and integrated research house. We provide insights, opinions, and analysis on the Indian economy, industries, capital markets and companies. We are India's most credible provider of economy and industry research. Our industry research covers 70 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 4,500 primary sources, including industry experts, industry associations, and trade channels. We play a key role in India's fixed income markets. We are India's largest provider of valuations of fixed income securities, serving the mutual fund, insurance, and banking industries. We are the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today India's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements and forecasts with complete objectivity. We leverage our deep understanding of the macroeconomy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. We deliver our research through an innovative web-based research platform. Our talent pool comprises economists, sector experts, company analysts, and information management specialists.

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**Last updated: May, 2013**

### Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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# Butterfly Gandhimathi Appliances Ltd

Healthy revenue growth but margins under pressure

Fundamental Grade	3/5 (Good fundamentals)
Valuation Grade	5/5 (CMP has strong upside)
Industry	Household Appliances

Butterfly Gandhimathi Appliances Ltd's (Gandhimathi's) Q3FY14 revenues were in line while margins were below CRISIL Research's estimates. Revenues increased 21.5% y-o-y on account of healthy growth in the distribution business. However, despite robust growth in top line, EBITDA margin declined 184 bps y-o-y due to increase in employee cost and other expenses. Subsequent to the decline in EBITDA, adjusted PAT declined 15.8% y-o-y. We expect increasing penetration in non-South markets, rising awareness of the Butterfly brand and launch of new products and product variants to drive up demand for the company's products. We maintain our fundamental grade of 3/5.

## Distribution business maintains growth momentum

Driven by healthy growth in the distribution business, up 25.3% y-o-y to ₹1,411 mn, Gandhimathi's revenues increased 21.5% y-o-y to ₹2,416 mn in Q3FY14. The sales of mixer grinders, cookware and gas stoves grew y-o-y but table top wet grinder sales declined. We expect the growth momentum in the distribution business to continue. The company also executed a Tamil Nadu (TN) government order worth ₹1,232 mn during the quarter. It has a pending government order worth ₹808 mn which we expect to be completed in Q4FY14.

## Increased penetration in non-South markets, new product launches key to growth

We believe Gandhimathi's plans to strengthen its position in the non-South markets is well on track – during Q3FY14, the company derived ~25% of its total sales from the non-South markets. It is also scaling up its distributor network in the region and currently 185 of its 330 distributors are from the non-South region. Gandhimathi has ramped up its marketing initiatives (including advertisement campaigns across various media) to support its expansion in non-South markets. The company has also introduced four new products (electric chimney, hand blender, juicer and juicer mixer grinders) and 60 new SKUs during FY14. We expect the geographic penetration, new product launches and increasing brand awareness to be the key demand drivers.

## Margin to remain subdued until operating leverage kicks in

EBITDA margin contracted 184 bps y-o-y to 7.1% owing to increase in employee costs (up 27% y-o-y) and other expenses (up 31.4% y-o-y). As per the management, the sales team was expanded to support growth in non-South markets which led to an increase in employee cost, while increase in marketing expenditure resulted in higher other expenses. We expect EBITDA margin to improve once the company reaches a substantial scale of operation and benefits from operating leverage.

## Earnings estimates revised downwards; fair value maintained at ₹380

Given the near-term pressure on margins, we have lowered our FY14 and FY15 PAT estimates by 15% and 13%, respectively. We have rolled forward our valuation to FY16 but its impact is offset by the downward revision of earnings estimates. Thus, we maintain our fair value estimate of ₹380. At the current market price of ₹272, our valuation grade is 5/5.

## KEY FORECAST

(₹ mn)	FY12	FY13	FY14E	FY15E	FY16E
Operating income	5,946	7,286	7,856	7,920	7,726
EBITDA	620	732	697	786	859
Adj net income	190	329	297	351	392
Adj EPS (₹)	12.3	18.4	16.6	19.6	21.9
EPS growth (%)	-17%	49%	-10%	18%	12%
Dividend yield (%)	0.8%	0.9%	1.0%	1.2%	1.7%
RoCE (%)	37.5%	23.9%	16.5%	17.5%	18.3%
RoE (%)	32.6%	23.7%	13.9%	14.7%	14.6%
PE (x)	22.1	14.8	16.4	13.9	12.4
P/BV (x)	5.6	2.4	2.2	1.9	1.7
EV/EBITDA (x)	8.5	8.4	8.6	7.6	6.4

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimates

For detailed initiating coverage report please visit: [www.ier.co.in](http://www.ier.co.in)

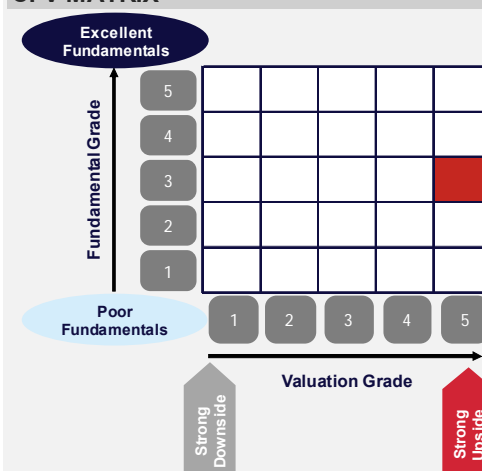
CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

February 14, 2014

Fair Value ₹380

CMP ₹272

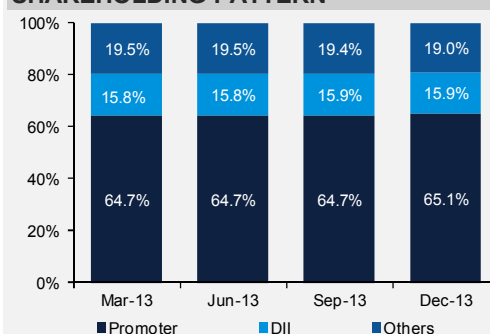
## CFV MATRIX



## KEY STOCK STATISTICS

NIFTY/SENSEX	6048/20367
NSE/BSE ticker	BLFYGANDHI
Face value (₹ per share)	10
Shares outstanding (mn)	17.9
Market cap (₹ mn)/(US\$ mn)	4,871/78
Enterprise value (₹ mn)/(US\$ mn)	6,147/99
52-week range (₹)/(H/L)	400/240
Beta	0.6
Free float (%)	35.3%
Avg daily volumes (30-days)	2,526
Avg daily value (30-days) (₹ mn)	0.8

## SHAREHOLDING PATTERN



## PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Gandhimathi	-4%	3%	-16%	8%
CNX 500	-4%	0%	6%	-2%

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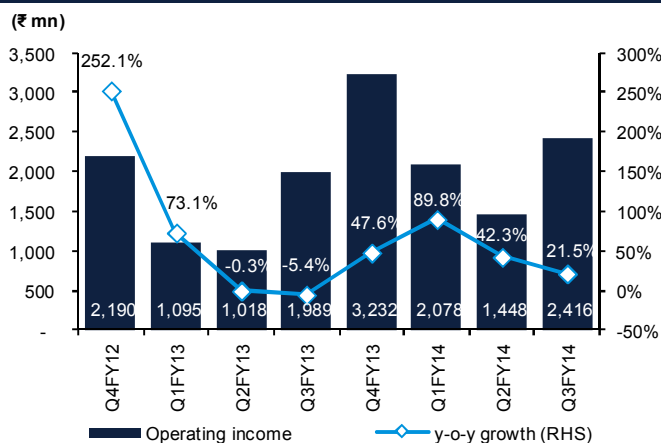
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Q3FY14 Results Summary

(₹ mn)	Q3FY14	Q2FY14	Q3FY13	q-o-q (%)	y-o-y (%)	9MFY14	9MFY13	y-o-y (%)
<b>Net sales</b>	<b>2,416</b>	<b>1,448</b>	<b>1,989</b>	<b>66.8</b>	<b>21.5</b>	<b>5,942</b>	<b>4,102</b>	<b>44.9</b>
Raw materials cost	1,690	898	1,386	88.2	22.0	4,088	2,724	50.1
Raw materials cost (% of net sales)	70.0%	62.0%	69.7%	794bps	30bps	68.8%	66.4%	239bps
Employee costs	150	145	118	4.1	27.0	444	317	40.1
Other expenses	404	223	307	81.4	31.4	885	643	37.7
<b>EBITDA</b>	<b>172</b>	<b>183</b>	<b>178</b>	<b>(6.2)</b>	<b>(3.5)</b>	<b>525</b>	<b>418</b>	<b>25.5</b>
<b>EBITDA margin</b>	<b>7.1%</b>	<b>12.6%</b>	<b>8.9%</b>	<b>-553bps</b>	<b>-184bps</b>	<b>8.8%</b>	<b>10.2%</b>	<b>-136bps</b>
Depreciation	14	12	9	0.1	0.5	37	30	25.9
<b>EBIT</b>	<b>158</b>	<b>171</b>	<b>169</b>	<b>(7.5)</b>	<b>(6.4)</b>	<b>488</b>	<b>389</b>	<b>25.5</b>
Interest and finance charges	74	76	69	(3.5)	6.5	185	150	23.8
<b>Operating PBT</b>	<b>84</b>	<b>94</b>	<b>100</b>	<b>(10.7)</b>	<b>(15.3)</b>	<b>302</b>	<b>239</b>	<b>26.5</b>
Other income	2	5	4	(59.1)	(47.0)	14	16	(9.3)
<b>Extraordinary income/(expense)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(9)</b>	<b>NM</b>
<b>PBT</b>	<b>86</b>	<b>99</b>	<b>103</b>	<b>(13.1)</b>	<b>(16.5)</b>	<b>317</b>	<b>246</b>	<b>28.7</b>
Tax	28	33	34	(15.7)	(17.9)	103	66	55.8
<b>PAT</b>	<b>59</b>	<b>67</b>	<b>70</b>	<b>(11.8)</b>	<b>(15.8)</b>	<b>214</b>	<b>180</b>	<b>18.7</b>
<b>Adj PAT</b>	<b>59</b>	<b>67</b>	<b>70</b>	<b>(11.8)</b>	<b>(15.8)</b>	<b>214</b>	<b>189</b>	<b>13.2</b>
<b>Adj PAT margin</b>	<b>2.4%</b>	<b>4.6%</b>	<b>3.5%</b>	<b>-217bps</b>	<b>-108bps</b>	<b>3.6%</b>	<b>4.6%</b>	<b>-101bps</b>
No. of equity shares (mn)	17.9	17.9	17.9	-	-	17.9	17.9	-
<b>Adj EPS (₹)</b>	<b>3.3</b>	<b>3.7</b>	<b>3.9</b>	<b>(11.8)</b>	<b>(15.8)</b>	<b>12.0</b>	<b>10.6</b>	<b>13.2</b>

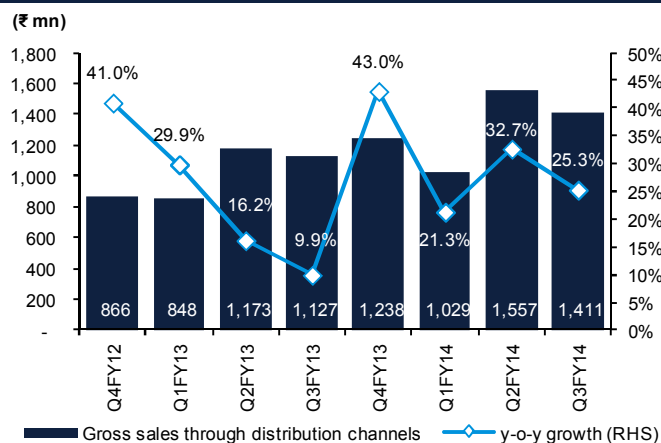
Source: Company, CRISIL Research

Revenues recorded 21.5% y-o-y growth during Q3FY14...



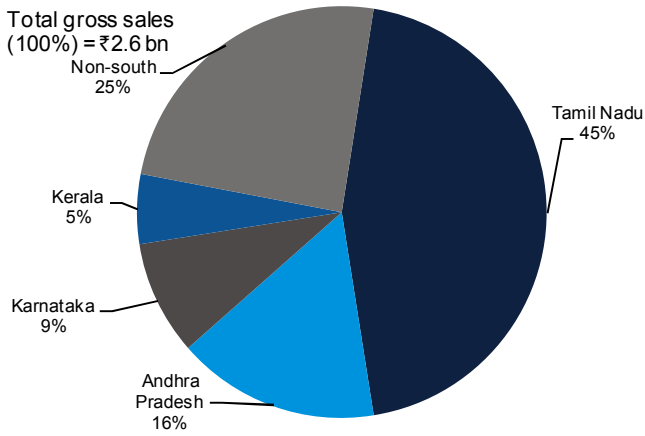
Source: Company, CRISIL Research

... driven by growth in sales through distribution channels



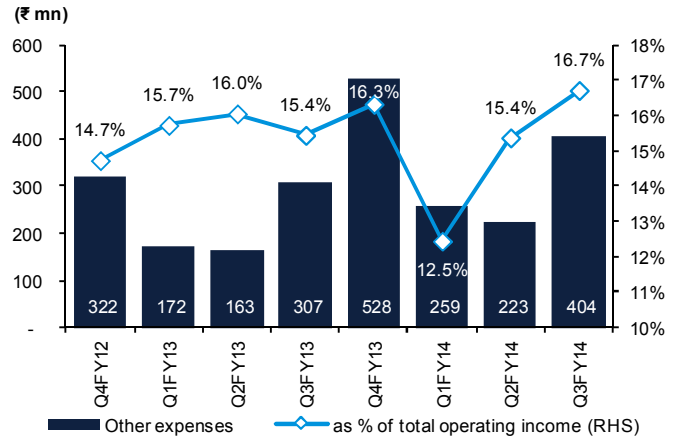
Source: Company, CRISIL Research

## Non-South market's revenue share increased during Q3FY14



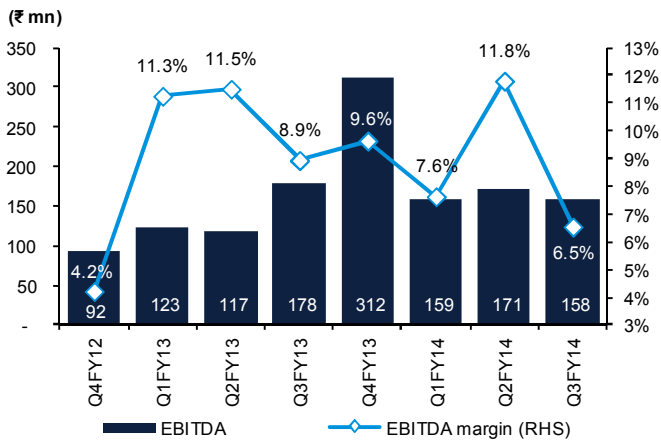
Source: Company, CRISIL Research

## Other expenses increased owing to high marketing costs...



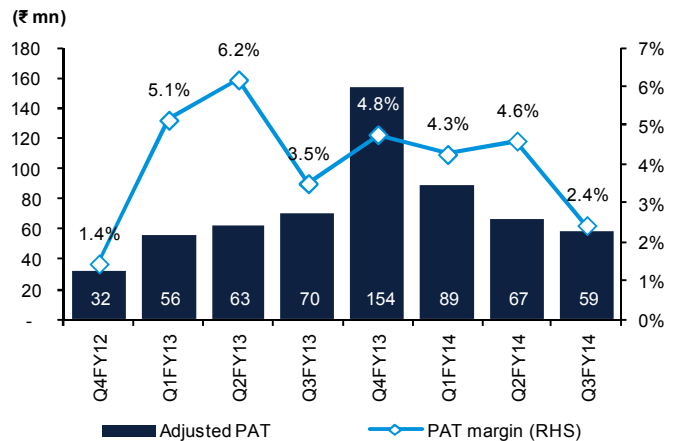
Source: Company, CRISIL Research

## ...leading to contraction in EBITDA margin



Source: Company, CRISIL Research

## Driven by lower EBITDA, adjusted PAT declined y-o-y



Source: Company, CRISIL Research

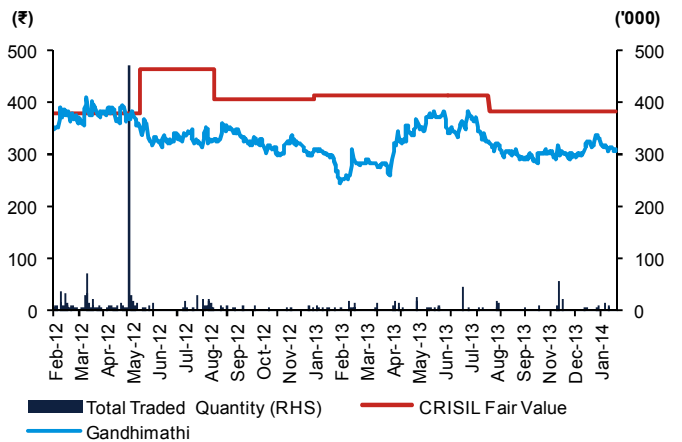
## Share price movement



-Indexed to 100

Source: NSE, CRISIL Research

## Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

## Earnings Estimates Revised Downwards

Particulars	Unit	FY14E			FY15E			FY16E
		Old	New	% change	Old	New	% change	New
Revenues	(₹ mn)	7,856	7,856	0%	7,920	7,920	0%	7,726
EBITDA	(₹ mn)	770	697	-9%	848	786	-7%	859
EBITDA margin	%	9.8%	8.9%	-93bps	10.7%	9.9%	-78bps	11.1%
PAT	(₹ mn)	350	297	-15%	405	351	-13%	392
PAT margin	%	4.5%	3.8%	-67bps	5.1%	4.4%	-69bps	5.1%
EPS	₹	19.5	16.6	-15%	30.8	19.6	-36%	21.9

\* FY14 and FY15 revenues include TN government orders worth ₹3,312 mn and ₹2,040 mn, respectively

Source: CRISIL Research estimates

### Reasons for changes in estimates

Line item	FY14E	FY15E
Revenues	<ul style="list-style-type: none"> <li>Unchanged since 9MFY14 revenues are largely in line with our estimates</li> </ul>	
EBITDA margin	<p>Lowered because:</p> <ul style="list-style-type: none"> <li>Gandhimathi is strengthening its sales team in the non-South markets to aid its growth plans in the region, which has resulted in higher employee cost. We expect this trend to continue as the company has plans to further penetrate the central, northern and eastern states of India</li> <li>The company has increased its advertising and marketing spend to increase its brand awareness, which has led to higher other expenses. We expect Gandhimathi to continue to invest in marketing campaigns in FY15, which is likely to put pressure on margins</li> <li>The company is expected to execute TN government order worth ₹808 mn, which is of lower margin compared to the distribution business. We expect the company to bid for ₹2 bn worth of orders in FY15 (equal to FY14). This is also likely to result in lower margins</li> <li>However, we expect margins to improve from FY16 as the low-margin government orders expire. We also expect operating leverage to kick in once the company reaches a substantial scale of operation, which is likely to lead to further improvement in margins.</li> </ul>	
PAT margin/ PAT	Lowered in line with EBITDA estimates. Additionally, other income until 9MFY14 has also been significantly below our expectations	

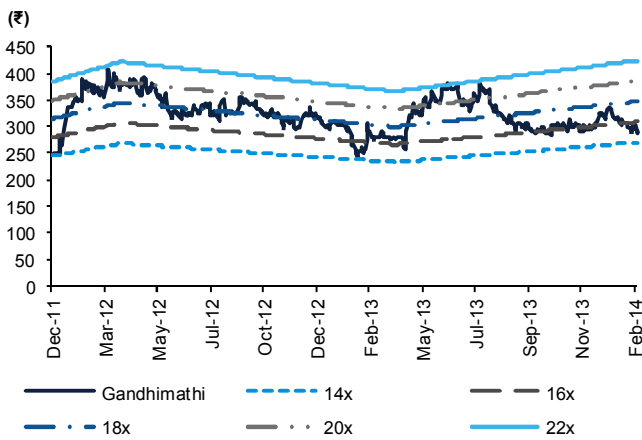
Source: CRISIL Research

## Valuation

**Grade: 5/5**

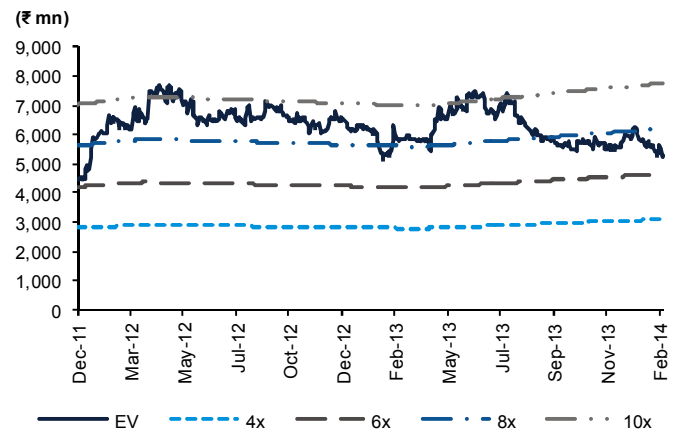
We continue to use the DCF method to value Gandhimathi. We have also rolled forward our valuation by one year to FY16. However, the impact of roll forward is offset by the downward revision in earnings estimates; thus, we maintain our fair value estimate of ₹380 for Gandhimathi. This fair value estimate implies P/E multiples of 19.4x and 17.3x FY15E and FY16E EPS estimates, respectively. The stock is currently trading at ₹272, which implies P/E multiples of 13.9x and 12.4x FY15E and FY16E estimates, respectively. At the current market price, the valuation grade is **5/5**.

### One-year forward P/E band



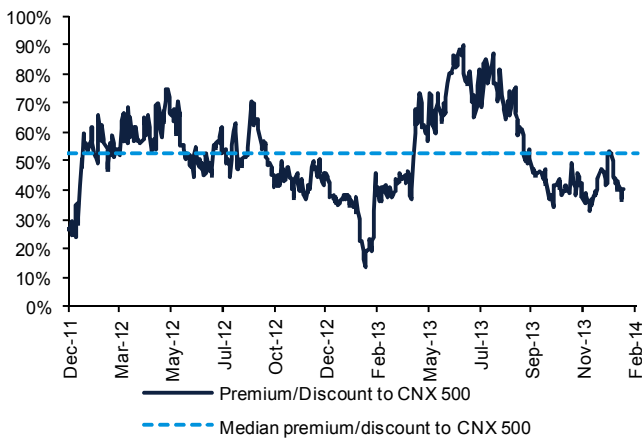
Source: NSE, CRISIL Research

### One-year forward EV/EBITDA band



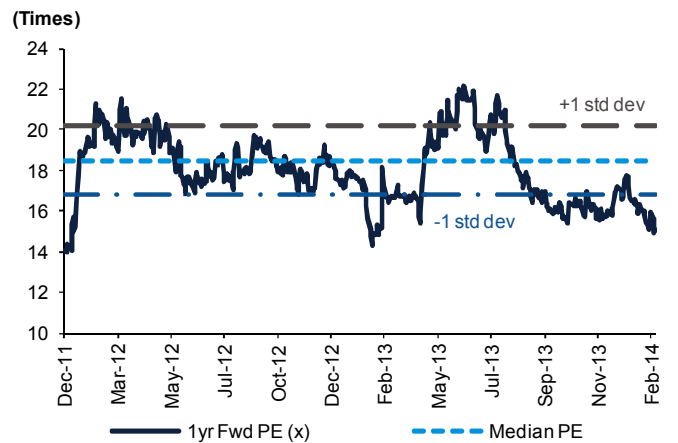
Source: NSE, CRISIL Research

### P/E – premium / discount to CNX 500



Source: NSE, CRISIL Research

### P/E movement



Source: NSE, CRISIL Research

**CRISIL IER reports released on Butterfly Gandhimathi Appliances Ltd**

Date	Nature of report	Fundamental		Valuation		CMP (on the date of report)
		grade	Fair value	grade		
09-Nov-11	Initiating coverage	3/5	₹378	4/5		₹317
17-Nov-11	Q2FY12 result update	3/5	₹378	4/5		₹311
01-Mar-12	Q3FY12 result update	3/5	₹378	3/5		₹368
15-Mar-12	Event Update	3/5	₹460	4/5		₹390
22-Jun-12	Q4FY12 results	3/5	₹405	4/5		₹325
22-Aug-12	Q1FY13 results	3/5	₹405	4/5		₹325
05-Nov-12	Q2FY13 results	3/5	₹412	5/5		₹312
22-Feb-13	Q3FY13 results	3/5	₹412	5/5		₹290
05-June-13	Q4FY13 results	3/5	₹412	4/5		₹370
06-Aug-13	Q1FY14 results	3/5	₹380	4/5		₹344
19-Nov-13	Q2FY14 results	3/5	₹380	5/5		₹297
14-Feb-14	Q3FY14 results	3/5	₹380	5/5		₹272





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## Our Capabilities

### Making Markets Function Better

#### Economy and Industry Research

- Largest team of economy and industry research analysts in India
- Coverage on 70 industries and 139 sub-sectors; provide growth forecasts, profitability analysis, emerging trends, expected investments, industry structure and regulatory frameworks
- 90 per cent of India's commercial banks use our industry research for credit decisions
- Special coverage on key growth sectors including real estate, infrastructure, logistics, and financial services
- Inputs to India's leading corporates in market sizing, demand forecasting, and project feasibility
- Published the first India-focused report on Ultra High Net-worth Individuals
- All opinions and forecasts reviewed by a highly qualified panel with over 200 years of cumulative experience

#### Funds and Fixed Income Research

- Largest and most comprehensive database on India's debt market, covering more than 15,000 securities
- Largest provider of fixed income valuations in India
- Value more than ₹53 trillion (US\$ 960 billion) of Indian debt securities, comprising outstanding securities
- Sole provider of fixed income and hybrid indices to mutual funds and insurance companies; we maintain 12 standard indices and over 100 customised indices
- Ranking of Indian mutual fund schemes covering 70 per cent of assets under management and ₹4.7 trillion (US\$ 85 billion) by value
- Retained by India's Employees' Provident Fund Organisation, the world's largest retirement scheme covering over 60 million individuals, for selecting fund managers and monitoring their performance

#### Equity and Company Research

- Largest independent equity research house in India, focusing on small and mid-cap companies; coverage exceeds 125 companies
- Released company reports on 1,442 companies listed and traded on the National Stock Exchange; a global first for any stock exchange
- First research house to release exchange-commissioned equity research reports in India
- Assigned the first IPO grade in India

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Bengaluru - 560 042, India  
Phone: +91 80 2558 0899  
+91 80 2559 4802  
Fax: +91 80 2559 4801

### Chennai

Thapar House,  
43/44, Montieth Road, Egmore,  
Chennai - 600 008, India  
Phone: +91 44 2854 6205/06  
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### Gurgaon

Plot No. 46  
Sector 44  
Opp. PF Office  
Gurgaon - 122 003, India  
Phone: +91 124 6722 000

### Hyderabad

3rd Floor, Uma Chambers  
Plot No. 9&10, Nagarjuna Hills,  
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### Kolkata

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