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Mumbai

CRISIL Research assigns fundamental grade '3/5' to Gandhimathi Appliances Ltd

CRISIL Research has assigned a CRISIL IER fundamental grade of "3/5" (pronounced "three on five") to Gandhimathi Appliances Ltd (Gandhimathi). The grade indicates that the company's fundamentals are 'good' relative to other listed equity securities in India. CRISIL Research has assigned a valuation grade of 4/5, indicating that the market price has an 'upside' from the current levels. Our one-year fair value of the stock is Rs 378. The grades are not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The assigned fundamental grade takes into account strong growth in the branded kitchen appliances industry in India driven by growing disposable income, increase in urbanisation and rising number of new gas connections following a surge in the number of nuclear families. Gandhimathi will be a major beneficiary of this strong growth due to: a) its leading market position - a leader in the organised kitchen appliances industry in South India across all product categories except pressure cooker; b) strong brand recall - 'Butterfly' has a strong consumer recall in the southern markets, especially in Tamil Nadu; and c) well-entrenched distribution network of 165 exclusive distributors. It also has tie-ups with oil marketing companies for distributing gas stoves, which enables it to penetrate the market faster. The grade is supported by an experienced management team, which has turned around the company from a sick unit to a profit-making company between FY03 and FY08.

The grade is, however, impacted by intense competition from organised players such as TTK Prestige in the South; and Hawkins, Sunflame and Bajaj Electricals in the North. Additionally, the company faces competition from numerous unorganised players, who compete on lower pricing. The grade is also constrained by Gandhimathi's high gearing at 1.7x and relatively higher working capital of 83 days in FY11.

Financial outlook

CRISIL Research expects Gandhimathi's revenues to grow at a two-year CAGR of 56% to Rs 6.6 bn by FY13 driven by the inherent strong consumer demand and the recently bagged order from Tamil Nadu government for supplying table-top wet grinders and mixer grinders. EBITDA margin is expected to remain stable at 10.5% in FY13. EPS is estimated to grow at a two-year CAGR of 36% to Rs 24.7 in FY13 and RoE is estimated to remain healthy at 40%.

Valuation grade (4/5 – current market price has an upside)

CRISIL Research has used the discounted cash flow method to value Gandhimathi and arrived at a one-year fair value of Rs 378 per share. At this value, the implied P/E multiples are 15.3x FY12E EPS and 15.3x FY13E EPS.

About the company

Chennai-based Gandhimathi, incorporated in 1987, is a manufacturer of kitchen appliances with a major presence in South India, especially in Tamil Nadu. It is promoted by Mr V. Murugesu Chettiar, who launched the 'Butterfly' brand of stainless steel kitchenware products in 1970. This brand, over the past three decades, has become a household name in South India. The company has a manufacturing facility in Pudupakkam, near Chennai. The company was declared a sick unit in 2003 but became profitable in 2008.

About CRISIL Independent Equity Research

CRISIL IER (Independent Equity Research) is an independent, unbiased opinion on fundamentals and fair valuation of the company. CRISIL IER encompasses a comprehensive analysis of the four pillars of sustainable value creation, namely: Industry and business prospects, financial performance & outlook, management capabilities and corporate governance.

About CRISIL Fundamental and Valuation (CFV) Matrix

The CFV matrix addresses two important aspects in investment making decision - analysis of fundamentals (addressed through fundamental grade) and analysis of returns (valuation grade). CRISIL's fundamental grade represents an overall assessment of the fundamentals of the company graded in relation to other listed equity securities in India. The grade facilitates easy comparison of fundamentals between companies, irrespective of the size or the industry they operate in. A CRISIL IER fundamental grade of '5/5' indicates 'excellent' fundamentals and a fundamental grade of '1/5' indicates 'poor' fundamentals relative to other listed equity securities in India. CRISIL's valuation grade represents an assessment of the fair value of the company's stock for an equity investor over a 12-month period. The 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). A CRISIL IER grading should not be construed as a recommendation to invest in the graded security, nor a comment on suitability of a particular investment for the reader.

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