



“Butterfly Gandhimathi Appliances Limited Q4 FY’20
Earnings Conference Call”

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APPLIANCES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Butterfly Gandhimathi Appliances Limited Q4 FY '20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mayuresan V.M.G. from Butterfly Gandhimathi Appliances Limited. Thank you and over to you, Sir.

Mayuresan V.M.G.: Thank you very much. Good Evening everyone. This is Mayuresan, we hope everyone is safe and healthy as we all know the COVID has changed day-to-day life for everyone. We move to work from home from March 21st when lockdown was imposed. During the lockdown period, we conducted various video conferences as well as calls and we were in constant touch with our distributors and dealers. Slowly and gradually activity has resumed. Our manufacturing facility resumed production in mid-May. Post the listing of lockdown, the demand is coming back and we are seeing improvement on a daily basis. Having said that, the sales loss happening in April and May will be difficult to cover up during this year. We can discuss more about the COVID during the Q&A session as most of you will have specific questions around it. Let me give you a quick update on the quarterly financials. Q4 started well, but due to the lockdown in the last 10 days, it had a huge impact on our quarterly financials. We lost about 40 crores of revenue during that period. We closed the year by doing about Rs. 110 crores revenue compared to 150 crores previous year. Similarly, profitability of the company also got impacted due to lesser revenue. The inventory is also high because of sales loss because of the lockdown. The net of the balance sheet as on March 2020 is about 170 crores, compared to 154 crores the previous year. We can now proceed to question and answers.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question and answer session. The first question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: Thank you Mayuresan and I think it is a tough time, I think there are two questions from me, one is to understand what is the cost-cutting and what is the breakeven level for us and where are we in terms of the daily sales that we are seeing and how do we see next four, six, eight weeks till we get to the breakeven, and second is related question is that what is the kind of cash loss that you were looking at in this entire COVID period let us say from March 15th till the time that we had started during cash breakeven and how do you propose to fund that cash loss?

Mayuresan V.M.G.: What we are looking at is, definitely there will be some degrowth but day-to-day we are seeing very good demand from the market. There are good symptoms which we are seeing every day, every day the market is improving but the revenue loss which is happening in April and May will definitely affect this year. For that, we are currently working on very strong cost-cutting measures. What we are planning for this year is, it is very hard to tell at this point, but by the end of the year, we want to achieve a breakeven scenario, we do not want to end in loss for this

year even if there is some degrowth. On the cash flow part, yes, there is a cash loss which has happened because of April and May losses. We are currently talking with our banks to raise temporary cash flow, temporary loans, which we want our debt to come back to normal by year-end, so this will be a temporary phase where we will be raising some debt from the banks.

Ashish Kumar: Mayuresan I think couple of things, one is I was looking for something more specific like when do we, what is our new breakeven, so let us say on cost cuts side, how much you think are monthly cash burn, monthly fixed cost would have come down to where they were let us say pre-COVID and where are they now, and second is in terms of sales let us say in the month of May how much have you done and let us say what is the expectation for the month of June if I can ask that specifically?

Mayuresan V.M.G.: I will not be able to answer revenue for the month, but what I can say is current fixed cost of about 10 crores per month, we want to reduce it by 20%, that is the target which we are working on and we are on target to do that.

Ashish Kumar: Our gross margin roughly is at 40%, do you see the gross margins changing in the post-COVID world or do you think the gross margins would be kind of flat?

Mayuresan V.M.G.: It will be similar, we do not see any change their at this point.

Ashish Kumar: Basically, if you have to look at in EBITDA breakeven and this cost is below the interest payment I believe?

Mayuresan V.M.G.: I am talking not about EBITDA breakeven, I am talking about PAT breakeven.

Ashish Kumar: But I am saying the fixed cost that you talked about 8 crores let us say 10 crores going down to 8 crores that is net of interest payment?

Mayuresan V.M.G.: No, that is only the fixed cost without interest payment, but what our target has to do breakeven at the PAT level.

Ashish Kumar: This problem is that unfortunately what happens in the second half of the year nobody knows what happens or how the *Diwali* goes and everybody hopes that by August-September everything will come back to normalcy, nobody knows how things are going to pan out, right, it is an uncertain world, so what I was looking was that how much it happens because when I look at your balance sheet side, I look at a debt which is already almost 170-180 crores of debt?

Mayuresan V.M.G.: The debt is at 170 crores, yes, we are seeing some positive sense in the market currently as we speak, day by day it is changing, but our internal working is to reduce cost in such a way that even if there is a very steep degrowth, we should be able to breakeven. We cannot get into a loss scenario, that is how we are working. If there is a positive offshoot, we will be better off in a better way.

- Ashish Kumar:** When you say degrowth, it would be at what level, 500 crores, 600 crores level what is the number at which you can achieve the breakeven?
- Mayuresan V.M.G.:** It is very hard to say Mr. Ashish because internal working we are working in a very, very worst case scenario basis, but ...
- Ashish Kumar:** What is your worst case scenario in terms of degrowth let us say?
- Mayuresan V.M.G.:** At this point, we feel that a month back we had a different feeling and now we have a different feeling. We feel that we are planning to work in such a way that even if we degrow at 20%-25%, we should be able to sustain and do breakeven.
- Ashish Kumar:** When you say a month back you had a different thing, now you have a different thing, do you think that is a reasonable expectation of 20%-25% degrowth or do you think it will be higher than that?
- Mayuresan V.M.G.:** It was higher than that. Now, we are seeing more than our expectation, the market is better. We are seeing a very positive sign happening in the market.
- Ashish Kumar:** In first quarter May-June we will have a cash breakeven or not?
- Mayuresan V.M.G.:** First quarter will be negative for sure, by end of year definitely we will be achieving the breakeven, but first quarter is a loss because the sales loss is happening in April and May, it is very hard to bring back.
- Moderator:** Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.
- Prashant Kutty:** Firstly, you spoke about that in this current scenario you are looking at about degrowth of 20%-25%, could you tell us which is what we are getting to hear from the market is that, in the low end there is a lot of activity happening and we are pretty much are there in the lower end and also online sales are doing pretty well and if I am not wrong all the channels and all were supposedly those were our areas of growth, so any reason as to why we are probably looking at such kind of degrowth given that online and other alternate channels were probably growing a lot for us, how would the blend be over there?
- Mayuresan V.M.G.:** Online is doing very, very good at this point, even the retail market is coming back, but what we are giving you is the worst case scenario where we will have to be prepared to cut down the expense in that way, but definitely we will be doing better than that seeing the current market conditions.
- Prashant Kutty:** If you were to give us some numbers in terms of how has the year ended, let us say online sales or panel wise, if you could just give us some sense in terms of how things will different channels and also in terms of how is the sales across various segments?

- Mayuresan V.M.G.:** If you see the year ended, if you see the alternate channels the new channels which is the online modern trade and export as well as corporates, we did a revenue of about 220 crores which was about 120 crores in FY '19, so we had almost a double growth in these new channels about 90%-95% of growth. The majority of growth happened only in the online channel, where the year before we were only at 45 crores, we had a majority of growth in this channel because our base was very, very small.
- Prashant Kutty:** How much would be retail?
- Mayuresan V.M.G.:** If you see the entire retail, we had a growth of about 17% and if you take a channel like oil marketing companies, we had a degrowth of 44% so net growth of the company is about 4%.
- Prashant Kutty:** What was the traditional retail, Sir, you said grew by 17%?
- Mayuresan V.M.G.:** No, not traditional, the entire retail with new channels.
- Prashant Kutty:** Traditional retail?
- Mayuresan V.M.G.:** Traditional retail, I do not have the data now, Prashant, I will get it you later.
- Prashant Kutty:** You said OMC has declined by 45%?
- Mayuresan V.M.G.:** 45%, correct.
- Prashant Kutty:** Could you give us how is the annual sales in terms of segment wise in terms of how the trend has been across categories?
- Mayuresan V.M.G.:** If you see category wise, the appliances category has actually grown very well. If we take a product like mixer-grinder, we had a growth of about 12%, gas stoves we had a growth of more than 40% and if you take cookers, we had growth of about 30%, these are the major three categories which have grown for us. All other categories were about the same, we did not see any growth in the other product categories, they were flat.
- Prashant Kutty:** They were flat because of the COVID quarter?
- Mayuresan V.M.G.:** Correct.
- Prashant Kutty:** So when you are saying that things are picking up when you are talking about you are probably feeling better in a month-on-month basis, are there any specific category trends we are probably seeing which is typically when you are trying to hear is that when you are more at in-home, there is probably increasing trend for mixer grinders, gas stoves and so on and so forth, maybe certain other appliances, so are we kind of seeing similar trends across if you could just kind of give us some sense on that?

- Mayuresan V.M.G.:** Because of people cooking more at home and making cooking food at home, we are seeing a lot of opportunity in gas stoves, mixer grinders, and pressure cookers, these are the three categories which we are seeing very high demand especially in e-commerce and now it is also happening in the retail channel as well, traditional retail as well.
- Prashant Kutty:** Even after seeing this kind of demand, you still think probably at this point of time I am looking at a 20%-25% degrowth for the year?
- Mayuresan V.M.G.:** We are working in such a way that even if that happens, we should be at a breakeven level on a worst case scenario, but our internal estimate is better than that. Currently, it is very hard to give that estimate, Prashant, maybe when there is a Q1 results call, we will be better equipped to give that information.
- Prashant Kutty:** But just for the sake of calculation that if I just kind of think of it actually, assuming that there is about a 25% decline in my sales as well as it will probably end up with, I am just going by whatever you are just saying right now, I end up with about 500 crores of sales assuming not even a 45% gross margin or 40% gross margin and end up with about 200 crores of gross margin numbers and you said that I have 10 crores fixed cost monthly, is that a fair assumption, you said you plan to reduce it by about 20% even if I go by the 10 crores number I am looking at about 120 crore number? When you are talking about breakeven, are you talking about breakeven at an EBITDA level or you are talking about breakeven at a PAT level?
- Mayuresan V.M.G.:** At the PAT level, if we see the worst case scenario in that case even our advertisement expenditure and other variable expenses will also be cut for this year.
- Prashant Kutty:** When you say this fixed cost, this also includes the employee cost and all of this stuff?
- Mayuresan V.M.G.:** Mainly the employee cost, yes, you are right.
- Prashant Kutty:** Ideally, when I am talking about in a particular quarter if I do roughly about 250 to 255 crores of cost which is your employee and other cost, you are saying that only 30 crores will be in the balance, 25 crores is variable which is something which you can probably work?
- Mayuresan V.M.G.:** Yes, correct.
- Prashant Kutty:** Last bit Sir, you said what could be the debt increasing up to, if you could just give us some sense on that?
- Mayuresan V.M.G.:** Debt at end of March 2020 was 170, we want to maintain a basic level. Temporarily, we will be increasing to a tune of 20-25 crores, but end of year we want it to come back to 170 crores at the same level.

- Moderator:** Thank you. The next question is from the line of Viraj Mehta from Equirus PMS. Please go ahead.
- Viraj Mehta:** Sir, assuming that we do a 500 or 550 crores of sales, in that scenario, what is the kind of, we will cut back on entire advertisement and what is our advertisement cost as a percentage of sales, what was it last year?
- Mayuresan V.M.G.:** What will happen is if you take our advertisement and promotions, one major chunk of it is above-the-line activities, which was pure advertising and one major chunk is the below-the-line activities, so we will take a call in such a way that we will start reducing at below the line and probably go with above the line, we have not taken that call yet, but that would be the call at that point.
- Viraj Mehta:** Sir, what we want to understand is if let us say if we do 550 crores sales and you say we break at PBT level, is it fair to assume that every incremental sales that we do after that 550 crores and we generate 40% gross margin, all of that goes to our PBT or will there be any other incremental cost post that?
- Mayuresan V.M.G.:** Except freight every other profit will go to the PBT level.
- Viraj Mehta:** Sir, just one last question in a scenario like this where a lot of Managements have taken reasonable compensation hit to their own because profits are going to be significantly lower, our company have we taken any call on that?
- Mayuresan V.M.G.:** Yes, we have done it, we have done it in such a way that different slabs of pay will take different cuts, we have already done it. We have done it from the month of May and we will continue it until the year-end.
- Viraj Mehta:** Sir, if you can what is the key management remuneration down by?
- Mayuresan V.M.G.:** As of now, it is around 20%.
- Moderator:** Thank you. The next question is from the line of Jayakanth Kasthuri from Way2Wealth Securities. Please go ahead.
- Jayakanth Kasthuri:** Sir, in terms of your current situation with regard to your dealer or distributor and how do you see in terms of product wise sales happening right now, if you can give some color on that?
- Mayuresan V.M.G.:** We are currently day by day it is changing Mr. Jayakanth, it is getting better. If you take products like mixer grinders, pressure cookers, and gas stoves there is a lot of demand which is happening at this point, so we are actually very positive about the current situation.
- Moderator:** Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

- Prashant Kuttu:** Sir, firstly if I could just again ask about the dealer part, how are we pretty much supporting our dealers and the distributors, anything that we are probably extending to them in the form of an extra credit or anything of that sort, if you could just speak it across channels, how is that position?
- Mayuresan V.M.G.:** Prashant, what we are currently doing is we are currently helping them in bringing channel finance, so that they are getting extended credit and we will be getting paid soon, so we are helping them to bring that from the company level that is helping them actually.
- Prashant Kuttu:** What will be the extent of channel finance right now we have in our system?
- Mayuresan V.M.G.:** Currently we have bought 50 crores of limit from the channel financing.
- Prashant Kuttu:** Is there any endeavour in terms of how much you want to reach to in terms of channel financing?
- Mayuresan V.M.G.:** It was 30 crores last year, now it has come to 50, 20 crores have been added and we are adding another 20 crores in another two months' time.
- Prashant Kuttu:** What about apart from that, Sir, obviously still that will be a sort of very big amount if I look at the receivable numbers, so firstly Sir what is that we are doing in terms of our receivables, how are we looking to kind of normalize that because at the channel level, online channel and all of them the receivable days are much higher, so what is the outlook on that Sir as far as channel receivables are concerned?
- Mayuresan V.M.G.:** Actually new channels are better currently, especially if you take online we are actually using if you take a channel like Flipkart, we are currently using immediate payment scenario where we get paid in seven days and we offer a cash discount to them and even modern retail is at 30 to 40 days only area is the traditional retail where it goes up to 60-75 days, what we are currently doing is we have tied up most of our big distributors with the channel finance, which is helping us.
- Prashant Kuttu:** We are not really expecting that number should kind of go up from here on, what would be our receivable levels which you are looking at from your targeted perspective?
- Mayuresan V.M.G.:** Receivable by March 2020 was 61 days, we want it to remain at around 60 days level.
- Prashant Kuttu:** What will be the inventory in the system, Sir, at this point of time both at your dealer-distributor level and at your level?
- Mayuresan V.M.G.:** At our level it is about 90 days, in the supply chain there will be another 30 days of inventory.
- Prashant Kuttu:** Okay, what is the usual level of inventory because that seems to be little too high or is it not so?

Mayuresan V.M.G.: Because last 15 days, the sale was completely lost. We had lost about 40 crores of sales in the last 10 days because of the sudden lockdown.

Prashant Kutty: So typically again over here like you said there are almost 90 days of inventory at your level, again you said that at the channel level 30 days, have you seen that wherever the lockdown has opened up faster or wherever the things have opened up faster, over there the supply has resumed back in terms of the channel asking you for supplies, as in March you said there is a number, how would this number have changed let us say going into June right now as the inventory at your level reduce and to what extent?

Mayuresan V.M.G.: Now, what we are doing is we are actually running manufacturing on fully basis because there is a lot of demand coming, most of our plants are running at full capacity now and by end of this month, there will definitely be a reduction of more than 10 days in inventory.

Prashant Kutty: You are saying that you have seen about 10 days reduction in inventory?

Mayuresan V.M.G.: Yes.

Prashant Kutty: Sir, couple of things over here in terms of if I look at our numbers for the last year let us say for the June quarter, I believe April would have been zero for us maybe to an extent even half of May have been zero for us, just trying to understand that typically we did about 150 odd crores of business last year, obviously the April quarter is going to be a pretty much of washout for us, I am just asking when you are talking about breakeven, are we talking about the full year for the quarter because the quarter the number would be pretty sharply down and maybe that will continue in the next quarter as well, just trying to understand that what gives you confidence on the breakeven part?

Mayuresan V.M.G.: Prashant, breakeven will be for the full year, Q1 will definitely not be breakeven, Q1 we have lost more than 50 days of sales, so Q1 can never not be a breakeven, we will be only touching close to 40%-45% of our targeted sales in Q1, so by end of year we are very confident of breakeven, one of the main reason is there is a lot of cost-cutting and that will help us to do that and on the other side, we are seeing very positive demand which is happening at this point, day by day it is getting better.

Prashant Kutty: Sir, I understand obviously it is a very difficult scenario, but just probably stretching a little bit over here in terms of our fixed cost, relatively the fixed cost is about 10 crores per month, you plan to reduce it by 20%, so yes percentage per sector, but obviously at a value level it is obviously much lower, is there a case that you probably can look for a higher cost-cutting because it is going to be a very difficult year, is there a scope for cost cut down further sharply or do you think this is the best we can do?

Mayuresan V.M.G.: Prashant, there is definitely a bigger scope, if you take our advertising and promotions, we spent about 9% to 10% of our revenue on that. If there is a case the way which we need to do that, we will be reducing that cost for this year.

- Prashant Kuttu:** What could it come down to?
- Mayuresan V.M.G.:** Currently, we wanted to remain the same but if there is definitely a bigger degrowth, we will at least bring that down by 3% to 4%.
- Prashant Kuttu:** Any other cost if you can probably look at, anything else which is there, any leakages which is there in the system which you can also reduce?
- Mayuresan V.M.G.:** This would be the major heads, but there are smaller heads also which we are working at the company level, we are looking at every heading of cost.
- Prashant Kuttu:** One last question from my end Sir, given our interactions with a lot of other brands, what we are getting to hear is that some would get stronger because they are in a relatively better position as far as balance sheet and cash flows are concerned and probably the weak could get weaker, recently there are comments which has been, what would your comment be on the same as far as it is concerned, because like I said it also says that income are also under pressure, so probably there will also be a focus on value for money product as well where you pretty much fit in, so what would be your comments on the same when you are talking about the strong gets stronger and weak gets weaker?
- Mayuresan V.M.G.:** I can only comment about our company, for our company we are taking this is an opportunity to reduce cost on one side. On the other side since we have a strong emphasis on new product development, we want to bring very good products at a very good pricing, so we are using that as an opportunity.
- Prashant Kuttu:** I am asking are you looking at SKU rationalization as well in this year, is that also a part of our strategy?
- Mayuresan V.M.G.:** As per plan, we are going with new launches, so that is happening, we will be bringing some products in this segment as well as the value segment for this year.
- Prashant Kuttu:** For the existing portfolio, no plans for any SKU rationalization?
- Mayuresan V.M.G.:** That happens every year.
- Moderator:** Thank you. The next question is from the line of Rahul Gajare from Haitong Securities. Please go ahead.
- Rahul Gajare:** Sir, I have some questions more from a downturn perspective, now when we see this industry the entire brown goods industry whether it is home appliances or kitchen appliances and all, this is a fairly competitive industry. Now, I want to understand from you how do you see this industry evolving over the next three to five years, if you can actually give me examples on each category as to what are the development that are happening or how do you see a particular category shaping up or if you want you can stick to the larger category?

Mayuresan V.M.G.: Rahul, what is happening is every year there has been a lot of developments in our products, if you see Butterfly, we are one of the pioneers in bringing new products into this industry, but what we are trying to bring is we are trying to bring some revolutionary products which makes cooking easier, which reduces your time in the kitchen so that is happening. For example if you take a product like mixer grinder, we are bringing in patent in mechanism which will help you to reduce cooking time by 15% to 20%, so these are the things which we are building, there are lot of things happening for mixer grinders, pressure cookers and as well as the gas stoves. Gas stoves what is happening in the last three years, there has been a lot of efficiency increase in terms of pressure cookers, in terms of gas stoves so that will continue to happen, so this will be a broader idea of what is happening. If you have any detailed question, please go ahead.

Rahul Gajare: Now, just to understand this to the next level, like I said this is a very hypercompetitive intensity, you told me you are all looking at focusing on efficiency from each product category and all, what do you think is competition is really focusing on and what are the edge, which are the categories that you would say that you would have an edge over competition, that is just continuation of the question?

Mayuresan V.M.G.: Our major focus is on our main product categories are mixer grinders, gas stoves, pressure cookers, and tabletop wet grinders, we will continue to focus on all these four product categories. We will bring in lot of innovation in these categories at a very good pricing, so we are working on fantastic new models which will be coming soon. We want to increase our market share in all these segments.

Rahul Gajare: Sir, I just want to understand what we are seeing is the total market size of mixer grinder industry, gas stove, and pressure cooker, approximately should be good?

Mayuresan V.M.G.: If you go pre-COVID, we were one of the fastest-growing appliances brand in India, unfortunately COVID altered everything. We will continue to do that, I do not have the market size information of this product at this point, you can reach me separately for that.

Rahul Gajare: Sir, my second part of the question is that there has been so much of emphasis on domestic manufacturing, so I wanted to know, my second question has two parts, one is how much do you actually outsource and how much of products do you actually import from China and what are your plans to increase domestic sourcing/own manufacturing?

Mayuresan V.M.G.: If you take our entire product segment, about 80% of our product is manufactured in-house and about only 5% to 10% would be outsourced from China, around 10% or 15% is locally sourced.

Rahul Gajare: Whatever we are importing from China, you think that is possible to have domestic sourcing or that is difficult given the scale and the volume?

- Mayuresan V.M.G.:** 100% it is possible, we are working on that, we want to bring all our products to Make in India in few years time, that is the agenda which we are working on.
- Rahul Gajare:** Which are the products that you are all importing from China right now?
- Mayuresan V.M.G.:** If you take product like electric rice cooker, then you have kettles, breakfast appliances, these are all small product categories which we import from China.
- Rahul Gajare:** Sir, I remember reading on your companies you know that you have export forecast so I want to know what are we really doing on export, what are the growth drivers really in export and I am sure you will be getting competition from many Chinese companies also in the export market, so what is the advantage that you will have over some other players when we talk about export markets and how much is exports?
- Mayuresan V.M.G.:** If you take our exports, exports is around, last year we did about 15 crores of revenue in export. There is a lot of scope for us because our base is very small, we are talking with some big distributors and big retailers, primarily all our products cater to Indian population abroad, so we are talking with big retailers and we are trying to tie up with them.
- Rahul Gajare:** Sir, my last question, from the competitive perspective I just wanted to understand which are the competitors if you can name some of them, who are doing different things, somebody who is really trying very hard to really tap into this market in a big way, so which are the competition that you think are doing the right things or not doing the right things?
- Mayuresan V.M.G.:** Rahul, I cannot comment on that at this point.
- Moderator:** Thank you. The next question is from the line of Disha Sheth from Anvil. Please go ahead.
- Disha Sheth:** Sir, when you said mixer grew by 12% and gas stove by 40%, that is for FY '20, right?
- Mayuresan V.M.G.:** Correct, I am talking about the retail channel. If you take oil marketing companies channel, we had a degrowth of 45% that is mainly for gas stoves.
- Disha Sheth:** Sir, how much is our contribution to sales like mixer-grinder contributes how much to the sales?
- Mayuresan V.M.G.:** I am sorry I cannot give that data at this point, we will not be giving product wise information.
- Disha Sheth:** I mean which is the largest contribution to your sales, is it mixer grinder, gas stoves, or cooker?
- Mayuresan V.M.G.:** If you take our number one product would be the gas stoves, followed by mixer grinders, then pressure cookers, then tabletop wet grinders, these would be the major four product categories.

- Disha Sheth:** Sir, in terms of pressure cooker, I just industry wise wanted to ask are customers preferring stainless steel over aluminum, like what is the scenario?
- Mayuresan V.M.G.:** Aluminum is the largest selling currently, but there is a lot of improvement in demand for stainless steel. Stainless steel used to be very, very small, now it is becoming a big product segment.
- Disha Sheth:** Sir, how much is the price difference between both?
- Mayuresan V.M.G.:** It will be about 40% to 50%.
- Moderator:** Thank you. The next question is from the line of Priyam Khimawat from Infinity Alternatives. Please go ahead.
- Priyam Khimawat:** Sir, I just wanted to confirm what is our total advertising expenditure for FY '20 growth above the line and below the line?
- Mayuresan V.M.G.:** If you take FY '20, it was about at around 65 crores.
- Priyam Khimawat:** Okay, that is around 10% of our sales?
- Mayuresan V.M.G.:** Yes.
- Priyam Khimawat:** So if I look at your P&L basically, we do 42% gross margin and 6%-7% is our freight cost and 10% is our advertising, so net contribution would be around 25% of our sales, that is correct?
- Mayuresan V.M.G.:** Correct.
- Priyam Khimawat:** So if I assume 120 crores fixed cost base, we should be able to do an EBITDA breakeven at 460-470 crores, that is right understanding?
- Mayuresan V.M.G.:** Correct.
- Priyam Khimawat:** So when we are telling that we will be able to do a PBT breakeven this year, so our sales number should be a little higher than 450 crores for this year assuming that even second half is a little weak than what we are expecting, at around 450 crores we should do at least an EBITDA breakeven?
- Mayuresan V.M.G.:** Yes, correct.
- Priyam Khimawat:** Sir, any other cost levers which you think you can alter apart from advertising because freight will be what it is, apart from advertising any other cost levers which you think can alter during the course of the year to enable us to do a little better in case second half also turns out to be little bad than what are expected?

- Mayuresan V.M.G.:** We are also trying to see how we can optimize the warehouse, there is a good big warehouse cost which we want to reduce, we are also working on that. In fact we are working on every cost headings.
- Priyam Khimawat:** Sir, any other cost measures which you think have been completely removed from the system which were inefficient earlier before COVID and now we have understood that even without these costs we can survive as a company, even FY '22 onwards any such costs which you have removed from the system if you can quantify that?
- Mayuresan V.M.G.:** We do not have any of that thing, but what is happening is there is a lot of cost cutting which is happening everywhere. If you take expenses like travelling, even that will come down significantly, so we are trying to bring all the costs down.
- Priyam Khimawat:** Sir, my last question is out of the 650 crore sales, what is the online sales out of that, e-commerce for FY '20?
- Mayuresan V.M.G.:** E-commerce was about 145 crores.
- Priyam Khimawat:** Oil marketing channel would be around 70 crores, 10% of our sales?
- Mayuresan V.M.G.:** Correct, yes.
- Moderator:** Thank you. The next question is from the line of Lakshminarayan from ICICI Mutual Fund. Please go ahead.
- Lakshminarayan:** Sir, couple of questions, you mentioned that the oil marketing channel had declined a lot, what was the reason for that, is it something to do with the channel or something to do with the products or the product mix?
- Mayuresan V.M.G.:** Oil marketing company channel grows based solely on the new connections released and if you take in the last few years, they had something called as *Ujwala* scheme where they have to give new connections, the Prime Minister had announced to give about 7 to 8 crores new connections, which was completely over, so that scheme got withdrawn and the number of new connections were lower.
- Lakshminarayan:** Right now you mentioned that it is 70 crores in my view?
- Mayuresan V.M.G.:** Yes, correct, it will be around there.
- Lakshminarayan:** If you remove that 70 and the 220 crores which you mentioned then we will get the retail?
- Mayuresan V.M.G.:** Correct, traditional retail.
- Lakshminarayan:** In terms of traditional retail between South and non-South, what has changed in non-South in the last couple of years, will we be acquiring new distributors or what is the plan there?

- Mayuresan V.M.G.:** If you see non-South has grown really good for us, if you see non-South in the last three years, it has grown at around 50%-55% year-on-year. If you take the South taking all the channels put together, it has grown at around 12%-13%.
- Lakshminarayan:** Now, non-South is how much of our turnover now?
- Mayuresan V.M.G.:** Non-South is about 145 crores of revenue for us, talking only about the retail. Even if you take the, I do not have the oil marketing channel division at this point, but if you take the retail which is about 593 crores of sales taking all the new channel into account, around 145 to 146 crores of our sales is from non-South markets.
- Lakshminarayan:** This expense in terms of your advertising and sales, what is the mix of digital and non-digital or is it predominantly on promotions, 65 crores we spend across?
- Mayuresan V.M.G.:** About 40% would be pure advertising that is the ATL spends and remaining would be towards the below-the-line activities at the store level.
- Moderator:** Thank you. The next question is from the line of Dhaval Mehta from ASK Investments. Please go ahead.
- Dhaval Mehta:** My question is with respect to categories, I understand it is early days, but let us say in the month of May or June, which category has positively surprised you in terms of sales and which category has been relatively quite muted as compared to your internal estimates?
- Mayuresan V.M.G.:** Pressure cookers and mixer grinders are really doing well at this point majorly in e-commerce.
- Dhaval Mehta:** In traditional and modern retail, still they are slow to pick up?
- Mayuresan V.M.G.:** Traditional retail have just started, in the last few days we are seeing good symptoms in the traditional retail.
- Dhaval Mehta:** Structurally let us say in the post-COVID era you expect any of the category actually will be benefited by the COVID, so you expect traction in any of your categories?
- Mayuresan V.M.G.:** We feel that there will be an increased customer awareness that cooking at home is better, so that will definitely help us in a long-term.
- Dhaval Mehta:** My last question is you think that the terms of trade will be rewritten in the current scenario let us say, you terms are played with an e-commerce partner or with the traditional retail or modern retail because even they would have faced losses in last three months and to compensate there, they would have either asked for a higher margins or a higher rate to you, so do you think that the terms of trade will be rewritten across channel in ensuing months or quarters?
- Mayuresan V.M.G.:** We have not seen anything like that until now and we do not see any changes.

- Dhaval Mehta:** You expect that it will be the same be it margins on the credit period?
- Mayuresan V.M.G.:** At the margin level, it will be the same and the credit level there might be a little increase where we are looking at extending channel finance.
- Moderator:** Thank you. The next question is from the line of Aditya Mehta, an Individual Investor. Please go ahead.
- Aditya Mehta:** Thank you Sir for continuing with the con call even during this tough time, otherwise it would have been difficult for the guidance. Sir, just a question on non-South markets, so how have we been performing over the years if you see, and how we have been able to capture the market with comparison to our competitors?
- Mayuresan V.M.G.:** I do not have competitor information currently, we do not have that but if you see our non-South since our base is very small, we are growing very fast. If you take last three years, we have been growing at 55% year-on-year, if you take the compounded growth rate it will be at 55%.
- Aditya Mehta:** Okay, Sir agreed that we are going very fast since our base is low so what differently we are doing as compared to our competitors which is creating demand for our products because it is already saturated market if you see, there is no such market where there are no appliances are available, are we giving good margins to dealers or what different are we doing?
- Mayuresan V.M.G.:** If you see our products, we have been launching lot of very good products at good pricing, that is happening. If you see there are only very few brands which have a complete kitchen range where Butterfly is one of them, so people welcome our brand because of our quality and our pricing.
- Aditya Mehta:** Just one more thing, since we are developing many new products, so are we looking to diversify into something like related to hygiene products, which we can manufacture in our company?
- Mayuresan V.M.G.:** Currently, no.
- Aditya Mehta:** Related to marketing, if you see the trend has changed from eating outside to cooking at home, so now most of the people who cook at home are watching YouTube videos and then preparing it at home, so why not to tie up with those YouTube influencers or channel holders who have millions of followers and promote our brand over there?
- Mayuresan V.M.G.:** Yes, Mr. Aditya, that is a very good suggestion, we are actually in talks with some of them, we are actually working on that.
- Aditya Mehta:** Even on Instagram, there are short videos which are very popular which food channels are uploading over there, so we can tie up and increase our brand image over there?

- Mayuresan V.M.G.:** You are right, yes.
- Moderator:** Thank you. The next question is from the line of Lakshminarayan from ICICI Mutual Fund. Please go ahead.
- Lakshminarayan:** Did you give the growth of these four categories may be over the last one year or maybe the last five years or so?
- Mayuresan V.M.G.:** You mean the major product categories for us?
- Lakshminarayan:** No, you mentioned that the major categories are LPG, mixer grinder, cookers, and tabletop, now what has been the growth in revenues of these categories, is it something which I missed in the call?
- Mayuresan V.M.G.:** If you see for the last three years, if you take a product like mixer grinder we have grown at about 24%, if you take gas stoves we have grown slightly above 20%, pressure cookers have grown more than 35%, so if you take these are the three fastest growing categories for us in the last three years.
- Lakshminarayan:** What about the tabletop grinder?
- Mayuresan V.M.G.:** Tabletop is around 12%-13%.
- Lakshminarayan:** Now, in terms of these growth that is taking place, one is essentially the channel, you may be expanding the number of touch points we actually do, what has been the growth in the distributors as well as the retailer, what has been that and kind of attribution of this into how much has come from that and how much has come from deflating the competition?
- Mayuresan V.M.G.:** We have not increased distributors in the last two-three years, there has been little increase, dealer numbers have increased in non-South markets not majorly in the South market, but if you take new channels have played a big role. If you take channel like e-commerce, modern trade they have played a big role.
- Lakshminarayan:** Modern trade, any specific thing which you did that actually increased the sales in modern trade, did you actually do some kind of a private labeling or did you do any private labeling or everything is in Butterfly brand?
- Mayuresan V.M.G.:** Everything is done under the Butterfly brand, we have brought in lot of new products in the last two years, which had helped us get into the new channels.
- Lakshminarayan:** In terms of the, because the growth which you are showing is much ahead of the market because market has not grown this fast and you mentioned that this is because of your low base, but is it also to do with any kind of a product where you are distinctly different from the others, any specific feature where you are actually way ahead of the others?

- Mayuresan V.M.G.:** The growth which I gave is for the non-South market, that is because of very low base. If you take the other products, we have grown at 22%-23% which was because of very good new product launches.
- Lakshminarayan:** I see that in your previous presentation, you said that you have around 500 plus exclusive distributors and 25,000 retail points across India?
- Mayuresan V.M.G.:** Correct.
- Lakshminarayan:** These distributors like predominantly in South or what is the mix of the distributors across South and North?
- Mayuresan V.M.G.:** 70% will be in South and 30% would be non-South.
- Lakshminarayan:** You said that the dealers you have not really expanded much?
- Mayuresan V.M.G.:** Dealers have expanded in non-South market, even in South market it has expanded but the huge number of increase has happened only in the new market.
- Lakshminarayan:** Sir, our market is essentially Tamil Nadu so to that effect what change in the norms home market, the Kerala, Andhra, Karnataka, is our growth higher in those markets or we are growing even faster in Tamil Nadu than the others?
- Mayuresan V.M.G.:** If you take the southern markets, if you take Tamil Nadu last three years we have grown faster in Tamil Nadu than the other states, Tamil Nadu and Kerala have done really well for us, Karnataka and Andhra is growing now.
- Lakshminarayan:** Any Government orders or anything would come in the near future because it was in the previous election time we used to get, because post-elections there were some freebies given, but is there any other institutional order you think can actually come because we have actually been creating some capacity in terms of workforce and also the overall industry, right, is there a possibility to actually do something with that capacity to any kind of institutional, it could be a private label or anything?
- Mayuresan V.M.G.:** No, we will not be doing that Mr. Lakshminarayan, we will be only focusing on branded sales. We have decided not to go with any of the private label orders or the Government orders.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Mayuresan V.M.G. for his closing comments.
- Mayuresan V.M.G.:** Thank you everyone for participating in this conference. We will meet again after Q1 results with a better picture for FY '21, thank you again.
- Moderator:** Thank you. Ladies and Gentlemen, on behalf of Butterfly Gandhimathi Appliances Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.