

Butterfly Gandhimathi Appliances

BSE Code: 517421

CMP : ₹289.80

Face Value : ₹10

Target price: ₹435

HP* : Two years

Our Pearl Pick for the month of September is Butterfly Gandhimathi Appliances Limited. The company is a leading manufacturer of kitchen and electrical appliances. It is a market leader in India for SS LPG stoves and table top wet grinders and major supplier of mixer-grinders and pressure cookers. Its product portfolio comprises of kitchen appliances (79%), cooker/cookware (15%) and others (6%) in FY18. It derived 85% revenue from southern region.

Why to invest

Increased thrust on non-southern region : The company is currently generating 15% revenue from non-southern region and aims to reach to 25% over the next three years. For this, it is aggressively spending on the advertisement, which can affect near term operational performance. It has spent Rs 57 crore on advertisements in FY18 and would continue to spend for expansion in the said regions. However, its business from non-southern region is performing satisfactorily. Also, its revenue grew significantly by 70% in Q1FY19 on YoY basis. The management expects to achieve break-even in these markets by FY20E.

Improved branded product performance : The company has registered around 30% rise in the branded products. This was supported by jump in revenue from its major product kitchen appliances by 25.4% YoY. Its cooker/cookware and other products registered revenue growth of 51.6% YoY and 46.4% YoY, respectively. Going ahead, the management is targeting to achieve more than 20% topline growth.

Alternative channels on growth path : The contribution from alternative channels like online platform, corporate clients, canteen stores departments have surged by 84% to Rs 12.5 crore in Q1FY19 as against Rs 6.79 crore in Q1FY18. The management expects the same to continue to grow further.

GST-led growth for organised players : The kitchen appliance sector is dominated by the unorganised sector with nearly 50% share. The reduction in GST rate on the kitchen and home appliances from 28% to 18% has led to the industry share shifting towards organised players, which will benefit the company. This would help the company to gain the market share going ahead.

Favourable market environment : The company's retail channel sales contributed around 75-80% to the branded sales. Post-GST, it has performed well and the demand is expected to grow in FY19 as well. On the institutional channels front, it has contributed 20-25%. Also, the Pradhan Mantri Ujjwala Yojna has started gaining traction, in which almost 4.48 crore LPG connections have been released. Also, in the FY18 Union budget, the government has planned to increase the LPG gas connections under PMUY from 5 crores to 8 crores. These would provide the company enormous opportunities going ahead.

Major turnaround in financial performance : During Q1FY19, the company's standalone revenue came in at Rs. 124.4 crore, registering an increase of 44.8% YoY. The operating profit for the quarter came in at Rs. 9.27 crore, as against operating loss of Rs. 3.15 crore in Q1FY18. The EBITDA margin for the quarter stood at 7.5%. The PAT for the

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* HP : Holding Period

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quarter came in at Rs. 1.26 crore as against net loss of Rs. 8.81 crore in Q1FY18. Looking at the full year numbers, the revenue jumped by 34% in FY18 to Rs. 540.56 crore. Also, it reported operating profit of Rs. 34.7 crore as against operating loss of Rs. 24.4 crore in FY17. Finally, the net profit came in at Rs. 4.81 crore as against net loss of Rs. 55.50 crore in FY17.

Investing in the stock

The company has a share capital of Rs 17.88 crore, with promoters' holdings at 65.13 per cent. Therefore, the available free float comes to 0.62 crore shares. The two-week average traded quantity comes to around 1177 shares. We urge our investors to enter the stock in a staggered manner and accumulate as per the table given below.

Price	Accumulation
250-265	40 per cent
235-250	20 per cent
155-235	20 per cent
<155	20 per cent

Valuation and outlook

The company is trading at a TTM P/E of 34.2x with TTM EPS of Rs. 180.89. The company is well-positioned in the southern region and on the path of gaining traction in non-southern region. Also, the positive government initiatives coupled with improving demand would benefit the company in the near future. Further, a significant turnaround in the financial performance and growing market opportunities would fuel the company's growth going ahead. Considering all these factors, we see an upside of 50% with a target price of Rs 435 over the next two years.

Inc/Exp Statement(Standalone) (Rs in Crore)

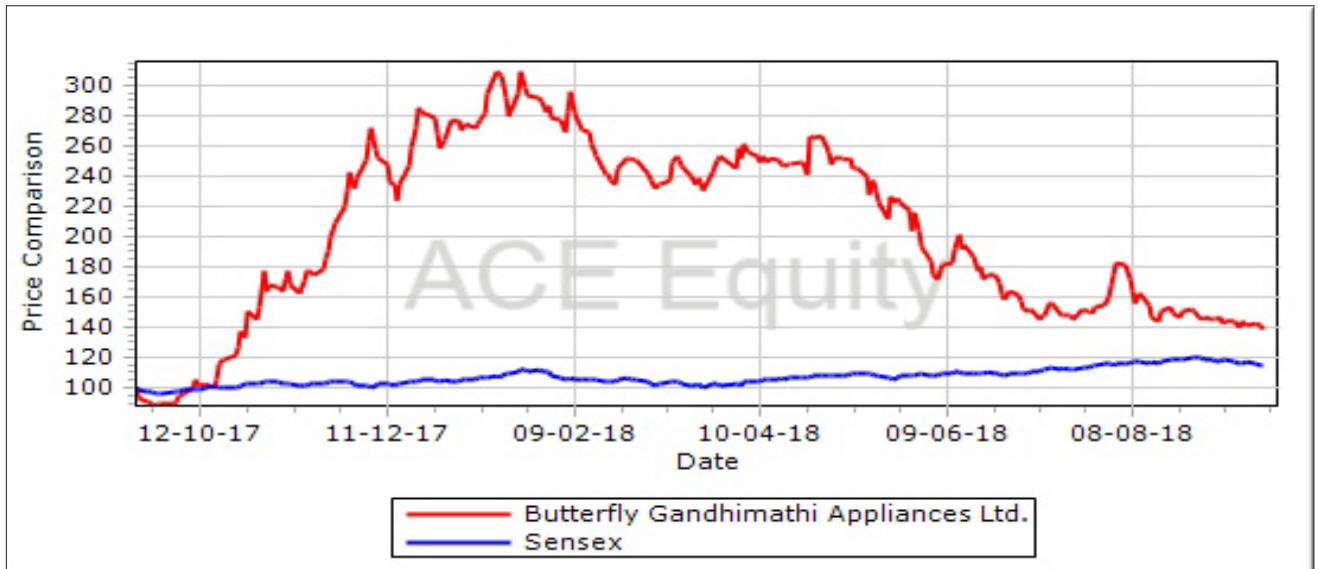
Description	201803	201703	201603	201503	201403
Net Sales	540.56	404.86	900.94	528.98	764.18
Total Income	542.16	406.60	906.32	533.33	770.73
Total Expenditure	505.86	424.69	841.12	489.30	709.20
PBIDT	36.30	-18.09	65.20	44.03	61.53
PAT	4.81	-51.77	12.39	2.83	22.41
Dividend %			12.50		
Adj. EPS(Rs)	2.69	-28.95	6.93	1.58	12.54

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201806	201803	Q on Q Var%	201706	Y on Y Var%
Net Sales	124.40	110.40	12.68	95.31	30.52
Total Expenditure	115.13	101.11	13.87	97.68	17.87
PBIDT (Excl OI)	9.26	9.29	-0.26	-2.37	491.17
PAT	1.26	0.45	178.59	-8.81	114.32
PBIDTM% (Excl OI)	7.45	8.41	-11.41	-2.48	400.40
PBIDTM%	7.85	9.39	-16.40	-2.33	436.91
PATM%	1.01	0.41	146.34	-9.25	110.92
Adj. EPS(Rs)	0.71	0.25	184.00	0.00	0.00

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