

IFB Industries

8 February 2018

Reuters: IFBI.BO; Bloomberg: IFBI IN

Healthy Revenues, Strong Gross Margin; Retain Buy

IFB Industries (IFB) posted a healthy 17% YoY rise in net revenues to Rs5.3bn in 3QFY18. The growth in home appliance segment was restricted to 14% YoY, on a like-to-like basis, at Rs4.4bn (82% of total sales) as washing machine sales worth Rs400mn-Rs500mn were deferred on account of short supply of micro controllers from Panasonic, Japan. Fine blanking segment posted revenues of Rs959mn (18% of total revenues), up 32% YoY on a like-to-like basis. Gross margin expanded 430bps YoY to 46.4% owing to a better product mix, raw material indigenisation and favourable forex movement (100bps-125bps gain). EBITDA grew 17% YoY to Rs366mn, leading to 80bps YoY expansion in operating margin to 7.6% on a comparable basis. PAT grew 14% YoY to Rs186mn, despite a higher tax rate of 29.9% versus 25.7% YoY. We have retained our positive outlook and Buy rating on IFB driven by the benefits of economies of scale that it is likely to attain over the next two years. We have assigned a SOTP-based target price of Rs1,900 to IFB, valuing its home appliance segment at 36x FY20E earnings (Rs1,810) and fine blanking segment at 15x FY20E earnings (Rs90).

Following are the key takeaways from the conference-call:

- IFB sold 106,282 units of front-load washing machines (50.7% of home appliance sales) in 3QFY18, up 9% YoY in volume terms.
- IFB sold 54,177 units of top-load washing machines (17% of home appliance sales), in 3QFY18, up 11% YoY in volume terms.
- Front load and top load washing machine sales were affected during 3QFY18 because of global shortage of micro controllers from Panasonic, Japan. This issue has been resolved in December 2017, but IFB couldn't supply to the market to the full extent in 3QFY18 leading to Rs400mn to Rs500mn loss in revenues.
- IFB sold 7,917 units of air-conditioners (ACs), 4.4% of home appliance sales, in 3QFY18, up 60% YoY. IFB's market share in ACs is low, but it intends to scale it up and is prepared for energy label change in CY18 with a wide portfolio of inverter ACs (which currently account for 12% of its total AC sales).
- Growth in microwave ovens (12.3% of home appliance sales in 3QFY18) was flat at 3% YoY (in volume terms) owing to subdued industry growth. IFB has a dominant market share in this category and is among the top three players.
- Currently, import content in front-load washing machine stands at 27%-28% which IFB aims to reduce to 12%-13%, primarily via domestic sourcing of electronic components. Import substitution will conclude by 4QFY18 and will aid overall profitability.

BUY

Sector: White Goods

CMP: Rs1,303

Target Price: Rs1,900

Upside: 46%

Chirag Muchhala

Research Analyst

chirag.muchhala@nirmalbang.com

+91-22-6273 8092

Key Data

Current Shares O/S (mn)	40.5
Mkt Cap (Rsbn/US\$m)	53.1/827.8
52 Wk H / L (Rs)	1,547/535
Daily Vol. (3M NSE Avg.)	53,175

Price Performance (%)

	1 M	6 M	1 Yr
IFB Industries	(8.5)	95.3	119.5
Nifty Index	(0.8)	4.2	19.5

Source: Bloomberg

Y/E March (Rsmn)	3QFY17	2QFY18	3QFY18	YoY (%)	QoQ (%)	9MFY17	9MFY18	YoY (%)
Net sales	4,544	6,020	5,317	17.0	(11.7)	13,115	16,254	23.9
Raw material costs	2,633	3,514	2,851	8.3	(18.9)	7,570	9,236	22.0
Employee costs	400	530	550	37.7	3.9	1,178	1,596	35.5
Other expenses	1,198	1,362	1,550	29.4	13.8	3,450	4,234	22.7
Total expenditure	4,231	5,406	4,952	17.0	(8.4)	12,197	15,066	23.5
EBITDA	314	613	366	16.7	(40.3)	917	1,188	29.5
EBITDA margin (%)	6.9	10.2	6.9	-	-	7.0	7.3	-
Interest costs	12	11	11	(10.9)	(3.6)	33	33	1.2
Depreciation	108	129	132	22.1	2.3	322	385	19.5
Other income	26	33	42	62.4	25.4	88	110	24.9
PBT	220	507	266	20.9	(47.6)	650	880	35.3
Tax	57	141	79	40.4	(43.8)	139	254	82.3
PAT	163	366	186	14.2	(49.1)	511	626	22.5
PAT margin (%)	3.6	6.1	3.5	-	-	3.9	3.9	-
EPS (Rs)	4.0	8.9	4.5	14.2	(49.1)	12.4	15.2	22.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financials

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Net sales	15,009	17,407	22,523	27,075	32,929
EBITDA	694	974	1,961	2,768	3,503
PAT	314	510	1,131	1,733	2,307
EPS (Rs)	7.6	12.3	27.4	42.0	55.9
EPS growth YoY (%)	(36.9)	62.5	121.9	53.2	33.1
EBITDA margin (%)	4.6	5.6	8.7	10.2	10.6
P/E (x)	171.5	105.5	47.5	31.0	23.3
P/BV (x)	12.9	11.5	9.3	7.1	5.5
EV/EBITDA (x)	77.0	55.0	27.2	18.9	14.4
RoCE (%)	5.3	11.0	25.6	31.4	32.5
RoE (%)	7.8	11.5	21.6	26.0	26.5

Source: Company, Nirmal Bang Institutional Equities Research

- Front-load washing machine:** It is the largest product category of IFB (50.7% of home appliance revenues in 3QFY18) where it enjoys a strong market share of 42%-44%. IFB has capacity for 4,50,000 units per year which will get further enhanced to 700,000 units in the next few months. It sold 106,282 units in 3QFY18, registering a volume growth of 9%. IFB will be launching new product variants in 4QFY18 with focus on features such as IoT capabilities, water and energy efficiency, user convenience and interface designs. On the export front, IFB supplied 13,500 units to Panasonic in FY17 and plans to look at other similar opportunities. It is currently in talks with yet another large global brand for supplying front-loading washing machines.
- Top-load washing machine:** This category of IFB has fully automatic top-load washing machines in the 6.5kg to 9.5kg range. It accounted for 17% of home appliance revenues in 3QFY18. IFB sold 54,177 top-load washing machines in 3QFY18, registering a healthy volume growth of 11%. IFB has enhanced its annual manufacturing capacity to 3,50,000 units from 2,40,000 units earlier to meet rising demand. It plans to produce ~30,000 units per month from 1QFY19. The 6kg variant of top-load washing machine is under development and is currently in the field testing phase.
- Air-conditioner:** This division (4.4% of home appliance revenues in 3QFY18) grew 44% YoY in value terms and 60% YoY in volume terms. IFB sold 7,917 units in 3QFY18, which is a non-seasonal quarter for AC sales. Currently, IFB has low market share in ACs which it wants to improve by leveraging on its large distribution network. IFB is prepared with a new range of ACs for the energy label change, which became effective from 1 January 2018. Currently, inverter ACs form 10% to 12% of IFB's AC sales which is expected to rise to 20%-25% along with a similar scale-up likely in the industry. IFB is currently expanding its distribution network which is expected to be completed in 4QFY18. IFB outsources the manufacturing of ACs to TCL, a Chinese manufacturer.
- Other product categories:** Microwave ovens contributed 12.3% to home appliance revenues in 3QFY18. IFB has a market share of ~20% in microwave ovens and is among the top three players in India. IFB sold 69,700 units of microwave ovens in 3QFY18, registering a volume growth of 3%. Key drivers of growth in microwave ovens were wider acceptance of new products launched (oil-free cooking offerings) and improved distribution reach. In the dish-washer category (2.6% of home appliance revenues in 3QFY18), IFB posted 61% YoY sales growth in 3QFY18.
- Distribution network:** IFB has significantly expanded its distribution network over the past one year and currently has retail presence through over 10,000 outlets. Out of these channel partners, around 2,100 contribute significantly via high monthly sales. IFB wants to scale up these active channel partners to 4,000-4,500 in the near term.
- Currently, IFB has 422 IFB exclusive stores (IFB Points), of which 131 are company-owned and company-operated (CoCo) while the others are franchisees. An additional 35 stores are under construction as of 3QFY18-end. IFB expects to have 475 to 500 IFB Points over the next three months. IFB Points contributed 13% to home appliance sales in volume terms. The initial set-up costs for IFB Points on a franchisee model is Rs0.2mn per store. Under the CoCo model, IFB incurs initial set-up cost of Rs0.7mn-Rs1mn towards store branding and an additional Rs0.5mn to Rs0.6mn towards in-store inventory.

- In terms of revenue mix of home appliance segment in 9MFY18, multi-brand stores contributed 54% to sales volume, IFB Points contributed 13%, IFB website and other e-commerce sites contributed 19%, defence canteen and direct institutional purchases accounted for 1%, dealers (mainly for ACs) contributed 1% and distributors accounted for 12%.
- IFB plans to launch refrigerators in 3QFY19. Field trials are currently taking place and are expected to conclude by 1QFY19. It plans to first foray into the 400litre and above category which currently accounts for 10% to 15% of total refrigerator category.
- Other expenses were up 29% YoY at Rs1.6bn because of higher sales and promotion expenses and set-up cost in respect of IFB Points.
- The management reiterated that Rs6bn quarterly revenues in home appliance segment will lead to double-digit EBITDA margin because of operating leverage benefit.
- Fine blanking segment's EBIT rose 94% YoY to Rs106mn in 3QFY18, translating to a healthy 440bps rise in EBIT margin to 11%. The segment mainly caters to automobile sector, of which two-wheeler division contributed 54% to total sales while the four-wheeler division contributed 38% to total sales. Heavy vehicles, electricals and other divisions contributed the remaining 8% to sales. IFB wants to increase its presence in non-automobile sectors like electrical, railway, defence and cycle industry.
- Acquisition of TAAL (Thailand plant) was a strategic decision as countries like Thailand, Indonesia and Vietnam are a good base for OEMs. IFB aims to capture South-East Asia market through this facility as supplies to most of these countries from Thailand attract zero duty.
- IFB is in the process of turning around Trishan which it acquired recently. Revenues during 3QFY18 were Rs179mn. The plant had some line balancing problems which led to inefficient capacity utilisation. The plant is expected to stabilise over the next two quarters.

Exhibit 2: Segment-wise snapshot

(Rsmn)	3QFY17	2QFY17	3QFY18	YoY (%)	QoQ (%)	9MFY17	9MFY18	YoY (%)
Revenues								
Home appliance	4,154	5,113	4,358	4.9	(14.8)	11,823	13,849	17.1
Engineering	823	915	959	16.5	4.8	2,509	2,806	11.9
Revenue mix (%)								
Home appliance	83.5	84.8	82.0	-	-	82.5	83.2	-
Engineering	16.5	15.2	18.0	-	-	17.5	16.8	-
EBIT (Rsmn)								
Home appliance	212	463	207	(2.0)	(55.2)	622	747	20.1
Engineering	55	97	106	94.0	9.3	166	275	65.8
EBIT margin (%)								
Home appliance	5.1	9.1	4.8	-	-	5.3	5.4	-
Engineering	6.6	10.6	11.0	-	-	6.6	9.8	-

Source: Company, Nirmal Bang Institutional Equities Research

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

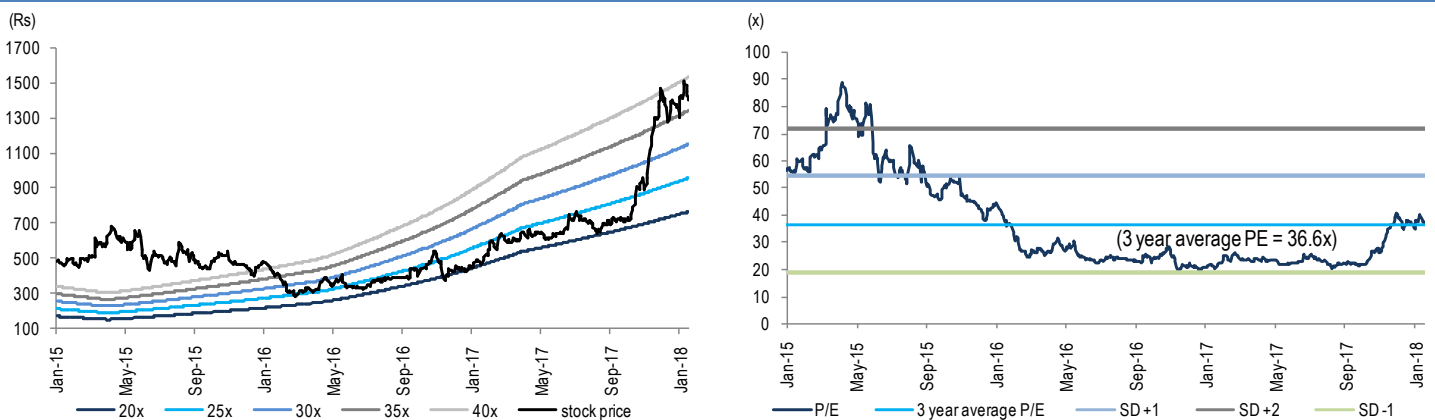
(Products)	3QFY17	2QFY18	3QFY18	YoY (%)	QoQ (%)	9MFY17	9MFY18	YoY (%)
Revenue break-up (%)								
Front-load washing machine	52.5	52.3	50.7	-	-	49.2	48.6	-
Top-load washing machine	17.9	17.5	17.0	-	-	17.2	16.7	-
Microwave oven	13.8	15.1	12.3	-	-	11.6	12.4	-
ACs	3.2	2.5	4.4	-	-	9.0	8.7	-
Dish-washer	1.7	2.0	2.6	-	-	1.6	2.3	-
Clothes dryer	0.7	0.9	0.8	-	-	0.9	0.8	-
IDW/ILE/EA/MK	2.0	1.1	1.5	-	-	2.3	1.4	-
Others	8.2	8.6	10.7	-	-	8.2	9.1	-
Total	100	100	100	-	-	100	100	-
Net revenues (Rsmn)								
Front-load washing machine	2,181	2,674	2,210	1.3	(17.4)	5,656	6,736	19.1
Top-load washing machine	744	895	741	(0.4)	(17.2)	1,984	2,310	16.4
Microwave oven	573	772	536	(6.5)	(30.6)	1,335	1,724	29.1
ACs	133	128	192	44.3	50.0	1,035	1,200	15.9
Dish-washer	71	102	113	60.5	10.8	184	316	71.4
Clothes dryer	29	46	35	19.9	(24.2)	106	116	9.3
IDW/ILE/EA/MK	83	56	65	(21.3)	16.2	259	192	(26.1)
Others	341	440	466	36.9	6.1	944	1,256	33.1
Total	4,154	5,113	4,358	4.9	(14.8)	11,504	13,849	20.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Our estimates versus actual performance

3QFY18 (Rsmn)	Actual	Our estimate	Deviation (%)
Revenues	5,317	5,850	(9.1)
EBITDA	366	578	(36.7)
PAT	186	350	(46.7)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: P/E charts


Source: Nirmal Bang Institutional Equities Research

Financials

Exhibit 6: Income statement

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Net sales	15,009	17,407	22,523	27,075	32,929
% growth	19.0	16.0	29.4	20.2	21.6
Raw material costs	8,607	10,054	13,176	15,920	19,461
Staff costs	1,556	1,659	2,140	2,437	2,865
Other overheads	4,152	4,720	5,246	5,950	7,100
Total expenditure	14,315	16,433	20,562	24,306	29,426
EBITDA	694	974	1,961	2,768	3,503
% growth	(19.8)	40.3	101.4	41.2	26.5
EBITDA margin (%)	4.6	5.6	8.7	10.2	10.6
Other income	133	112	140	168	219
Interest costs	22	32	39	27	20
Depreciation	454	436	493	526	544
Profit before tax	352	618	1,570	2,383	3,159
Tax	38	108	439	650	852
PAT	314	510	1,131	1,733	2,307
PAT margin (%)	2.1	2.9	5.0	6.4	7.0
EPS (Rs)	7.6	12.3	27.4	42.0	55.9
% growth	(36.9)	62.5	121.9	53.2	33.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Balance sheet

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Share capital	413	413	413	413	413
Reserves	3,771	4,263	5,394	7,127	9,434
Net worth	4,183	4,676	5,807	7,540	9,847
Total borrowings	164	222	208	158	108
Deferred tax liability	258	288	288	288	288
Total liabilities	4,605	5,186	6,303	7,986	10,243
Gross block	5,541	6,084	7,064	7,964	8,764
Depreciation	2,802	3,034	3,527	4,053	4,597
Net block	2,739	3,050	3,537	3,911	4,167
Capital work-in-progress	126	80	100	100	100
Investments	169	611	655	655	655
Inventories	2,144	2,349	2,996	3,598	4,372
Debtors	1,155	1,382	1,913	2,337	2,887
Cash	482	464	688	1,686	3,278
Other current assets	989	1,108	1,441	1,733	2,107
Total current assets	4,769	5,303	7,039	9,354	12,644
Creditors	2,267	2,631	3,465	4,144	5,012
Other current liabilities & provisions	1,042	1,285	1,622	1,949	2,371
Total current liabilities	3,309	3,916	5,087	6,093	7,383
Net current assets	1,460	1,387	1,952	3,261	5,262
Total assets	4,605	5,186	6,303	7,986	10,243

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Cash flow

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
EBIT	241	538	1,468	2,243	2,960
(Inc.)/dec. in working capital	(255)	56	(341)	(311)	(409)
Cash flow from operations	(14)	593	1,127	1,931	2,551
Other income	133	112	140	168	219
Depreciation	454	436	493	526	544
Tax paid (-)	(39)	(78)	(439)	(650)	(852)
Net cash from operations	534	1,064	1,322	1,975	2,462
Capital expenditure (-)	(563)	(702)	(1,000)	(900)	(800)
Net cash after capex	(28)	362	322	1,075	1,662
Interest paid (-)	(22)	(32)	(39)	(27)	(20)
Inc./dec. in total borrowings	(181)	58	(15)	(50)	(50)
Inc./dec. in investments	348	(442)	(44)	-	-
Cash from financial activities	145	(416)	(98)	(77)	(70)
Others	(81)	36	-	-	-
Opening cash balance	445	482	464	688	1,686
Closing cash balance	482	464	688	1,686	3,278
Change in cash balance	37	(18)	225	998	1,592

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Key ratios

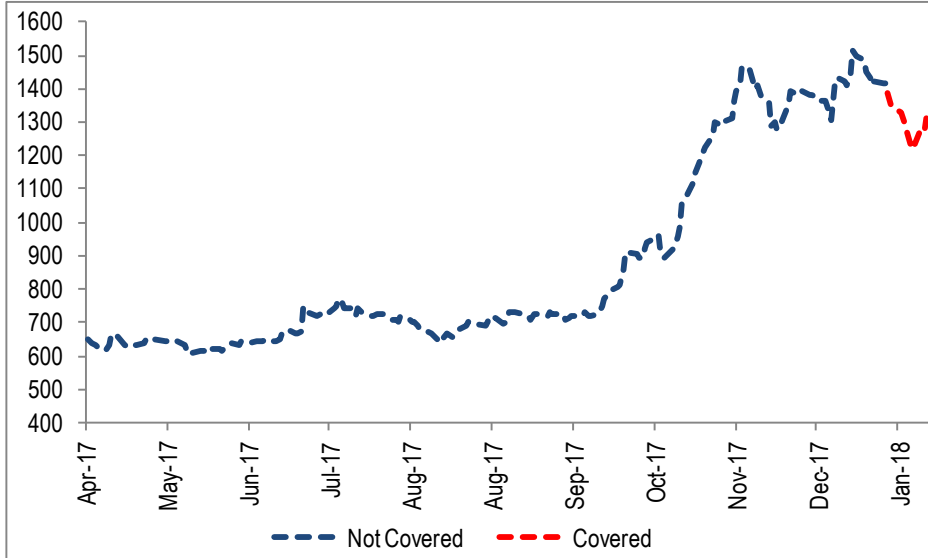
Y/E March	FY16	FY17	FY18E	FY19E	FY20E
Per share (Rs)					
EPS	7.6	12.3	27.4	42.0	55.9
Book value	101.3	113.3	140.7	182.7	238.5
Valuation (x)					
P/E	171.5	105.5	47.5	31.0	23.3
P/BV	12.9	11.5	9.3	7.1	5.5
EV/EBITDA	77.0	55.0	27.2	18.9	14.4
EV/sales	3.6	3.1	2.4	1.9	1.5
Return ratios (%)					
RoCE	5.3	11.0	25.6	31.4	32.5
RoE	7.8	11.5	21.6	26.0	26.5
RoIC	6.4	13.3	32.4	42.3	49.5
Profitability ratios (%)					
EBITDA margin	4.6	5.6	8.7	10.2	10.6
EBIT margin	1.6	3.1	6.5	8.3	9.0
PAT margin	2.1	2.9	5.0	6.4	7.0
Turnover ratios					
Total asset turnover ratio (x)	3.3	3.4	3.6	3.4	3.2
Fixed asset turnover ratio (x)	2.7	2.9	3.2	3.4	3.8
Debtor days	28	29	31	32	32
Inventory days	91	85	83	83	82
Creditor days	96	96	96	95	94

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

Rating track graph



DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.
 Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010