



Butterfly Gandhimathi Appliances Limited

Detailed Rationale

CRISIL Ratings has removed its ratings on the bank facilities of Butterfly Gandhimathi Appliances Limited (BGAL) from 'Rating Watch with Positive Implications' and upgraded the long-term ratings to 'CRISIL AA/ CRISIL A1+' from 'CRISIL A-/ CRISIL A2+'. CRISIL Ratings has also assigned the 'Stable' outlook to the long-term rating.

The resolution of rating watch follows the completion of acquisition through share purchase of BGAL by Crompton Greaves Consumer Electricals Limited (CGEL; rated CRISIL AA+/Stable/CRISIL A1+) in FY22. The announcement for the same was made in February 2022 wherein CGEL has stated that it has entered into agreements for the acquisition of 55% (approximately) of the paid up equity share capital of BGAL from its promoters and 26% as an offer for sale; subject to requisite regulatory approvals. The purchase of shares from the previous promoter is complete and CGEL has taken over the management and new board members have been assigned.

The rating upgrade showcases strong support from an established parent. CGEL operates in four key business segments - fans, lighting, pumps, and appliances. The company has a robust distribution network. Established brand, wide product portfolio, and strong distribution reach has helped CGEL enjoy leading position in the domestic fans and residential pumps segments and gain significant share in water heaters. It is also the third largest lighting company in India. During fiscal 2022, CGEL reported revenue of around Rs.5400 crore with net profit of Rs.593 crores. Recent takeover by CGEL would help to further diversify the product base of the group in the home and kitchen appliance segment as well as help in extending the reach of BGAL to other parts of the country outside South India.

The rating action also factors in the strategic importance of BGAL to CGEL in penetrating into the appliances segment. The group is also in discussions with lenders to extend corporate guarantee for the bank facilities of BGAL from its parent.

The ratings reflect BGAL's established brand and diversified product profile, along with its comfortable financial risk profile. The ratings also factor in strong managerial and operational support expected from its parent. These strengths are partially offset by intense competition in the cookware/kitchen appliance industry and susceptibility of operating profitability to volatility in raw material prices.

Analytical Approach: CRISIL Ratings has applied its parent notch-up framework to factor in support for BGAL from CGEL as the company will enjoy operational, financial, and managerial support from CGEL as CGEL has acquired majority shares and is expected to extend managerial support to BGAL.

Key Rating Drivers & Detailed Description

Strengths:**Strong operational and financial support from parent:**

CGPL holds majority stake in BGAL and is expected to extend strong operational and managerial support. BGAL will derive implicit benefits being a subsidiary of CGPL and its association with the Crompton brand.

Established brand, and diversified product profile: The company sells liquefied petroleum gas (LPG) stoves, pressure cookers, mixer grinders, and vacuum flasks under the Butterfly brand, which has been highly popular in India for over 20 years. Business is catered to retail and institutional segments. BGAL also generates significant revenue contribution of more than 40% through ecommerce platforms and other online mediums owing to healthy brand recognition in the kitchen appliance segment.

Comfortable financial risk profile: The financial risk profile is comfortable marked by net worth and gearing of around Rs.203 crore and 0.26 times, respectively as on March 31, 2022. Further, apart from regular replacement capex largely to be funded through internal accruals, there are no major debt funded capex plans over the medium term. This along with consistent accretion to reserves is expected to further strengthen the capital structure. Debt protection metrics continues to remain moderate with interest coverage and net cash accruals to debt (NCATD) of around 3.92 times and 50% respectively for FY22.

Weaknesses:

Intense competition in the cookware/kitchen appliance industry: The branded kitchen appliance industry is highly competitive, marked by players such as TTK Prestige Ltd (TTK; CRISIL AA/Stable/CRISIL A1+), Philips India Ltd (PIL; CRISIL AA+/Stable/CRISIL A1+), Hawkins Cookers Ltd, Maharaja Appliances Ltd, and Panasonic India Pvt Ltd. Some competitors, such as TTK and PIL, have pan-India presence, and have established brand recall across product categories. Intense competition is likely to constrain business risk profile over the medium term.

Susceptibility of operating margin to volatility in raw material prices: Operating margin is susceptible to volatility in prices of steel and aluminium, which form one of the key input materials. Any sharp movement in their prices could impinge on the overall margin

Liquidity: Strong

Average month-end bank limit utilization for the last 12 months through April 2022 was less than 20%. Estimated net cash accruals of over Rs.40 crore is expected to remain sufficient against repayment obligations of around Rs.5 crore in FY23. Current ratio was moderate at around 1.44 times as on March 31, 2022.

Outlook: Stable

CRISIL Ratings believe BGAL will continue to benefit from the extensive experience of its promoter, and established relationships with clients.

Rating Sensitivity factors

Upside Factors

- a) Strong revenue growth rate while operating margin improves to more than 10%
- b) Geographical and product diversification in revenue profile leading to improvement to more than 12 percent
- c) Significant improvement in the credit profile of the parent

Downside Factors

- a) Deterioration in TOLTNW to more than 2 times and/or interest coverage less than 2.5 times.
- b) Any large debt funded capital expenditure, adversely impacting the financial risk profile.
- c) Deterioration in the credit profile of the parent

About the Company

BGAL is the flagship company of the Butterfly group. It manufactures traditional kitchen appliances under the Butterfly brand. The company is listed on National Stock Exchange and BSE Ltd. The company has been acquired by CGEL in FY22.

Key Financial Indicators

As on / for the period ended March 31		2022	2021
Operating income	Rs crore	1,005.30	869.64
Reported profit after tax	Rs crore	16.13	36.16
PAT margins	%	1.60	4.16
Adjusted Debt/ Adjusted Net worth	Times	0.26	0.15
Interest coverage	Times	3.82	4.61

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable