FIRST LIGHT

21 February 2022

RESEARCH

Butterfly Gandhimathi Appliances | NOT RATED

Fast-growing, pan-India branded play

Oil & Gas

Expert call - Refining and shipping outlook

SUMMARY

Butterfly Gandhimathi Appliances

- One of the fastest growing kitchen appliance companies in India with leadership in steel LPG stoves and tabletop wet grinders
- Successfully transitioned from B2G to B2C, now drawing 100% of revenue from branded sales
- Targeting 2x revenue growth to Rs 20bn by FY25 and double-digit margins. Trading at ~28x FY21 EV/EBITDA; we do not have a rating on the stock

Click here for the full report.

Oil & Gas

- Current refining demand growth expectations may prove conservative, keeping refining and product markets tight
- Crude tightness to ease with pickup in OPEC and non-OPEC supply. Lifting of Iranian sanctions could significantly loosen crude market
- Tanker market poised for recovery from Q3CY22, supported by scrapping of old ships and sustainable demand recovery

Click here for the full report.

Daily macro indicators

Indicator	16-Feb	17-Feb	Chg (%)
US 10Y yield (%)	2.04	1.96	(8)
India 10Y yield (%)	6.69	6.67	(1)
USD/INR	75.08	75.11	0.0
Brent Crude (US$/bbl)	94.8	93	(1.9)
Dow	34,934	34,312	(1.8)
Hang Seng	24,719	24,793	0.3
Sensex	57,997	57,892	(0.2)
India FII (US$ mn)	**15-Feb**	**16-Feb**	**Chg ($ mn)**
FII-D	(34.6)	(60.4)	(25.8)
FII-E	(183.9)	(48.9)	134.9

Source: Bank of Baroda Economics Research

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BUTTERFLY GANDHIMATHI APPLIANCES | Consumer Durables | 18 February 2022

Fast-growing, pan-India branded play

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We interacted with the management of Butterfly Gandhimathi Appliances (BGAL, Not Rated) to gain a perspective on the company's growth prospects and sector outlook. Key takeaways:

Leading manufacturer of kitchen and electrical appliances: Over the years, BGAL has evolved from being predominantly an LPG stove manufacturer and a B2B player supplying to state governments to a branded kitchen appliances company with a reasonably diversified product portfolio. It has a solid foothold in India's southern market and a wide market reach comprising 500+ exclusive distributors catering to 25,000+ retail points across India. The company manufactures its core products (70-75% of the revenue mix) in-house, ensuring better quality, high operating leverage and stronger margins.

Transition from B2G to B2C has boosted margins: BGAL's historical operating margin was in low-single-digits as ~50% of its revenue came from the B2G segment (Tamil Nadu and Pondicherry) as on FY16. The company has successfully completed its transformation into a B2C player with 100% of revenue coming from branded sales. It has a similar gross margin profile (~42% in FY21) to other household appliance peers with a steadily narrowing gap on EBITDA margin and on trading multiple. Management expects low-double-digit margins ahead (vs. 9.2% in FY21) given launches, operating leverage and a rising share of non-south markets.

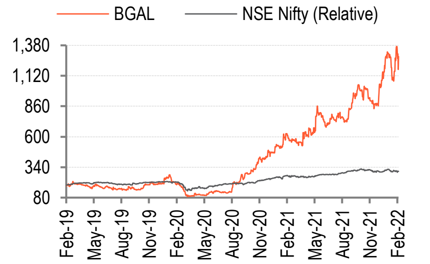
Working capital discipline in focus: Management indicated that it is focused on reducing the working capital cycle, which will have a positive impact on the bottom-line and on return ratios. The company had working capital days of 83 in FY21 vs. 137 in FY19.

Strong brand power to drive growth: BGAL looks well positioned to benefit from continued growth in the domestic kitchenware segment, led by strong historical patronage of the 'Butterfly' brand, continuous product innovation and premium quality. A growing export opportunity, in-house manufacturing and a wide after-sales service network should also support growth.

Ticker/Price	BGAL IN/Rs 1,281
Market cap	US$ 304.88mn
Free float	35.2%
52wk high/low	Rs 1,399/Rs 1,054
Promoter/FPI/DII	65%/1%/34%

Source: NSE | Price as of 18 Feb 2022

Stock performance



Source: NSE

OIL & GAS

18 February 2022

Expert call: Refining and shipping outlook

- **Current refining demand growth expectations may prove conservative, keeping refining and product markets tight**
- **Crude tightness to ease with pickup in OPEC and non-OPEC supply. Lifting of Iranian sanctions could significantly loosen crude market**
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We hosted Anoop Singh, Head and Principal Analyst, Tanker Research at Braemer ACM Shipbroking and Axel Siepmann, Managing Director of Braemar Naves. Key takeaways from the call:

IEA demand growth forecast for CY22 could turn out to be conservative: Post pandemic recovery in fuel demand (including for jet fuel) could surprise on the upside if we extrapolate the recovery seen in the US.

Real threat to long-term gasoline demand may be overhyped: A study of the US demand revival suggests that underlying behaviour is changing. Longer travel, longer commutes to office and increased use of SUVs are supportive of demand.

Iranian supply a risk for crude price: Illegitimate Iranian crude trade could potentially be of the order of 1mbpd and is transported via old tankers, which would otherwise have left the trading fleet. Upon lifting of sanctions, stored crude could immediately hit the market and further supply can potentially increase to 2-2.5mbpd.

Tanker market to turn strong within two years: Reduction in oversupply and improvement in demand should help the tanker market rebound by Q3CY22 and strengthen it by CY24/CY25. As Iranian storage trade comes to an end, the scrapping of older vessels will help improve utilisation levels. At least 8% of vessels are 20 years old and shipyards cannot deliver new tankers soon.

Tanker demand poised for strong recovery: Growth in non-OPEC supply will be positive for dirty tanker tonne miles. Crude flow from West to East of Suez is likely to grow by 2.6mbpd over the next 3-5 years. Similarly, refinery closures in OECD countries could increase demand for refined products from the Middle East, India and Far East by 1.5-2.0mbpd over the next five years. Long-haul flows for gasoil and naphtha are especially positive for LR2 (100kt ships) and MRs (<55kt).

Container congestion unlikely to materially ease this year: Meaningful reduction in container congestion, at either loading or discharge sites, looks unlikely.

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Note: Recommendation structure changed with effect from 21 June 2021

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