IFB Industries

8 August 2018

Reuters: IFBI.BO; Bloomberg: IFBI IN

1QFY19 Result Update

Strong Growth And Margin Expansion Likely; Retain Buy

IFB Industries (IFB) posted 1QFY19 revenues of Rs5.9bn, up 21% YoY. The GST-adjusted like-to-like growth was 19.3% YoY in the home appliance segment (Rs4.9bn sales) and 26.3% YoY in the fine blanking segment (Rs1bn sales). Gross margin expanded 200bps YoY to 43.6% in 1QFY19 owing to product indigenisation. However, a 25% YoY rise in other expenses to Rs1.6bn restricted the expansion in EBITDA margin to 100bps YoY at 5.3%. EBITDA margin of home appliance segment rose 110bps YoY to 4.6% (1Q is generally a low-margin quarter) while EBITDA margin of the fine blanking segment expanded 350bps YoY to 16.3%. EBITDA rose 51% YoY to Rs316mn and PAT grew 91% YoY to Rs142mn, both aided by a low-base effect. The bottom-line was below our estimate of Rs218mn. The management expects to sustain the current level of gross margin (price hikes undertaken in June-July 2018) while it aims to have double-digit operating margin on achieving a higher scale. We have cut our earnings estimates by 8%/2% for FY19/FY20, respectively. We have retained our positive outlook and Buy rating on IFB with a revised SOTP-based target price of Rs1,615 (from Rs1,650 earlier), valuing the home appliance segment at 36x FY20E earnings (Rs1,475) and the fine blanking segment at 15x FY20E earnings (Rs140).

Front-load washing machine update: The front-load washing machines accounted for 41.5% of the home appliance segment's revenues with sales of Rs2bn in 1QFY19, up 9.4% YoY (not a like-to-like comparison as 1QFY19 sales are net of GST). IFB is on course to complete the domestic sourcing of electronic components by 2QFY19, after which the import content will reduce from 28% to 14%. IFB is in the process of refreshing its entire range of products. The new models introduced in 4QFY18 constituted ~20% of 1QFY19 sales. More models in mid and high price range is under field testing and will be introduced in 3QFY19.

Top-load washing machine update: The top-load washing machines accounted for 15.7% of the home appliance segment's revenues with sales of Rs767mn in 1QFY19, up 13.7% YoY (not a like-to-like comparison as 1QFY19 sales are net of GST). IFB is working on range expansion and plans to produce ~30,000 units per month from 3QFY19. IFB's 6kg product variant is currently under development and is expected to be launched in 4QFY19.

Air-conditioner (AC) update: ACs accounted for 21% of the home appliance segment's revenues in 1QFY19 with sales of Rs1bn, up 17% YoY. However, the sales are below expectation of IFB because of constraints faced by Chinese sourcing partner. IFB plans to relook at its sourcing arrangement including prospects of localisation. After it finalises the sourcing strategy, it aims to add AC dealers to give a boost to sales. IFB has an aim to ramp up AC sales to 300,000 to 500,000 units in future compared to 72,000 units sold in FY18.

Outlook: We expect IFB to post 20.6% revenue CAGR over FY18-FY20E along with a strong 280bps expansion in EBITDA margin to 10.1% because of operating leverage benefit. Consequently, PAT is likely to register a 54% CAGR over FY18-FY20E. Improvement in operating margin of the home appliance segment is the key to re-rating of IFB.

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BUY

Sector: White Goods

CMP: Rs1,174

Target Price: Rs1,615

Upside: 37%

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Key Data

Current Shares O/S (mn)	40.5
Mkt Cap (Rsbn/US$mn)	47.5/691.9
52 Wk H / L (Rs)	1,547/629
Daily Vol. (3M NSE Avg.)	29,318

Price Performance (%)

	1 M	6 M	1 Yr
IFB Industries	(1.3)	(10.0)	74.7
Nifty Index	5.7	8.7	13.3

Source: Bloomberg

Y/E March (Rsmn)	1QFY18	4QFY18	1QFY19	YoY (%)	QoQ (%)
Net sales	4,917	5,231	5,923	20.5	13.2
Raw material costs	2,871	2,809	3,339	16.3	18.9
Employee costs	516	515	609	18.0	18.2
Other expenses	1,321	1,530	1,658	25.5	8.4
Total expenditure	4,708	4,854	5,607	19.1	15.5
EBITDA	209	377	316	51.1	(16.2)
EBITDA margin (%)	*4.3*	*7.2*	*5.3*	-	-
Interest costs	11	10	11	(3.5)	7.9
Depreciation	125	129	132	5.8	2.4
Other income	34	75	28	(19.6)	(63.3)
PBT	107	314	201	87.1	(35.9)
Tax	34	107	59	76.5	(44.5)
PAT	74	207	142	91.9	(31.5)
PAT margin (%)	*1.5*	*4.0*	*2.4*		
EPS (Rs)	1.8	5.0	3.4	91.9	(31.5)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financials

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Net sales	15,009	17,407	21,485	26,156	31,272
EBITDA	694	1,033	1,566	2,215	3,158
PAT	314	551	833	1,296	1,969
EPS (Rs)	7.6	13.4	20.2	31.4	47.7
EPS growth YoY (%)	*(36.9)*	*75.8*	*51.0*	*55.7*	*51.9*
EBITDA margin (%)	*4.6*	*5.9*	*7.3*	*8.5*	*10.1*
P/E (x)	154.5	87.9	58.2	37.4	24.6
P/BV (x)	11.6	10.3	8.8	7.1	5.5
EV/EBITDA (x)	69.3	46.7	30.6	21.4	14.5
RoCE (%)	*5.3*	*12.6*	*19.9*	*26.5*	*32.8*
RoE (%)	*7.8*	*12.4*	*16.3*	*21.1*	*25.3*

Source: Company, Nirmal Bang Institutional Equities Research

Key takeaways of the 1QFY19 conference call hosted by us

- **Microwave ovens:** Microwave ovens accounted for 7.7% of the home appliance segment's revenues in 1QFY19 with revenues at Rs376mn, down 9.6% YoY. The volume growth was impacted by price hikes undertaken by IFB during the quarter. However, the management believes that the trade has now stabilised and IFB should get back to double-digit growth from 2QFY19 onwards.
- **Distribution network:** Currently, IFB has 445 IFB exclusive stores (IFB Points), of which 140 are company-owned and company-operated (CoCo) while the others are franchisees. IFB Points contributed ~13% to home appliance sales in 1QFY19, which the management wants to scale up to 20%. Currently, 150 to 160 IFB Point stores are unprofitable, most of which are located in metros (because of high rental costs). On an average, the payback period of IFB Points to turn profitable is 18 to 24 months.
- **Revenue mix of sales channel:** In terms of revenue mix of the home appliance segment in 1QFY19, multi-brand stores contributed 55% to sales, IFB Points contributed 13%, IFB website and other e-commerce sites contributed 14%, defence canteen and direct institutional purchases accounted for 3%, dealers (mainly for ACs) contributed 1% and distributors accounted for 14%.
- **Refrigerator launch:** IFB plans to launch refrigerators in 3QFY19. The refrigerators are currently in the field trials. IFB plans to first foray into the 380 litre and above category, with a price point of Rs40,000 and above (currently accounts for 10% to 15% of total refrigerator category).
- **Scale benefit:** The management stated that Rs2.5bn monthly sales in the home appliance segment will lead to double-digit EBITDA margin because of operating leverage benefit.
- **Capex:** In FY18, IFB incurred a capex of Rs530mn. It plans to incur a capex of Rs750mn in FY19 (Rs450mn in the home appliance segment and Rs300mn in the fine blanking segment).
- **Fine blanking segment's performance:** Fine blanking segment's GST-adjusted like-to-like revenues grew 26.3% YoY to Rs1bn in 1QFY19. EBIT rose 67% YoY to Rs121mn, translating to a robust 380bps YoY rise in EBIT margin to 11.6%. The segment mainly caters to the automobile sector, of which four-wheeler division grew 32% YoY while the two-wheeler division grew 25% YoY.
- **Proposed acquisition of laundry equipment business of Ramsons:** The board of IFB has proposed an acquisition worth Rs350mn of industrial laundry equipment business of Ramsons Garment Finishing Equipment Pvt Ltd and Ramsons Udyog Pvt Ltd on a slump-sale basis. IFB is also present in the laundry equipment segment and earns strong margins. The proposed acquisition will help IFB attain a comprehensive range of laundry equipment products and consolidate its presence. It will also help in building an infrastructure to service future growth in sectors such as education, hotels, hospitals, railways and other institutions. IFB had cash and investments worth Rs1.9bn as of FY18-end.

Exhibit 2: Segment-wise snapshot

(Rsmn)	1QFY18	4QFY18	1QFY19	*YoY (%)*	*QoQ (%)*	FY17	FY18	*YoY (%)*
Revenues								
Home appliance	4,378	4,234	4,882	*11.5*	*15.3*	15,654	18,084	*15.5*
Engineering	932	1,008	1,041	*11.7*	*3.3*	3,337	3,814	*14.3*
Revenue mix (%)								
Home appliance	*82.5*	*80.8*	*82.4*	-	-	*82.4*	*82.6*	-
Engineering	*17.5*	*19.2*	*17.6*	-	-	*17.6*	*17.4*	-
EBIT (Rsmn)								
Home appliance	77	221	144	*88.2*	*(34.8)*	648	968	*49.4*
Engineering	73	123	121	*66.8*	*(2.0)*	211	399	*89.4*
EBIT margin (%)								
Home appliance	*1.7*	*5.2*	*2.9*	-	-	*4.1*	*5.4*	-
Engineering	*7.8*	*12.2*	*11.6*	-	-	*6.3*	*10.5*	-

Source: Company, Nirmal Bang Institutional Equities Research (Note - YoY growth numbers are understated because revenues is net of GST in 1QFY19)

Exhibit 3: Product-wise revenue break-up of the home appliance division

(Products)	1QFY18	4QFY18	1QFY19	*YoY (%)*	*QoQ (%)*	FY17	FY18	*YoY (%)*
Revenue break-up (%)								
Front-load washing machine	*42.3*	*42.9*	*41.5*	-	-	*48.5*	*47.3*	-
Top- load washing machine	*15.4*	*14.5*	*15.7*	-	-	*16.9*	*16.2*	-
Microwave oven	*9.5*	*10.4*	*7.7*	-	-	*11.0*	*12.0*	-
ACs	*20.1*	*16.5*	*21.1*	-	-	*10.5*	*10.5*	-
Dish-washer	*2.3*	*2.3*	*2.1*	-	-	*1.6*	*2.3*	-
Clothes dryer	*0.8*	*0.6*	*0.8*	-	-	*0.6*	*0.8*	-
IDW/ILE/EA/MK	*1.6*	*1.2*	*1.3*	-	-	*2.4*	*1.3*	-
Others	*8.0*	*11.6*	*9.8*	-	-	*8.5*	*9.7*	-
Total	***100***	***100***	***100***	-	-	***100***	***100***	-
Net revenues (Rsmn)								
Front-load washing machine	1,852	1,817	2,026	*9.4*	*11.5*	7,592	8,552	*12.6*
Top-load washing machine	674	614	767	*13.7*	*24.8*	2,646	2,924	*10.5*
Microwave oven	416	440	376	*(9.6)*	*(14.6)*	1,722	2,164	*25.7*
ACs	880	699	1,030	*17.1*	*47.4*	1,644	1,898	*15.5*
Dish-washer	101	97	103	*1.8*	*5.3*	250	414	*65.2*
Clothes dryer	35	25	39	*11.5*	*53.7*	94	141	*50.5*
IDW/ILE/EA/MK	70	51	63	*(9.4)*	*24.9*	376	242	*(35.5)*
Others	350	491	478	*36.6*	*(2.6)*	1,331	1,747	*31.3*
Total	**4,378**	**4,234**	**4,882**	***11.5***	***15.3***	**15,654**	**18,084**	***15.5***

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Our estimates versus actual performance

1QFY19 (Rsmn)	Actual	Our estimate	*Deviation (%)*
Revenues	5,923	5,754	*2.9*
EBITDA	316	437	*(27.6)*
PAT	142	218	*(35.0)*

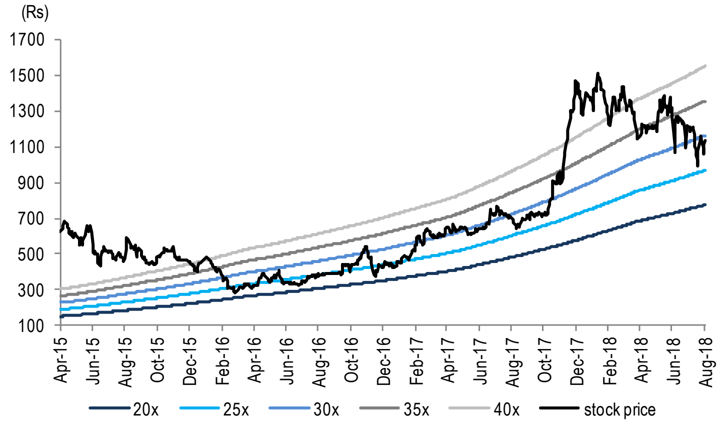
Source: Company, Nirmal Bang Institutional Equities Research

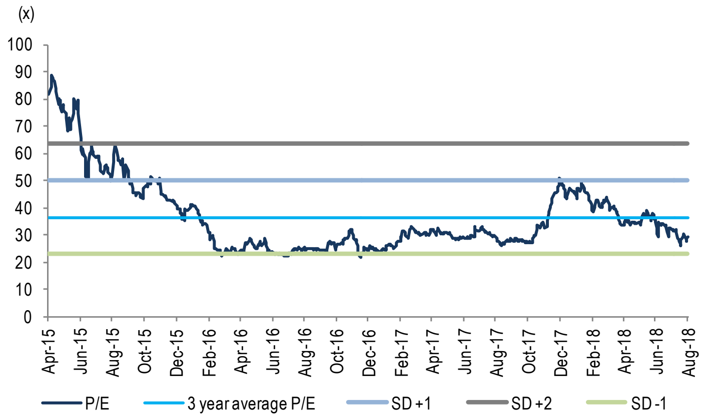
Exhibit 5: Change in our estimates

(Rsmn)	Old		New		*Deviation (%)*	
Y/E March	FY19E	FY20E	FY19E	FY20E	*FY19E*	*FY20E*
Revenues	26,156	31,272	26,156	31,272	-	-
EBITDA	2,389	3,210	2,215	3,158	*(7.3)*	*(1.6)*
PAT	1,418	2,006	1,296	1,969	*(8.6)*	*(1.8)*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: P/E charts





Source: Nirmal Bang Institutional Equities Research

Financials

Exhibit 7: Income statement

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Net sales	15,009	17,407	21,485	26,156	31,272
% growth	*19.0*	*16.0*	*23.4*	*21.7*	*19.6*
Raw material costs	8,607	10,054	12,045	14,595	17,356
Staff costs	1,556	1,615	2,111	2,563	3,033
Other overheads	4,152	4,705	5,763	6,782	7,725
Total expenditure	14,315	16,374	19,919	23,940	28,114
EBITDA	694	1,033	1,566	2,215	3,158
% growth	*(19.8)*	*48.7*	*51.6*	*41.5*	*42.5*
EBITDA margin (%)	*4.6*	*5.9*	*7.3*	*8.5*	*10.1*
Other income	133	128	185	210	242
Interest costs	22	44	43	38	29
Depreciation	454	436	514	536	558
Profit before tax	352	682	1,193	1,852	2,813
Tax	38	131	361	555	844
PAT	314	551	833	1,296	1,969
PAT margin (%)	*2.1*	*3.2*	*3.9*	*5.0*	*6.3*
EPS (Rs)	7.6	13.4	20.2	31.4	47.7
% growth	*(36.9)*	*75.8*	*51.0*	*55.7*	*51.9*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Cash flow

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
EBIT	241	597	1,052	1,679	2,600
(Inc.)/dec. in working capital	(255)	369	(188)	(370)	(288)
Cash flow from operations	**(14)**	**966**	**864**	**1,309**	**2,312**
Other income	133	128	185	210	242
Depreciation	454	436	514	536	558
Tax paid (-)	(39)	(431)	(266)	(555)	(844)
Net cash from operations	**534**	**1,100**	**1,296**	**1,500**	**2,267**
Capital expenditure (-)	(563)	(510)	(361)	(800)	(800)
Net cash after capex	**(28)**	**589**	**935**	**700**	**1,467**
Interest paid (-)	(22)	(44)	(43)	(38)	(29)
Inc./(dec.) in total borrowings	(181)	58	(82)	(30)	(30)
Inc./(dec.) in investments	348	(467)	(628)	-	-
Cash from financial activities	**145**	**(453)**	**(752)**	**(68)**	**(59)**
Others	(81)	(155)	(14)	5	-
Opening cash balance	445	482	463	631	1,269
Closing cash balance	482	463	631	1,269	2,677
Change in cash balance	37	(18)	168	638	1,409

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Balance sheet

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Share capital	413	413	413	413	413
Reserves	3,771	4,302	5,090	6,391	8,361
Net worth	4,183	4,715	5,503	6,804	8,773
Total borrowings	164	222	141	111	81
Deferred tax liability	258	(42)	53	53	53
Total liabilities	**4,605**	**4,895**	**5,696**	**6,968**	**8,907**
Gross block	5,541	6,097	6,516	7,239	8,039
Depreciation	2,802	3,238	3,752	4,288	4,846
Net block	2,739	2,859	2,764	2,950	3,193
Capital work-in-progress	126	80	23	100	100
Investments	169	636	1,264	1,264	1,264
Inventories	2,144	2,349	3,107	3,679	4,280
Debtors	1,155	1,382	1,723	2,078	2,399
Cash	482	463	631	1,269	2,677
Other current assets	989	753	1,091	1,360	1,626
Total current assets	4,769	4,948	6,552	8,386	10,982
Creditors	2,267	2,630	3,664	4,119	4,660
Other current liabilities & provisions	1,042	1,245	1,460	1,831	2,189
Total current liabilities	3,309	3,875	5,124	5,949	6,849
Net current assets	1,460	1,073	1,428	2,436	4,133
Total assets	**4,605**	**4,895**	**5,696**	**6,968**	**8,907**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

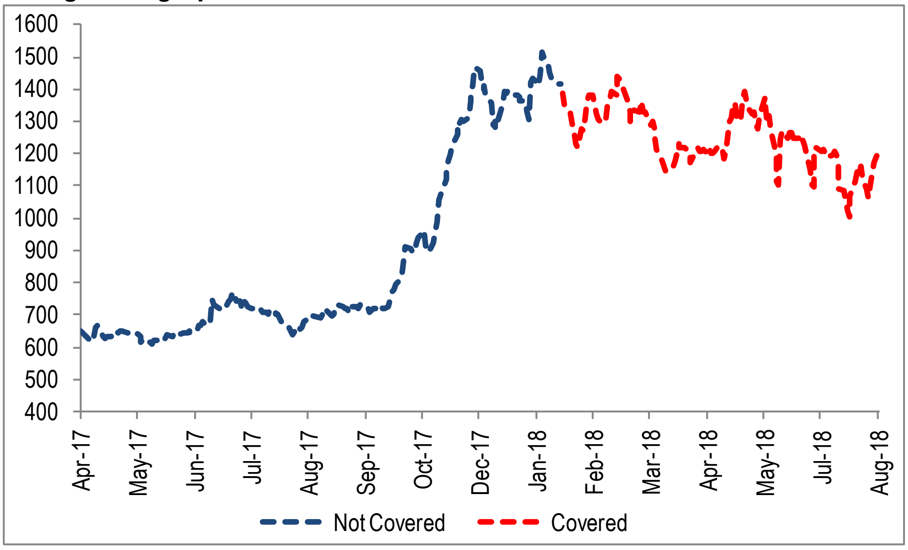
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Per share (Rs)					
EPS	7.6	13.4	20.2	31.4	47.7
Book value	101.3	114.2	133.3	164.8	212.5
Valuation (x)					
P/E	154.5	87.9	58.2	37.4	24.6
P/BV	11.6	10.3	8.8	7.1	5.5
EV/EBITDA	69.3	46.7	30.6	21.4	14.5
EV/sales	3.2	2.8	2.2	1.8	1.5
Return ratios (%)					
RoCE	5.3	12.6	19.9	26.5	32.8
RoE	7.8	12.4	16.3	21.1	25.3
RoIC	6.4	15.4	27.7	40.8	55.3
Profitability ratios (%)					
EBITDA margin	4.6	5.9	7.3	8.5	10.1
EBIT margin	1.6	3.4	4.9	6.4	8.3
PAT margin	2.1	3.2	3.9	5.0	6.3
Turnover ratios					
Total asset turnover ratio (x)	3.3	3.6	3.8	3.8	3.5
Fixed asset turnover ratio (x)	2.7	2.9	3.3	3.6	3.9
Debtor days	28	29	29	29	28
Inventory days	91	85	94	92	90
Creditor days	96	95	111	103	98

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price	Target price (Rs)
24 January 2018	Buy	1,400	1,900
8 February 2018	Buy	1,303	1,900
6 April 2018	Buy	1,222	1,900
7 June 2018	Buy	1,105	1,650
10 July 2018	Buy	1,212	1,650
8 August 2018	Buy	1,174	1,615

Rating track graph



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BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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