BUTTERFLY GANDHIMATHI APPLIANCES LTD

**KEYTAKEAWAYS FROM ANNUAL REPORT 2015-16**

Your Company continued to deliver stable operational and financial progress during the period under review, with revenue increasing by 72% and net income improving by 337%. This was driven by optimization of various aspects of our business model right from widening the product portfolio with expansion of product categories to a steady operational performance from branded sales on the back of an improved distribution network to successfully executing the largest-ever volumes of government order sales in our history with emphasis on quality of our products.

Net branded sales performance (excluding component/spares) during the quarter was primarily impacted by macro-factors such as lukewarm festival sales, impact of natural disasters and slower than expected recovery in consumption, which led to a growth of 5.3% in the segment during the year. The revenues from sales against Government Orders were at Rs.461crore (gross) in FY16, as the order received in January 2015 was combined for two financial years and major part of execution of the order took place in FY16.

**Reasons of loss or inadequate profit**: Major share of the sales turnover for the financial year 2015-16 relates to the supply of Table Top Wet Grinders against the Tamil Nadu government order, where the margins are thin. This, combined with the sluggish market conditions and consequent competitive pricing, resulted in lower profit margins.

**Steps taken or proposed to be taken for improvement:** For financial year 2016-17, the Company has planned to introduce more premium quality products and enhanced focus on its retail business. This is expected to improve its profitability.

**Expected increase in productivity and profits in measurable terms:** The Tamil Nadu Government having completed distribution of its committed quantities of home appliances to the eligible households in the State during financial year 2015-16, no further order is expected. Therefore, there will be lower sales turnover. However, we are working towards sustaining the net profits at the same level as financial year 2015-16.

**REVIEW OF OPERATIONS:** Total net revenue from operations grew by 70.32% on a year-on-year basis from Rs.528.98 crores in financial year 2014-15 to Rs.900.94 crores in financial year 2015-16. Sales of branded products would have been higher, but for several challenges in the form of lacklustre, economic conditions, inflation, impact of free distribution schemes by the Tamil Nadu and Pondicherry governments and overall weak consumer sentiments during the festive season, especially in Tamil Nadu due to unfortunate floods. During the year, the Company has made steady progress in its initiatives to enhance its distribution network. The combined effect of high volatility in foreign exchange rates and market pressure against price revision resulted in lower profitability. In addition, the initiatives taken towards widespread advertising and marketing to augment sales and distribution network have resulted in an increase in cost for the Company, while these expenses are being incurred upfront, the benefit will accrue in later years through accelerated growth in sales. Hence, the management believes that the compression in profit margins of the Company is only temporary.

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Supplies made to the Tamil Nadu Government and Pondicherry Co-operative Wholesale Stores Ltd., i.e. Government supplies, comprised the lion's share of Company's sales turnover for the financial year ended on 31.3.2016. Having completed these supplies, the Company, for its current year's operations, is giving vigorous thrust on its branded sales, which will be supplemented by sales through agents of Liquefied Petroleum Gas, Canteen Stores Department, Chain Stores and online sales. The Company is also planning to add more variants of premium products. With the above effective steps towards notching up the sales turnover/profitability of the Company, your Directors are optimistic of better performance during the current financial year.

All the business activities contributing 10 % or more of the total turnover of the company shall be stated:-

| Sl.no | Name and description of main products/services | NIC code of the product/ service | % to total turnover of the company |
|---|---|---|---|
| 1 | LPG Stove | 27504 | 19 |
| 2 | Mixer Grinder | 27501 | 14 |
| 3 | Table Top Wet Grinder | 27501 | 49 |

**'Butterfly'** as a brand is synonymous with kitchen appliances and brand's popularity in South India is reflected in the facts that 85% of sales are derived from this geography. The wide portfolio allows the Company to gain foothold in new customer categories, while also allowing multiple opportunities for repeat customers. The wide portfolio allows the Company to gain foothold in new customer categories, while also allowing multiple opportunities for repeat customers.

**Professional team is the key strength and low attrition amongst them indicates a disciplined work force with strong job satisfaction levels:** The management comprises of a combination of some members of the Promoter family and professionals with long standing reputation in the industry. This high performance management approach has worked very well as is evident in the branded sales growth in the last four years.

**Integrated Product Distribution:** The Company has an expansive distribution network that reaches to about 18,000 retail points across India, fulfilling many customers' needs and demands. The Company operates through traditional distribution channels such as dealers and authorized distributors and also through institutional channels. The Company enjoys tie-ups with three major oil companies; IOCL, BPCL and HPCL for the co-branded distribution of the kitchen appliances. Over the years, the Company has consistently expanded its distribution network and is now spread across 400 distributors across the Indian map that display the entire range of Company's products under one roof. The Company is now also growing its market penetration across other key markets of non-South India, which will boost the distribution network even further.

**KEYTAKEAWAYS FROM ANNUAL REPORT 2015-16**

**Weaknesses**

**Concentrated market share:** The Company enjoys a high market share in the South-India region. In FY16, 85% of revenues came from these markets. The Company recognizes the need to diversify its market share and has implemented steps to improve concentration of revenues from regions such as North, Central and East India. It will continue to grow revenues from the Southern markets, while simultaneously focusing on improving the contribution of other regions in the revenue mix as well.

**Seasonality in Business:** The industry faces seasonal demand; the sales volumes are typically higher during the festive season. Ensuring timely and effective festival sales translates to higher operating costs. It thus remains challenging to correctly estimate and prepare for demand at a specific time of the year. Over-estimation leads to overstocking while under-estimation of demand leads to loss of potential revenue.

**High upfront cost for Expansion:** Over the last few years, Butterfly Gandhimathi Appliances has widened its consumer base by penetrating into newer and high-potential markets. While doing so, the Company has had to undertake investments to appropriately set up operations for a long-term presence in these markets and had to make additions to its human resources to formulate appropriate strategies to penetrate new markets. These upfront investments, the benefit of which will accrue over the next several years, have impacted the profitability for FY2015-16.

**Opportunities**

**All India Market Reach:** The Company has made significant efforts in investing in markets outside of South India. While it has spent significantly in this expansion, the positive benefits of these efforts will be felt in future with Butterfly as a brand reaching its consumers, All India and thus building a strong base for sustainable growth in future. With rising income levels, brand awareness and product accessibility, the market presents and share of unorganised segment in kitchen appliances is expected to significantly reduce in future.

Branded sales (excluding components/spares) during the year stood at Rs.468.2 crore as against Rs. 444.7 crore in FY15, despite unfavourable market conditions. Branded sales contributed 54% to the total Net revenue for FY16.

In line with the operational scale-up, the Company increased the total employee strength for most part of the year, which translated into marginally higher employee cost at Rs. 61.3 crore.

The Advertisement, Publicity and Sales Promotions cost during the year stood at 6.8% (Rs.67.95cr.) of the total revenues during FY16, reflecting the Company's efforts towards enhancing Marketing and Brand Awareness Activities.

**KEYTAKEAWAYS FROM ANNUAL REPORT 2015-16**

(₹ In crores)

| SALES (Value) | FY2015-16 |
|---|---|
| Branded Market | |
| Kitchen Appliances | 387.7 |
| Cooker/Cookware | 86.7 |
| Others | 13.1 |
| Total - Branded | 487.5 |
| Others (Components/Spares) | 46.5 |
| Grand Total | 534.0 |

During the year, the Company also won another order worth Rs. 90 crore from Pondicherry Co-op Wholesale Stores (PCWS) for the supply of Table Top Wet Grinders and mixer grinders.

On the whole, net revenues from Government order stood at Rs. 433 crore in FY2016 as against Rs. 84 crore in FY2015.

Supply to manifold consumers in Tamil Nadu has paved the way for enhanced customer base at the time of product replacement or upgradation, as most of the consumers are first-time users.

(₹ in crore)

| | FY 2015-16 |
|---|---|
| Government Debtors | 137.4 |
| Other Debtors | 120.0 |
| **Total Debtors** | **257.4** |

Details of the remuneration package of the Managing Directors and Wholetime Executive Directors during the financial year ended on 31.03.2016 are as follows:

(Rs.)

| Name of Director | Salary | Perquisites | Contribution to PF/ Super annuation funds | Total |
|---|---|---|---|---|
| Mr. V.M.Lakshminarayanan | 36,00,000 | 7,20,000 | 9,72,000 | 52,92,000 |
| Mr. V.M.Balasubramaniam | 23,60,000 | 4,72,000 | 6,37,200 | 34,69,200 |
| Mr. V.M.Seshadri | 34,80,000 | 6,96,000 | 9,39,600 | 51,15,600 |
| Mr. V.M.Gangadharam | 33,60,000 | 6,72,000 | 9,07,200 | 49,39,200 |
| Mr. V.M.Kumaresan | 33,60,000 | 6,72,000 | 9,07,200 | 49,39,200 |
| Mr. D.Krishnamurthy | 20,40,000 | 4,08,000 | 5,50,800 | 29,98,800 |