Fundamental Analysis and Equity Valuation of Hawkins and Butterfly

FINAL REVIEW REPORT

Submitted by

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Prepared For

Investment Analysis and Portfolio Management (MGT1042)

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(Deemed to be University under section 3 of UGC Act, 1956)

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1. ABSTRACT

In this project, I have done fundamental analysis and equity valuation on two companies belonging to the consumer-durables sector of the industry. The companies used for analyzing are from the Indian market, they are Hawkins Cookers Ltd and Butterfly Gandhimathi Appliances Ltd. The fundamental analysis tells the true value of a stock and it combines external factors as well as financial statements and trends in the industry. The equity valuation is done to track the effectiveness of the company's performance in terms of estimated change in value and also revenues.

2. SCOPE AND PURPOSE OF PROJECT

The objective is to evaluate the given companies and choose one of them for further evaluation and which company among them is best option for investing. Hawkins Cookers is the leader in the market of pressure cookers in India and it has exported its products to various other countries since 1974. Gandhimathi Appliances, owners of the "Butterfly" brand, is another leading manufacturer of home appliance in India. They acquired domestic kitchen and domestic electrical appliances division from the associate company LLM Appliances Limited in 2014.

3. INTRODUCTION

Indian consumer durables market is broadly segregated into urban and rural markets, and is attracting marketers from across the world. The sector comprises of a huge middle class, relatively large affluent class and a small economically disadvantaged class. Global corporations view India as one of the key markets from where future growth is likely to emerge. The growth in India's consumer market would be primarily driven by a favourable population composition and increasing disposable incomes.

EVOLUTION OF CONSUMER DURABLES MARKET

- 1980s and early 1990s Pre-Liberalization:

1. Closed market
2. Increased product availability, increased media penetration and advertising

- Mid and late 1990s Liberalization:

1. Liberalization of markets
2. Influx of global players such as LG and Samsung

3. Shift in focus from promotion to product innovation

 Early 2000s Growth:

1. Increasing availability and affordability of consumer finance provides impetus to growth
2. Low penetration of high-end products such as air conditioners (<1 per cent)

 Late 2000s Consolidation:

1. Companies look to consolidate market share
2. Indian companies such as Videocon gaining global identity
3. Increasing penetration of high-end products such as air conditioners (>3 per cent)
4. Companies targeting high growth in rural market

 2017 onwards:

1. Goods and Services Tax introduced from July 2017, with most electronics goods taxed at 18 per cent.

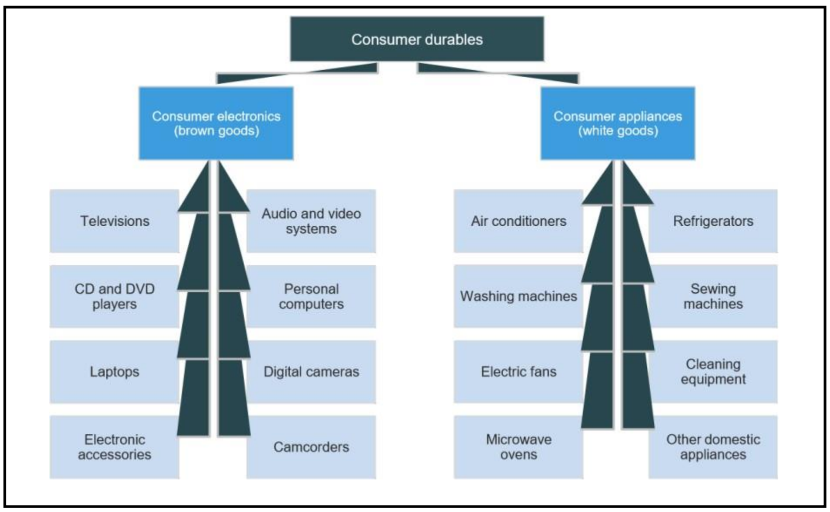


Fig. 1: Consumer Durables Types

As we can see in the fig.1 the consumer durables sector is divided into two major categories namely brown goods and white goods. The brown goods sector comprises of consumer electronics like televisions, laptops, camcorders etc. and white goods sector comprises of consumer appliances like air conditioners, domestic appliances and many more.

4. PLAN OF ACTION

Fig.2: Plan of action

To arrive at the final result, the following steps are followed:

- Identify the nature of the industry and review the history of the companies
- Review the economic outlook and outlook of the industry i.e. consumer durables industry
- Analyzing the financial statements by calculating the financial ratios
- Analyzing the WACC values and beta values through historical data
- Choosing one of the companies for valuation
- Income approach is applied i.e. Discounted Cash Flows model

5. ECONOMIC AND INDUSTRY ANALYSIS

ECONOMIC ANALYSIS

India's Economic Performance in 2019-20:

- India's GDP growth is expected to grow in the range of 6.0 to 6.5 per cent in 2020-21.
- GDP growth moderated to 4.8 per cent in H1 of 2019-20, amidst a weak environment for global manufacturing, trade and demand.
- In 2019-20, fiscal deficit was budgeted at Rs 7.04 lakh crore (US$ 99.56 billion) (3.3 per cent of GDP), as compared to Rs 6.49 lakh crore (US$ 91.86 billion) (3.4 per cent of GDP) in 2018-19.
- Inflation increased from 3.3 per cent in H1 of 2019-20 to 7.35 per cent in December 2019-20 due to temporary increase in food inflation.
- Reforms undertaken during 2019-20 to boost investment, consumption and exports:
  - Speeding up the insolvency resolution process under Insolvency and Bankruptcy Code (IBC).
  - Easing of credit, particularly for the stressed real estate and NBFC sectors.
  - The National Infrastructure Pipeline for the period FY 2020-2025 launched.

MONTHLY ECONOMIC REPORT OCTOBER 2019

- The growth of real GDP for the second quarter of 2019-20 was 4.5 per cent as compared to 7.0 percent in the corresponding period of previous year.
- The consumer price inflation stood at 4.6 percent in October 2019, as compared to 3.99 percent in September 2019.
- The Budget Estimate of the fiscal deficit for 2019-20 has been set at 3.3 percent of GDP, as compared to 3.4 percent in 2018-19 (Provisional Actuals).
- Growth of M3 (Year on Year (YoY) basis) as on 25th October 2019 stood at 10.6 percent, as compared to a growth rate of 10.0 percent as recorded in the corresponding fortnight end in the previous year.
- The value of merchandise exports and imports(in US$ terms) declined by 1.1 percent and 16.3 percent respectively in October 2019.
- India's current account deficit as percentage of GDP was 2.0 percent in Q1 of 2019-20, as compared to 2.3 percent in the corresponding period of previous year. Foreign exchange reserves stood at US$ 448.2 billion as on 15th November 2019, as compared to US$ 447.8 billion at end-March 2019.
- As per the first advance estimates for 2019-20, the total production of kharif food grains is estimated at 140.6 million tonnes.
- Index of Industrial Production (IIP) growth contracted by 4.3 percent during September 2019, as compared to a growth of 4.6 percent during September 2018.

ECONOMIC GROWTH

As per IMF's World Economic Outlook (WEO), October 2019, the global economic activity remained weak with growth for 2019 downgraded to 3 percent, which is slowest pace since the global financial crisis. Among the major economies, India's growth remained highest in the last five years.

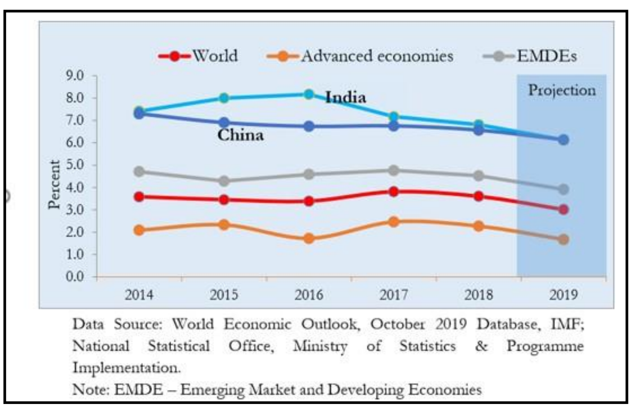
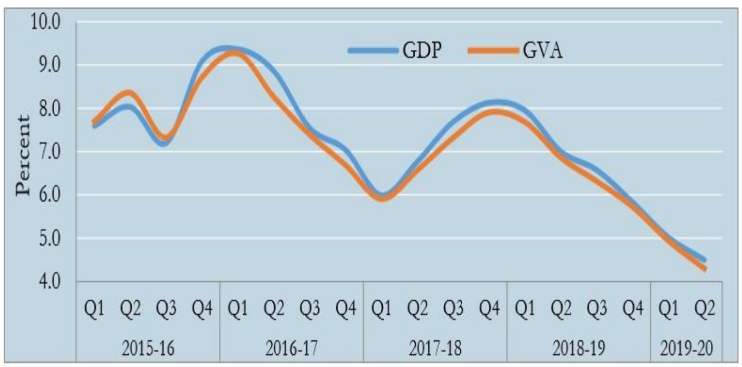


Fig.3: Growth of real GDP

From Fig.3, The subdued growth is a result of rising trade barriers, elevated uncertainty surrounding trade and geopolitics, idiosyncratic factors causing macroeconomic strain in several emerging market economies, and structural factors, such as low productivity growth and ageing demographics in advanced economies.

India's Economic Growth in Q2 of 2019-20

From Fig.4, the real GDP growth in second quarter (Q2) of 2019-20 is estimated at 4.5 percent, lower than 5.0 percent in first quarter (Q1) of 2019-20. The growth of real Gross Value Added (GVA) is estimated at 4.3 percent in Q2 of 2019-20



Data Source: National Statistical Office, Ministry of Statistics & Programme Implementation.

Fig.4: Economic Growth

INFLATION

- While consumer price inflation among the major economies mostly increased during the course of last five years, India's inflation declined significantly from 5.9 percent in 2014-15 to 3.4 percent in 2018-19
- Inflation based on Wholesale Price Index (WPI)

1. WPI inflation rate declined to 0.2 percent in October 2019, as compared to 0.3 percent in September 2019. WPI food inflation (food articles + food products) increased to 7.7 percent in October 2019 from 6.0 percent in September 2019, mainly on account of increase in inflation of vegetables and egg, meat & fish. Inflation in fuel & power stood at (-)8.3 percent in October 2019 as compared to (-)7.1 percent in September 2019.
2. Core inflation (non-food manufactured products) stood at (-)1.7 percent in October 2019, as compared to (-)1.1 percent in September 2019.

Fiscal Development

- The Budget Estimate of the fiscal deficit as percentage of GDP for 2019-20 has been set at 3.3 percent, as compared to 3.4 percent in 2018-19 (Provisional Actual (PA))

 The revenue deficit as a percentage of GDP for 2018-19 was 2.3 per cent (PA), as compared to 2.6 percent in 2017-18. The revenue deficit for 2019-20 is budgeted to be 2.3 percent of GDP.

 Money Supply (M3): Growth of M3 (Year on Year (YoY) basis) as on 25th October 2019 stood at 10.6 percent, as compared to a growth rate of 10.0 percent as recorded in the corresponding fortnight end in the previous year.

 Aggregate deposits of Scheduled Commercial Banks (SCBs) grew by 10.3 percent (YoY basis) as on 25th October 2019, as compared to 9.0 percent recorded during the corresponding fortnight end of the previous year.

INDUSTRY ANALYSIS

EXECUTIVE SUMMARY

- Indian appliance and consumer electronics (ACE) market reached Rs 2.05 trillion (US$ 31.49 billion) in 2017.
- It is expected to increase at a 9 per cent CAGR to reach Rs 3.15 trillion (US$ 48.37 billion) in 2022.
- Consumer durable exports reached US$ 362.12 million in 2018. Consumer electronics exports from India reached US$ 451.29 million in FY19.
- Television industry in India is estimated to have reached Rs 740 billion (US$ 10.59 billion) in CY2018 and projected to reach Rs 955 billion (US$ 13.66 billion) in CY2021

GROWTH IN CONSUMER DURABLES

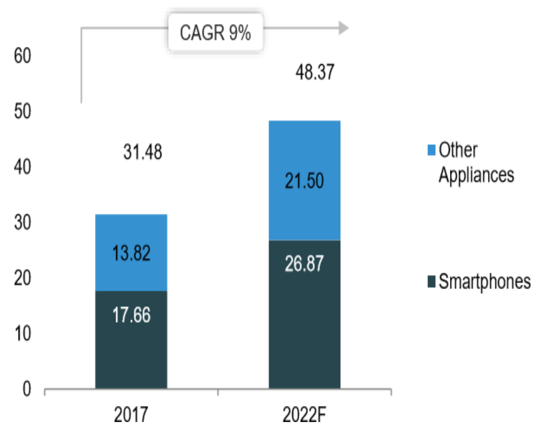


FIG.5: Indian Appliance and Consumer Electronics Industry (US$ billion)

- Appliance and consumer electronics (ACE) industry in expected to grow at 9 per cent CAGR during 2017-22 to reach Rs 3.15 trillion (US$ 48.37 billion) in 2022 from Rs 2.05 trillion (US$ 31.48 billion) in 2017

- Import of electronic goods reached US$ 53 billion in FY18.
- The Smartphone shipment witnessed a year-on-year growth of 9.3 per cent in July-September 2019 with 46.6 million units shipped.

- The consumer durables sector in India is expected to grow 8.5 per cent in 2018-19. Production of consumer durables under the Index of Industrial Production has grown 5.5 per cent year-on-year during April 2018-March 2019.
- As of FY18, washing machine, refrigerator and air conditioner market in India were estimated around Rs 7,000 crore (US$ 1.09 billion), Rs 19,500 crore (US$ 3.03 billion) and Rs 20,000 crore (US$ 3.1 billion), respectively.

- Imports contributed 20 per cent of domestic market for washing machines and refrigerators and around 30 per cent for air conditioners in FY18.

KEY RETAIL RELATED FDI POLICIES THAT WILL IMPACT CONSUMER DURABLES

 51 per cent FDI in multi brand retail (Status: Approved)

1. Minimum investment cap is US$ 100 million
2. 30 per cent procurement of manufactured or processed products must be from SMEs
3. Minimum 50 per cent of the first minimum tranche of US$ 100 million must be invested in back-end infrastructure (logistics, cold storage, soil testing labs, seed farming and agro-processing units)
4. Removes the middlemen and provides a better price to farmers
5. 50 per cent of the jobs in the retail outlet could be reserved for rural youth and a certain amount of farm produce could be required to be procured from poor farmers

 100 per cent FDI in single brand retail (Status: Policy passed)

1. Products to be sold under the same brand internationally
2. In 2015, according to revised FDI regulations single brand retail companies if desire to sell on ecommerce platform would be allowed only if they have license for setting up physical outlets
3. Sale of multi brand goods is not allowed, even if produced by the same manufacturer
4. For FDI above 51 per cent, 30 per cent sourcing must be from SMEs
5. Any additional product categories to be sold under single brand retail must first receive additional government approval
6. "Make in India" initiative to further strengthen the investments coming to India

GROWTH DRIVERS

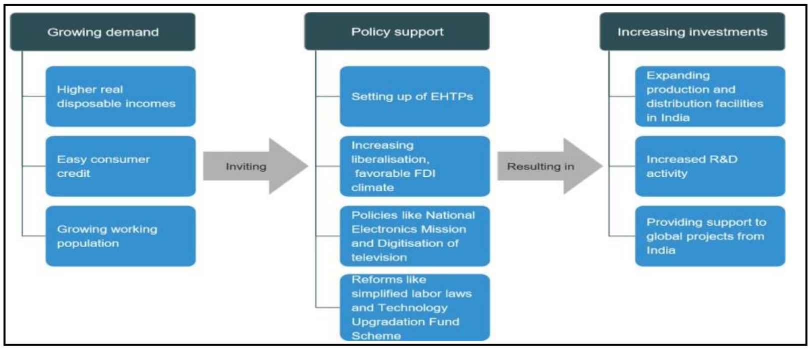


Fig.6: Growth Drivers

 INCOME GROWTH WILL BE THE KEY DRIVER OF DEMAND FOR CONSUMER DURABLE

1. Demand for consumer durables in India has been growing on the back of rising incomes; this trend is set to continue even as other factors like rising rural incomes, increasing urbanization, a growing middle class and changing lifestyles aid demand growth in the sector
2. Significant increase in discretionary income and easy financing schemes have led to shortened product replacement cycles and evolving life styles where consumer durables, like ACs and LCD TVs, are perceived as utility items rather than luxury possessions
3. Growth in demand from rural and semi-urban markets to outpace demand from urban markets
4. Growth in online retailing is a key factor to reach out as a newer channel for buyers, with increase in demand.
5. Per capita GDP of India is expected to reach US$ 3,274 in 2023 from US$ 2,135 in 2018.

POLICY SUPPORT AIDING GROWTH IN THE SECTOR

 CUSTOM DUTY RELAXATION:

1. Reduced custom duty on certain inputs like metals, wires, cables, refrigerators compressor parts will promote the production of consumer electronics in India.
2. Custom duty on LCD/LED TV reduced to nil from 10 per cent

 Encouragement to FDI:

1. 100 per cent FDI is permitted in electronics hardware-manufacturing under the automatic route

2. FDI into single brand retail has been increased from 51 per cent to 100 per cent; the government is planning to hike FDI limit in multi-brand retail to 51 per cent.

 EPCG, EHTP schemes:

1. EPCG allows import of capital goods on paying 3.0 per cent customs duty
2. EHTP provides benefits, such as duty waivers and tax incentives, to companies which replace certain imports with local manufacturing

NOTABLE TRENDS IN THE CONSUMER DURABLES SECTOR

 Expansion into new segments

1. In November 2019, Nokia entered in partnership with Flipkart to enter consumer durables market in India and plan to launch smart TVs.
2. In April 2019, TCL Electronic announced its entry into home appliances market in India.
3. Hyundai Electronics has ventured into the growing Indian consumer electronics and home appliances market

 Shared Economy

1. Rentals of home appliances are growing in urban areas of India due to free add-on services like relocation and periodic maintenance which are not available in the ownership model.
2. Start-ups like Rentomojo, Furlenco and Rentickle have come up in this space and offer rentals on furniture, appliances and other products

 Growing luxury market

1. Luxury brands like Porsche, Jimmy Choo are increasing their store presence
2. Luxury brands are launching their own websites to cater to Indian luxury brand market
3. The segment of affordable luxury brand has captured the young Indian buyer's attention and is said to be growing at 40 per cent per annum, according to Euromonitor.

 Increased affordability of products

1. Consumer durables loans in India increased by 68.8 per cent to Rs 5,445 crore (US$ 780 million) in September 2019.
2. With the initiative of "Make in India" campaign, many domestic and Chinese manufactures are investing in India to set up their manufacturing plants which would produce more affordable products

RECENT INVESTMENTS BY KEY PLAYERS

 In July 2018, Samsung announced an investment of Rs 5,000 crore (US$ 745.82 million) for expansion of manufacturing capacity to 120 million from 68 million devices at its Noida plant in India.

 In February 2019, Haier announced an investment of Rs 3,000 crore (US$ 415.80 million) as it aims a two-fold increase in its revenue by 2020.

- Oppo and Vivo, mobile phone makers, have decided to make the key components in India in the next one year. Samsung will also start manufacturing mobile phone components from April 2020 in its Noida facility, which is their largest mobile phone manufacturing plant in the world.
- As of April 2019, Xiaomi is making huge investments to expand into offline presence and expects the offline stores to generate half of the handset sales in India by the end of 2019.

- Vivo to invest Rs 7,500 crore (US$ 1.07 billion) to expand its production capacity in India.
- In September 2019, Hero Electronix announced investment of Rs 150-200 crore (US$ 22- 29 million) to enter into consumer space with Qubo, a tech brand.
- In October 2019, Apple Inc. entered in agreement with Maker Maxity mall, co-owned by Reliance Industries to open its first company-owned iconic outlet in India.

6. ANALYSIS AND VALUATION

BETA VALUE CALCULATION

Beta is a measure of an asset's risk in relation to the market like NIFTY or to an alternative benchmark or factors. According to the asset pricing theory, beta represents that part of the risk of the security called systematic risk that cannot be diversified away.

Here, levered beta is used as it measures the risk of a firm with debt and equity in its capital structure to the volatility of the market. Levered beta is commonly known as equity beta or beta. The beta is calculated using MSEXCEL using covariance method.

For Hawkins Cookers the beta calculated is,

Beta = 0.58871

B5 =COVAR(HAWKINS!H4:H246,NIFTY!H4:H246)/VAR(NIFTY!H4:H246)

	A	B	C	D	E
1					**CALCULATIONS**
2	**HAWKINS**				
3	**COST OF EQUITY**	**7.2960056614023700%**			Tax schedule
4	equity risk premium	3.90%			Interest Payment Schedule
5	beta	0.5887194			
6	risk free rate	5.00%			% OF EQUITY
7					% OF DEBT
8					

Similarly, for Butterfly Gandhimathi Appliances the calculated beta is,

Beta = 1.00925

B18 =COVAR(BUTTERFLY!H4:H246,NIFTY!H4:H246)/VAR(NIFTY!H4:H246)

	A	B	C	D	E
17	equity risk premium	3.90%			INTEREST PAYMENT SCHEDULE
18	beta	1.009251668			
19	risk free rate	5.00%			% OF EQUITY
20					% OF DEBT
21					

WACC CALCULATION

A firm’s Weighted Average Cost of Capital (WACC) represents its blended cost of capital across all sources, including common shares, preferred shares, and debt. The cost of each type of capital is weighted by its percentage of total capital and they are added together. WACC is used in financial modeling as the discount rate to calculate the net present value of a business.

WACC = (E/V x Re) + ((D/V x Rd) x (1 – T))

Where:

E = market value of the firm’s equity (market cap)

D = market value of the firm’s debt

V = total value of capital (equity plus debt)

E/V = percentage of capital that is equity

D/V = percentage of capital that is debt

Re = cost of equity (required rate of return)

Rd = cost of debt (yield to maturity on existing debt)

T = tax rate

In this project, I have used CAPM method to calculate the WACC value. Cost of Equity

The cost of equity is calculated using the Capital Asset Pricing Model (CAPM) which equates rates of return to volatility (risk vs reward). Below is the formula for the cost of equity:

Re = Rf + β × (Rm − Rf)

Where:

Rf = the risk-free rate (typically the 10-year U.S. Treasury bond yield)

β = equity beta (levered)

Rm = annual return of the market

The cost of equity is an implied cost or an opportunity cost of capital. It is the rate of return shareholders require, in theory, in order to compensate them for the risk of investing in the stock. The Beta is a measure of a stock’s volatility of returns relative to the overall market.

Equity Risk Premium (ERP)

Equity Risk Premium (ERP) is defined as the extra yield that can be earned over the risk-free rate by investing in the stock market. One simple way to estimate ERP is to subtract the risk-free return from the market return. This information will normally be enough for most basic financial analysis.

Levered Beta

Beta refers to the volatility or riskiness of a stock relative to all other stocks in the market.

Cost of Debt and Preferred Stock

Determining the cost of debt and preferred stock is probably the easiest part of the WACC calculation. The cost of debt is the yield to maturity on the firm's debt and similarly, the cost of preferred stock is the yield on the company's preferred stock. Simply multiply the cost of debt and the yield on preferred stock with the proportion of debt and

preferred stock in a company's capital structure, respectively. Since interest payments are tax-deductible, the cost of debt needs to be multiplied by (1 – tax rate), which is referred to as the value of the tax shield. This is not done for preferred stock because preferred dividends are paid with after-tax profits.

For Hawkins Cookers the calculated **WACC** was **4.28%** whereas the **WACC** value for Butterfly was **6.239%**.

F9 =B3*F6+B9*F7

	A	B	C	D	E	F	G
1					CALCULATIONS		
2		HAWKINS				2019	2018
3	COST OF EQUITY	7.2960056614023700%			Tax schedule	34.94%	34.61%
4	equity risk premium	3.90%			Interest Payment Schedule	2.68%	3.05%
5	beta	0.5887194					
6	risk free rate	5.00%			% OF EQUITY	44.38%	
7					% OF DEBT	55.62%	
8							
9	COST OF DEBT	1.87%			WACC	4.28%	
10	average yield on debt	2.87%					
11	tax sheild	34.77%					
12							
13							

F22 =B16*F19+B22*F20

	A	B	C	D	E	F	G
14							
15		BUTTERFLY				2019	2018
16	COST OF EQUITY	8.9360815069218900%			TAX SCHEDULE	36.37%	42.64%
17	equity risk premium	3.90%			INTEREST PAYMENT SCHEDULE	8.18%	6.29%
18	beta	1.009251668					
19	risk free rate	5.00%			% OF EQUITY	40.84%	
20					% OF DEBT	59.16%	
21							
22	COST OF DEBT	4.38%			WACC	6.2395810341881100%	
23	average yield on debt	7.24%					
24	tax sheild	39.50%					
25							
26							
27							

In theory, WACC represents the expense of raising one additional dollar of money. So, in Hawkins as the WACC is 4.28% it means the company has to pay its investors an average of $0.0428 in return for every $1 in extra funding. Similarly, in Butterfly as the WACC is 6.2396% it means the company has to pay its investors an average of $0.0624 in return for every $1 in extra funding.

If WACC score is high it means there is high risk associated with that firm's operations, in my analysis Hawkins is better that Butterfly as it has less risk associated with it.

BUTTERFLY ANNUAL REPORT 2018-19 ANALYSIS

FINANCIAL ANALYSIS

- The Company registered a turnover of Rs.651.98 crores for the period ended 31st March 2019 against Rs.540.55 crores as compared to previous year ended on 31st March 2018.
- Sales achieved a growth of 20.6% for the FY 2018-19
- During the year, the Company made constructive progress in its initiatives to enhance the sales especially, modern trade, online sales, canteen stores and exports.
- Company, while these expenses are being incurred upfront, the benefit will accrue in later year through accelerated growth on sales.
- The sales were 174.52 crores which resulted in 8.58% increase than in previous year.
- The operating profit in 2019 was 12.52 crore rupees while in 208 it was 9.53 crore rupees. So, the yearly percent change was 31.38%
- The EBITDA for 2019 was 47.74 crores while for 2018 it was only 36.30 crores
- The net profit was only 1.12 crores while EPS was also low i.e. 0.43 crore rupees
- The EBT was 12.39 crores in 2019 while it was 5.83 crore in the end of 2018 and the EBIT in 2019 was 34.84 crore rupees while in 2018 it was 23.92 crores resulting in a change of 45.65%.
- The profit after tax for the FY 2018-19 was 9.57 crore rupees which resulted in a change of 98.89% as PAT was very low for the last financial year.

RATIO ANALYSIS

- The debt-equity ratio for 2019 was 0.76 while for 2018 it was 1.05. So, there was a negative change of 0.29%
- The current ratio 2.22 for the financial year which when compared to yearly data resulted in a negative change of 0.81% i.e. there was a slight decrease
- The ROA also called return on assets had improved and stood at 156.41 which was a positive change of 2.87%
- The interest cover was 1.55 for 2019 while it was 1.32 for 2018. The interest cover is preferred if it's higher.
- The quick ratio for 2019 was 1.12 while it was 1.75 for 2018. The acid test ratio should be 1:1 or higher, generally, the higher the ratio then the company's liquidity would be greater.

- As we can see in the chart below i.e. fig.a that the ROE annual % is growing faster than the historical averages.

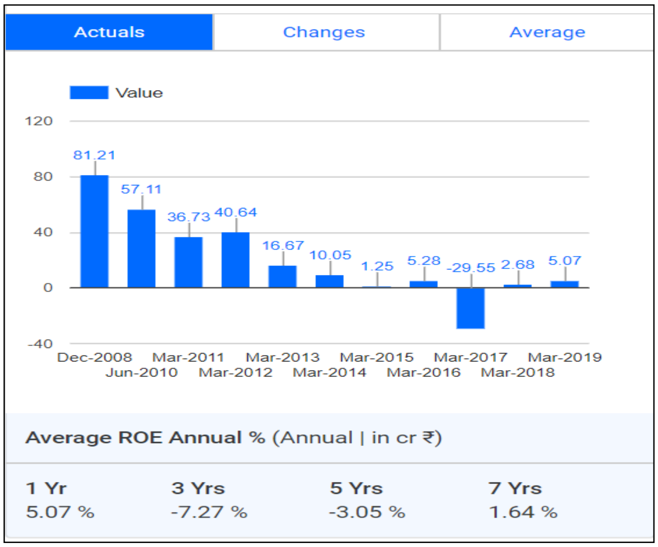


Fig a: Average ROE annual %

HAWKINS COOKERS 2018-19 ANNUAL REPORT ANALYSIS

INCOME STATEMENT ANALYSIS

- Operating income during the year rose 18.1% on a year-on-year (YoY) basis.
- The company's operating profit increased by 22.2% YoY during the fiscal. Operating profit margins witnessed a fall and down at 13.2% in FY19 as against 12.8% in FY18.
- Depreciation charges increased by 9.6% and finance costs decreased by 3.9% YoY, respectively.
- Other income declined by 62.7% YoY.
- Net profit for the year grew by 11.4% YoY.
- Net profit margins during the year declined from 8.6% in FY18 to 8.3% in FY19.

BALANCE SHEET ANALYSIS

- The company's current liabilities during FY19 stood at Rs 1 billion as compared to Rs 1 billion in FY18, thereby witnessing an increase of 4.9%.
- Long-term debt stood at Rs 213 million as compared to Rs 138 million during FY18, a growth of 54.4%.
- Current assets rose 8% and stood at Rs 2 billion, while fixed assets rose 17% and stood at Rs 283 million in FY19.
- Overall, the total assets and liabilities for FY19 stood at Rs 3 billion as against Rs 2 billion during FY18, thereby witnessing a growth of 9%.

CASH FLOW STATEMENT ANALYSIS

- HAWKINS COOKERS's cash flow from operating activities (CFO) during FY19 stood at Rs -62 million on a YoY basis.
- Cash flow from investing activities (CFI) during FY19 stood at Rs 416 million on a YoY basis.
- Cash flow from financial activities (CFF) during FY19 stood at Rs -453 million, an improvement of 14% on a YoY basis.
- Overall, net cash flows for the company during FY19 stood at Rs -99 million from the Rs 41 million net cash flows seen during FY18.

CURRENT VALUATIONS for HAWKINS COOKERS

- The trailing twelve-month earnings per share (EPS) of the company stands at Rs 102.5, an improvement from the EPS of Rs 92.0 recorded last year.
- The price to earnings (P/E) ratio, at the current price of Rs 3,303.0, stands at 30.5 times its trailing twelve months earnings.
- The price to book value (P/BV) ratio at current price levels stands at 13.8 times, while the price to sales ratio stands at 2.5 times.
- The company's price to cash flow (P/CF) ratio stood at 30.0 times its end-of-year operating cash flow earnings.

RATIO ANALYSIS

- **Current Ratio:** The company's current ratio improved and stood at 1.9x during FY19, from 1.8x during FY18. The current ratio measures the company's ability to pay short-term and long-term obligations.
- **Interest Coverage Ratio:** The company's interest coverage ratio improved and stood at 21.7x during FY19, from 18.8x during FY18. The interest coverage ratio of a company states how easily a company can pay its interest expense on outstanding debt. A higher ratio is preferable.
- **Return on Equity (ROE):** The ROE for the company improved and stood at 45.7% during FY19, from 44.3% during FY19. The ROE measures the ability of a firm to generate profits from its shareholders capital in the company.

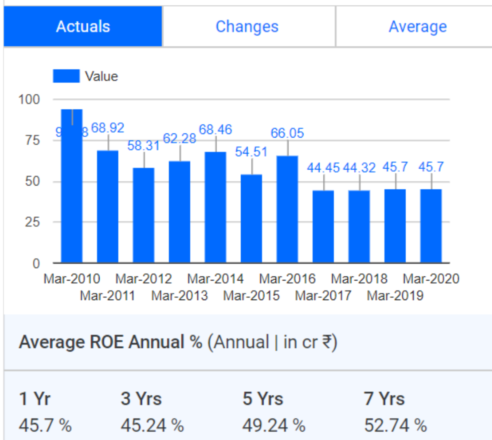


Fig: Average ROE annual %

- **Return on Capital Employed (ROCE):** The ROCE for the company declined and down at 61.7% during FY19, from 63.0% during FY18. The ROCE measures the ability of a firm to generate profits from its total capital (shareholder capital plus debt capital) employed in the company.
- **Return on Assets (ROA):** The ROA of the company improved and stood at 21.8% during FY19, from 21.5% during FY18. The ROA measures how efficiently the company uses its assets to generate earnings
- Over the last one year, HAWKINS COOKERS share price has moved up from Rs 2,984.5 to Rs 3,303.0, registering a gain of Rs 318.6 or around 10.7%.
- Meanwhile, the S&P BSE CONSUMER DURABLES Index is trading at Rs 26,031.8 (up 1.0%). Over the last one year it has moved up from 19,856.0 to 26,031.8, a gain of 6,176 points (up 31.1%). Overall, the S&P BSE SENSEX is up 6.1% over the year

RECOMMENDATION OF ANY ONE COMPANY

After doing fundamental analysis as well as checking the financials we can conclude that Hawkins Cookers can be chosen for investment. Performing SWOT analysis on both companies we get that there are more opportunities with Hawkins.

SWOT ANALYSIS FOR HAWKINS

STRENGTHS

- Consistent highest stock returns over last five years
- It has low debt and zero promoter pledge
- Book value per share improving for last two years
- FII/FPI are increasing their shareholdings and it has high EPS growth

WEAKNESS

- Decline in quarterly net profit and net cash flow

- It has growing costs YOY for long term projects

OPPORTUNITY

- High momentum scores i.e. 319.5% returns for Nifty 500 over 5.1 years
- 30 days SMA crossing over 200 days SMA and current price greater than open. There is 34.5% returns for Nifty 500 over 1.2 years
- Brokers upgraded recommendation or target price in the past three months

THREATS

- It has expensive valuations of stocks
- Degrowth in revenue quarterly

SWOT ANALYSIS FOR BUTTERFLY

STRENGTHS

- Strong annual EPS growth
- Stock gained more than 20% in one month
- Overbought by Money Flow Index i.e. 477.2% returns over 4.5 years

WEAKNESS

- Promoters decreasing their shareholdings
- Highest fall from 52 week high
- Decline in net profit and net profit with falling profit margin based on quarterly results
- Decline in net cash flow
- It has growing costs YOY for long term projects

OPPORTUNITIES

- It has undervalued stocks

THREATS

- Increasing trend in non-core income
- Degrowth in revenue, profits

WHY HAWKINS?

- Hawkins has strong fundamentals for analysis so it is best suited for log term investments while for Butterfly it does not have good fundamentals so for investing one has to wait and see if the results improve or not.
- Due to the current corona pandemic the promoters are selling their shares in Butterfly but for Hawkins the advice is for buying if possible.
- The intrinsic value based on median of three historical models is Rs. 3149.69 while for butterfly it is Rs. 277.73. While analyzing the intrinsic values it can be seen that Hawkins is trading at a premium of 35%.

- When Hawkins is compared to Butterfly has better performance statistics like the return on equity (%) is 51.90 while for Butterfly the value is very less 5.07
- The return on assets (%) for Hawkins is 24.30 whereas it is 2.06 for Butterfly. Similarly, for return on capital (%) it was 42.60 for Hawkins and 8.73 for Butterfly.
- The price to book value for Hawkins is 19.06 which is high in the industry whereas for Butterfly the value is 1.2 which is low in the industry. But Hawkins has a greater net profit quarterly of the value of 9.36 crores while Butterfly has only 1.12 crores in net profit quarterly.

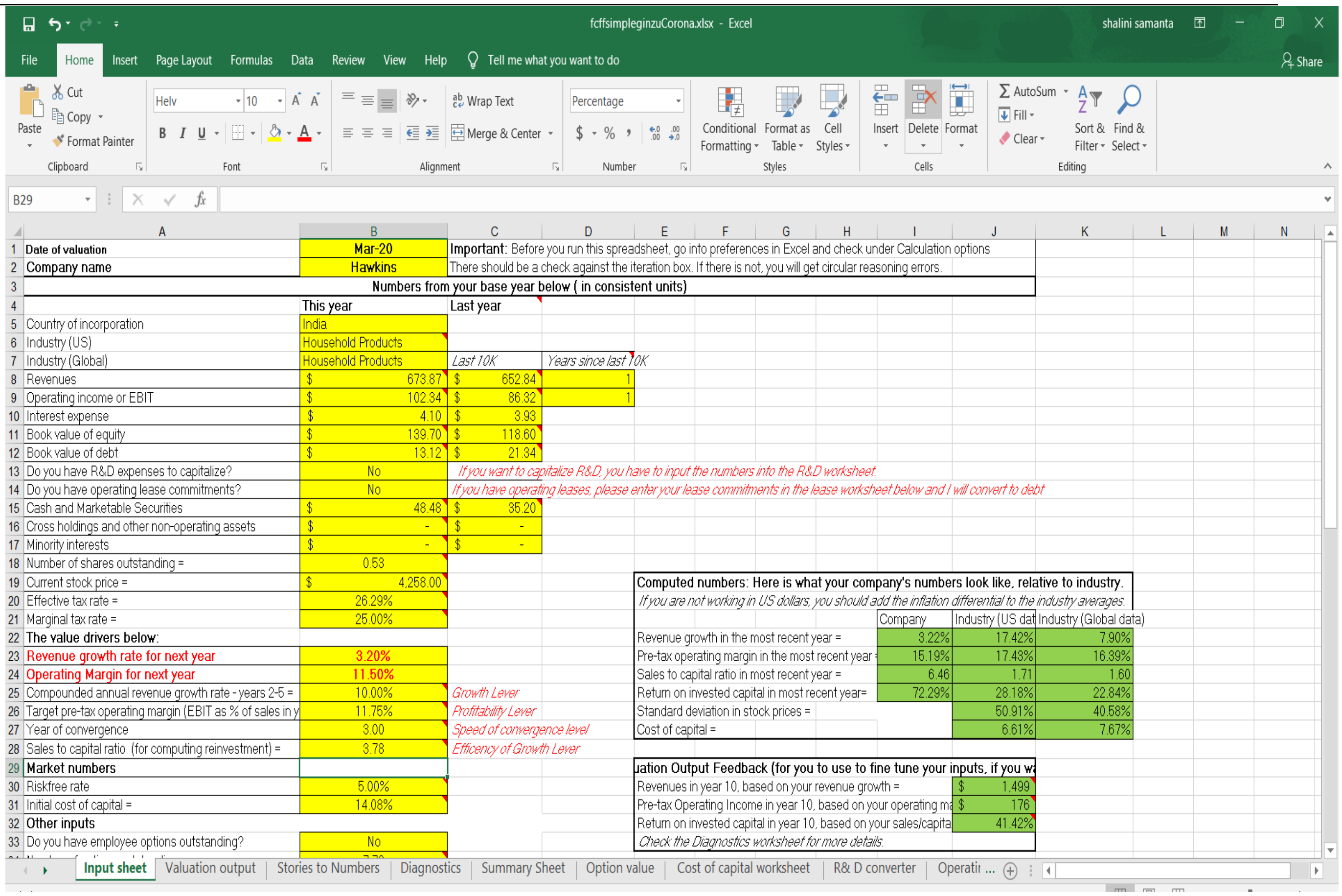
VALUATION

In this project, I will use the Discounted Cash Flow (DCF) model. We are going to use a two-stage DCF model, which, as the name states, takes into account two stages of growth. The first stage is generally a higher growth period which levels off heading towards the terminal value, captured in the second 'steady growth' period. To begin

with, we have to get estimates of the next ten years of cash flows. A DCF is all about the idea that a dollar in the future is less valuable than a dollar today, so we need to discount the sum of these future cash flows to arrive at a present value estimate.

The steps for valuation methods are:

1. In the given template of Microsoft excel, we have to input the values in the sheet called input sheet
2. Input the values as per the historical and financial statements of the company



	A	B	C	D
1	Date of valuation	Mar-20	Important: Before you run this spreadsheet, go into preferences in Excel and check under Calculation options	
2	Company name	Hawkins	There should be a check against the iteration box. If there is not, you will get circular reasoning errors.	
3	Numbers from your base year below (in consistent units)			
4		This year	Last year	
5	Country of incorporation	India		
6	Industry (US)	Household Products		
7	Industry (Global)	Household Products	Last 10K	Years since last 10K
8	Revenues	$ 673.87	$ 652.84	1
9	Operating income or EBIT	$ 102.34	$ 86.32	1
10	Interest expense	$ 4.10	$ 3.93	
11	Book value of equity	$ 139.70	$ 118.60	
12	Book value of debt	$ 13.12	$ 21.34	
13	Do you have R&D expenses to capitalize?	No	If you want to capitalize R&D, you have to input the numbers into the R&D worksheet.	
14	Do you have operating lease commitments?	No	If you have operating leases, please enter your lease commitments in the lease worksheet below and I will convert to debt	
15	Cash and Marketable Securities	$ 48.48	$ 35.20	
16	Cross holdings and other non-operating assets	$ -	$ -	
17	Minority interests	$ -	$ -	
18	Number of shares outstanding =	0.53		
19	Current stock price =	$ 4,258.00		
20	Effective tax rate =	26.29%		
21	Marginal tax rate =	25.00%		
22	The value drivers below:			
23	Revenue growth rate for next year	3.20%		
24	Operating Margin for next year	11.50%		
25	Compounded annual revenue growth rate - years 2-5 =	10.00%	Growth Lever	
26	Target pre-tax operating margin (EBIT as % of sales in y	11.75%	Profitability Lever	
27	Year of convergence	3.00	Speed of convergence level	
28	Sales to capital ratio (for computing reinvestment) =	3.78	Efficency of Growth Lever	
29	Market numbers			
30	Riskfree rate	5.00%		
31	Initial cost of capital =	14.08%		
32	Other inputs			
33	Do you have employee options outstanding?	No		

Computed numbers: Here is what your company's numbers look like, relative to industry.

If you are not working in US dollars, you should add the inflation differential to the industry averages.

	Company	Industry (US dat	Industry (Global data)
Revenue growth in the most recent year =	3.22%	17.42%	7.90%
Pre-tax operating margin in the most recent year =	15.19%	17.43%	16.39%
Sales to capital ratio in most recent year =	6.46	1.71	1.60
Return on invested capital in most recent year=	72.29%	28.18%	22.84%
Standard deviation in stock prices =		50.91%	40.58%
Cost of capital =		6.61%	7.67%

uation Output Feedback (for you to use to fine tune your inputs, if you w

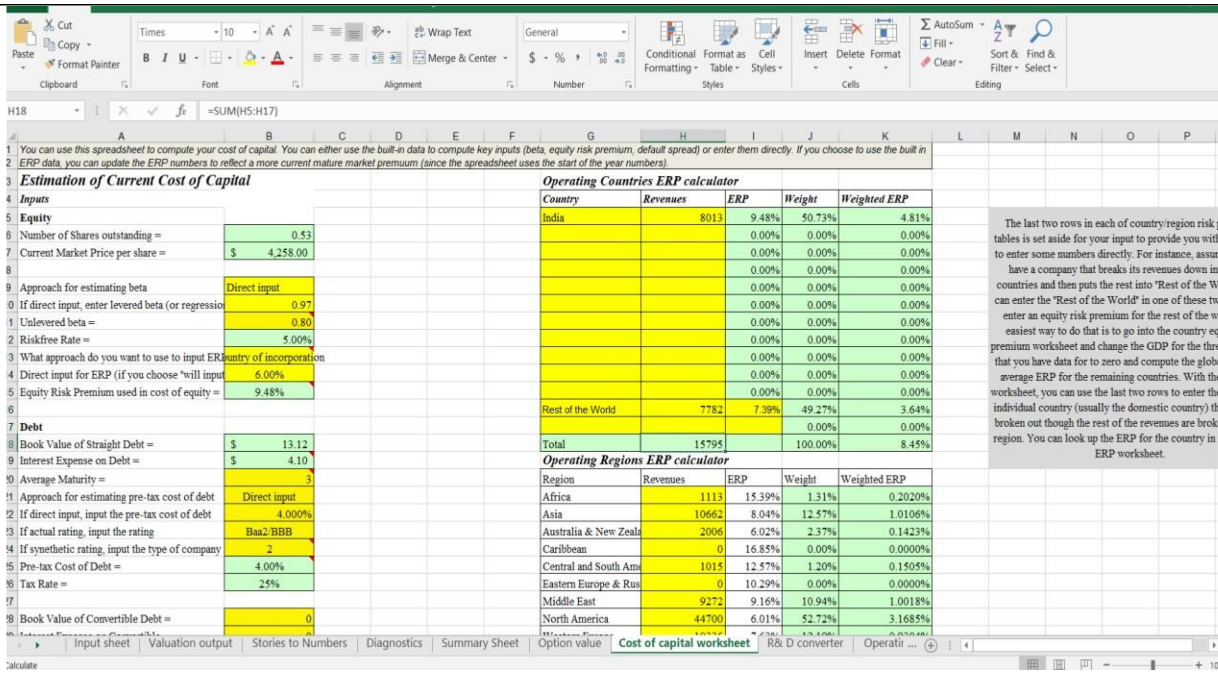
Revenues in year 10, based on your revenue growth = $ 1,499

Pre-tax Operating Income in year 10, based on your operating ma $ 176

Return on invested capital in year 10, based on your sales/capita 41.42%

Check the Diagnostics worksheet for more details.

3. For revenue growth rate for next year and operating margin for next year we need to put our own judgmental values. The revenue growth rate for Hawkins I gave as 3.2% as the revenue for the company was improving and it will have growth as per the industry of consumer durables
4. Put the required values for the Cost of Capital Worksheet. The below snapshot shows my values for the company Hawkins.



You can use this spreadsheet to compute your cost of capital. You can either use the built-in data to compute key inputs (beta, equity risk premium, default spread) or enter them directly. If you choose to use the built in ERP data, you can update the ERP numbers to reflect a more current mature market premuum (since the spreadsheet uses the start of the year numbers).

Estimation of Current Cost of Capital

Inputs	
Equity	
Number of Shares outstanding =	0.53
Current Market Price per share =	$ 4,258.00
Approach for estimating beta	Direct input
If direct input, enter levered beta (or regressio	0.97
Unlevered beta =	0.80
Riskfree Rate =	5.00%
What approach do you want to use to input ER	ountry of incorporation
Direct input for ERP (if you choose "will input	6.00%
Equity Risk Premium used in cost of equity =	9.48%
Debt	
Book Value of Straight Debt =	$ 13.12
Interest Expense on Debt =	$ 4.10
Average Maturity =	3
Approach for estimating pre-tax cost of debt	Direct input
If direct input, input the pre-tax cost of debt	4.000%
If actual rating, input the rating	Baa2/BBB
If synethetic rating, input the type of company	2
Pre-tax Cost of Debt =	4.00%
Tax Rate =	25%
Book Value of Convertible Debt =	0

Operating Countries ERP calculator

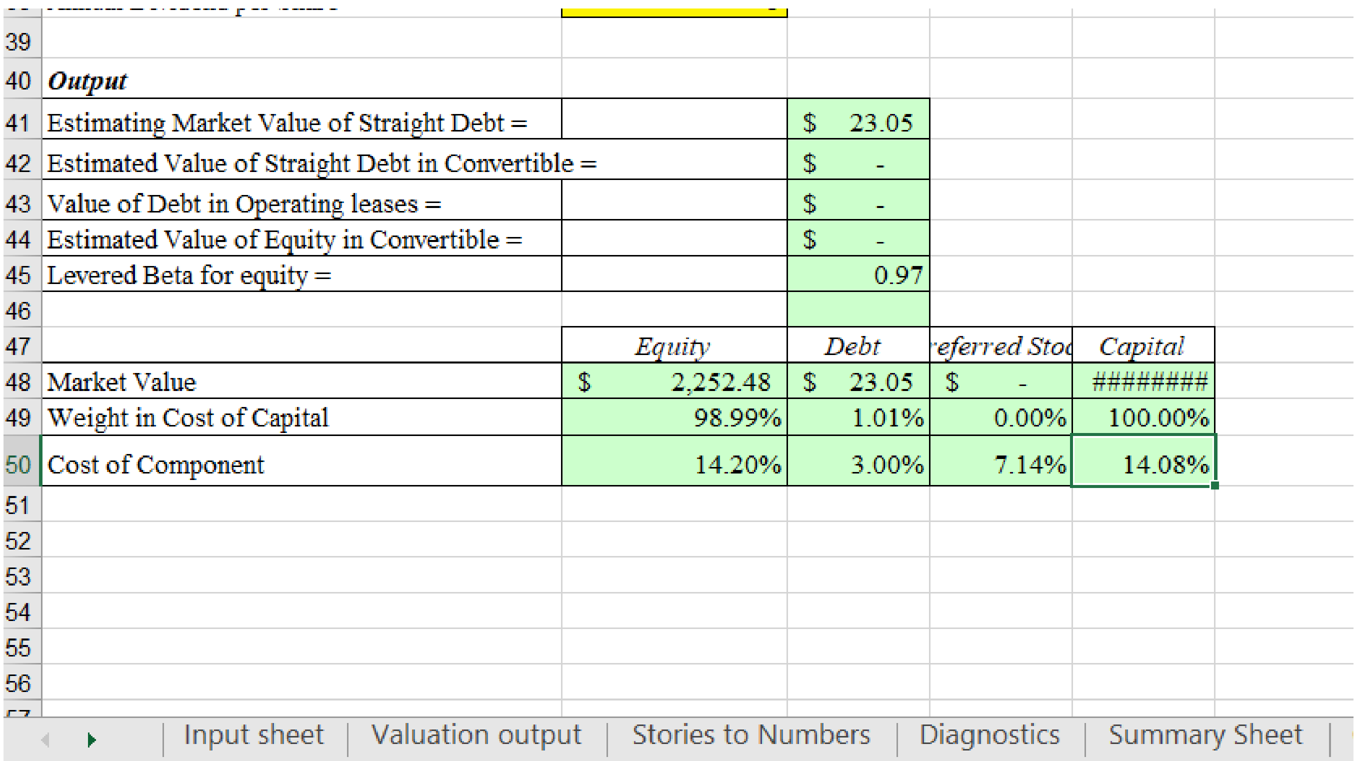
Country	*Revenues*	*ERP*	*Weight*	*Weighted ERP*
India	8013	9.48%	50.73%	4.81%
		0.00%	0.00%	0.00%
		0.00%	0.00%	0.00%
		0.00%	0.00%	0.00%
		0.00%	0.00%	0.00%
		0.00%	0.00%	0.00%
		0.00%	0.00%	0.00%
		0.00%	0.00%	0.00%
		0.00%	0.00%	0.00%
		0.00%	0.00%	0.00%
		0.00%	0.00%	0.00%
Rest of the World	7782	7.39%	49.27%	3.64%
			0.00%	0.00%
Total	15795		100.00%	8.45%

Operating Regions ERP calculator

Region	Revenues	ERP	Weight	Weighted ERP
Africa	1113	15.39%	1.31%	0.2020%
Asia	10662	8.04%	12.57%	1.0106%
Australia & New Zeala	2006	6.02%	2.37%	0.1423%
Caribbean	0	16.85%	0.00%	0.0000%
Central and South Ame	1015	12.57%	1.20%	0.1505%
Eastern Europe & Rus	0	10.29%	0.00%	0.0000%
Middle East	9272	9.16%	10.94%	1.0018%
North America	44700	6.01%	52.72%	3.1685%

The last two rows in each of country/region risk tables is set aside for your input to provide you with to enter some numbers directly. For instance, assur have a company that breaks its revenues down in countries and then puts the rest into "Rest of the W can enter the "Rest of the World" in one of these tw enter an equity risk premium for the rest of the w easiest way to do that is to go into the country eq premium worksheet and change the GDP for the thre that you have data for to zero and compute the globa average ERP for the remaining countries. With the worksheet, you can use the last two rows to enter the individual country (usually the domestic country) th broken out though the rest of the revenues are brok region. You can look up the ERP for the country in ERP worksheet.

5. After inputting the values, we get the following output.



39					
40	***Output***				
41	Estimating Market Value of Straight Debt =		$ 23.05		
42	Estimated Value of Straight Debt in Convertible =		$ -		
43	Value of Debt in Operating leases =		$ -		
44	Estimated Value of Equity in Convertible =		$ -		
45	Levered Beta for equity =		0.97		
46					
47		*Equity*	*Debt*	*'eferred Stoc*	*Capital*
48	Market Value	$ 2,252.48	$ 23.05	$ -	########
49	Weight in Cost of Capital	98.99%	1.01%	0.00%	100.00%
50	Cost of Component	14.20%	3.00%	7.14%	14.08%
51					
52					
53					
54					
55					
56					

Input sheet | Valuation output | Stories to Numbers | Diagnostics | Summary Sheet

6. Now, we will go to the valuation sheet which gets prepared for us.

B34 ='Input sheet'!B19

	Base year	1	2	3	4	5	6	7	8	9	10	Terminal year
Revenue growth rate		3.20%	10.00%	10.00%	10.00%	10.00%	9.00%	8.00%	7.00%	6.00%	5.00%	5.00%
Revenues	$ 673.87	$ 695.43	$ 764.98	$ 841.47	$ 925.62	$ 1,018.18	$ 1,109.82	$ 1,198.61	$ 1,282.51	$ 1,359.46	$ 1,427.43	$ 1,498.80
EBIT (Operating) marg	15.19%	11.50%	11.67%	11.75%	11.75%	11.75%	11.75%	11.75%	11.75%	11.75%	11.75%	11.75%
EBIT (Operating incon	$ 102.34	$ 79.97	$ 89.25	$ 98.87	$ 108.76	$ 119.64	$ 130.40	$ 140.84	$ 150.69	$ 159.74	$ 167.72	$ 176.11
Tax rate	26.29%	26.29%	26.29%	26.29%	26.29%	26.29%	26.03%	25.78%	25.52%	25.26%	25.00%	25.00%
EBIT(1-t)	$ 75.43	$ 58.95	$ 65.78	$ 72.88	$ 80.16	$ 88.18	$ 96.45	$ 104.53	$ 112.24	$ 119.39	$ 125.79	$ 132.08
- Reinvestment		5.70471958	$ 18.40	$ 20.24	$ 22.26	$ 24.49	$ 24.24	$ 23.49	$ 22.20	$ 20.36	$ 17.98	$ 59.98
FCFF		$ 53.24	$ 47.38	$ 52.64	$ 57.90	$ 63.69	$ 72.21	$ 81.05	$ 90.05	$ 99.03	$ 107.81	$ 72.10
NOL	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cost of capital		14.08%	14.08%	14.08%	14.08%	14.08%	13.47%	12.85%	12.24%	11.62%	11.01%	11.01%
Cumulated discount factor		0.8765	0.7683	0.6735	0.5903	0.5175	0.4560	0.4041	0.3600	0.3225	0.2905	
PV(FCFF)		$ 46.67	$ 36.41	$ 35.45	$ 34.18	$ 32.96	$ 32.93	$ 32.75	$ 32.42	$ 31.94	$ 31.32	

Check these revenues against
a. Overall market size
b. Largest companies in this market

$ 73.77 This is is how much your
grew over the ten-year p

$ 259.34 This is how much capital
invested over the ten yea

Terminal cash flow	$ 72.10
Terminal cost of capita	11.01%
Terminal value	$ 1,199.66
PV(Terminal value)	$ 348.55
PV (CF over next 10 y	$ 347.03
Sum of PV	$ 695.58
Probability of failure =	0.00%
Proceeds if firm fails =	$347.79
Value of operating asse	$ 695.58
- Debt	$ 13.12
- Minority interests	$ -
+ Cash	$ 48.48
+ Non-operating asset	$ -
Value of equity	$ 730.94
- Value of options	$0.00
Value of equity in com	$ 730.94
Number of shares	0.53
Estimated value /share	$ 1,381.75
Price	$ 4,258.00
Price as % of value	308.16%

Implied variables												After year 10
Sales to capital ratio		3.78	3.78	3.78	3.78	3.78	3.78	3.78	3.78	3.78	3.78	
Invested capital	$ 104	$ 110	$ 128	$ 149	$ 171	$ 195	$ 220	$ 243	$ 265	$ 286	$ 304	
ROIC	72.29%	53.57%	51.21%	49.02%	46.90%	45.12%	43.91%	42.99%	42.30%	41.79%	41.42%	11.01%

Compare this return on capital in year 10 against
a. the industry average(column E of worksheet)
b. the return on capital after year 10
If it is too high (low), you may want to lower (raise) your sales to capi

From the valuation output sheet, we get to know that the estimated value / share is 1381.75 crores. The ROIC for tenth year is 41.42% which is a good value a per the industry.
Some other valuations I have done like the P/E ratio for 2020 is 28,3x so for the next year it would be around 23,0x as it would get affected by the current COVID19 pandemic. The enterprise value will also increase, for next year it will be nearly 22520x. The estimated net margin would be near to 12% and EPS would be around 185x.

7. CONCLUSION

For investing in stocks with good return, Hawkins Cookers Ltd can be a profitable investment option. Hawkins Cookers Ltd quote is equal to 4260.000 INR at 2020-06-08. Based on the future forecasts, a long-term increase is expected, the company stock price prognosis for 2025-05-31 is 6426.900 INR. As 21.9% are the forecasted Consumer Durables industry annual growth in earnings so the long-term earning potential for Hawkins is +10.06% in one year.

According to present data Hawkins Cookers shares and potentially its market environment have been in a bullish cycle in the last 12 months. This implies that there will be a positive trend in the future and the Hawkins Cookers Ltd shares might be good for investing for making money. Since this share has a positive outlook hence it can be recommended to put in one's portfolio as trading in bull markets is always easier.