

IFB Industries

7 June 2018

Reuters: IFBI.BO; Bloomberg: IFBI IN

Strong Growth And Margin Expansion Likely; Retain Buy

IFB Industries (IFB) sustained its strong growth momentum with revenues rising 22% YoY to Rs5.2bn in 4QFY18 and 23.4% YoY to Rs21.5bn in FY18. The GST-adjusted like-to-like growth in the home appliance segment was 19.4% YoY (Rs4.2bn sales) while the fine blanking segment's revenues jumped 34% YoY to Rs1bn in 4QFY18. Despite rising commodity prices, gross margin expanded 420bps YoY to 46.3% in 4QFY18 and 170bps YoY to 43.9% in FY18 owing to product indigenisation, better revenue mix and value engineering. EBITDA stood at Rs377mn in 4QFY18, translating to an operating margin of 7.2% (versus 2.7% YoY). A higher tax rate (34% versus MAT rate in the past three years), restricted the growth in PAT to Rs207mn, below our estimate of Rs447mn. The management is optimistic about attaining 20% revenue CAGR in the home appliance segment over the next three years. The management expects to sustain/improve the current level of gross margin (3%-4% price hike taken in June 2018) while it aims to have double-digit operating margin on achieving higher scale of Rs6bn in quarterly sales. Delay in the launch of high volume 6kg top-load washing machine (from 4QFY18 to 3QFY19) and a higher tax rate leads to a cut in our earnings estimates by 18%/13% for FY19/FY20, respectively. We have retained our positive outlook and Buy rating on IFB with a revised SOTP-based target price of Rs1,650 (Rs1,900 earlier), valuing its home appliance segment at 36x FY20E earnings (Rs1,510) and fine blanking segment at 15x FY20E earnings (Rs140).

Following are the key takeaways from the conference-call:

- IFB sold 84,675 units of front-load washing machines (42.9% of home appliance sales) in 4QFY18, up 7.4% YoY in volume terms. In FY18, volume growth was 20%.
- IFB sold 44,098 units of top-load washing machines (14.5% of home appliance sales) in 4QFY18, up 9.6% YoY in volume terms. In FY18, volume growth was 19.5%.
- IFB sold 26,817 units of air-conditioners (16.5% of home appliance sales) in 4QFY18, up 22% YoY in volume terms. In FY18, volume growth was 19.7%.
- IFB sold 26,817 units of microwave ovens (10.4% of home appliance sales) in 4QFY18, up 40% YoY in volume terms. In FY18, volume growth was 35%.
- The domestic sourcing of electronic components in front-load washing machine is 50% complete and is likely to get fully concluded by 2QFY19. This will reduce the import content from 28% to 14% and aid further gross margin expansion.
- IFB aims to augment its distribution network by: (a) Adding new products (like top-load, oven) in retail outlets directly serviced by it. (b) Increase indirectly-serviced retail outlet count by 3,500 per year. (c) Focus on margin (and not expansion) of IFB Points.

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BUY

Sector: White Goods

CMP: Rs1,105

Target Price: Rs1,650

Upside: 49%

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Key Data

Current Shares O/S (mn)	40.5
Mkt Cap (Rsbn/US\$m)	44.7/668.5
52 Wk H / L (Rs)	1,547/629
Daily Vol. (3M NSE Avg.)	23,819

Price Performance (%)

	1 M	6 M	1 Yr
IFB Industries	(15.0)	(21.8)	72.1
Nifty Index	(0.3)	5.1	10.6

Source: Bloomberg

Y/E March (Rsmn)	4QFY17	3QFY18	4QFY18	YoY (%)	QoQ (%)	FY17	FY18	YoY (%)
Net sales	4,292	5,317	5,231	21.9	(1.6)	17,407	21,485	23.4
Raw material costs	2,485	2,851	2,809	13.1	(1.5)	10,054	12,045	19.8
Employee costs	437	550	515	17.9	(6.4)	1,615	2,111	30.8
Other expenses	1,255	1,550	1,530	21.9	(1.3)	4,705	5,763	22.5
Total expenditure	4,176	4,952	4,854	16.2	(2.0)	16,374	19,919	21.7
EBITDA	116	366	377	226.8	3.1	1,033	1,566	51.6
EBITDA margin (%)	2.7	6.9	7.2	-	-	5.9	7.3	-
Interest costs	11	11	10	(8.2)	(4.7)	44	43	(1.1)
Depreciation	114	132	129	13.3	(2.1)	436	514	17.9
Other income	41	42	75	84.7	79.0	128	185	43.8
PBT	31	266	314	898.4	18.0	682	1,193	75.0
Tax	(9)	79	107	NA	34.7	131	361	176.6
PAT	40	186	207	412.9	11.0	551	833	51.0
PAT margin (%)	0.9	3.5	4.0	-	-	3.2	3.9	-
EPS (Rs)	1.0	4.5	5.0	412.9	11.0	13.4	20.2	51.0

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	2,389	3,210
PAT	314	551	833	1,418	2,006
EPS (Rs)	7.6	13.4	20.2	34.3	48.6
EPS growth YoY (%)	(36.9)	75.8	51.0	70.3	41.5
EBITDA margin (%)	4.6	5.9	7.3	9.1	10.3
P/E (x)	145.5	82.7	54.8	32.2	22.7
P/BV (x)	10.9	9.7	8.3	6.6	5.1
EV/EBITDA (x)	65.2	43.9	28.8	18.6	13.4
RoCE (%)	5.3	12.6	19.9	29.0	32.8
RoE (%)	7.8	12.4	16.3	22.8	25.3

Source: Company, Nirmal Bang Institutional Equities Research

- Front-load washing machine:** It is the largest product category of IFB (47.3% of home appliance segment revenues in FY18) where it enjoys a strong market share of 43%-44%. The front-load washing machine capacity was fully utilised during FY18 and is being upgraded to manufacture 750,000 to 800,000 units per annum in FY19. IFB sold 406,269 units in FY18, registering a volume growth of 20.3%. IFB is currently ramping up its new range of washing machines which is expected to be completed by the end of 1QFY19 and further plans to launch new models by 3QFY19 to sustain its position as the market leader. The new product variants will focus on features such as IoT capabilities, water and energy efficiency, user convenience and interface designs. As IFB is facing competitive pressure in large multi-brand retail stores, it has undertaken measures to focus on such stores and increase its brand presence. On the export front, IFB supplied 16,500 units in FY18 to a global OEM and plans to look at other similar opportunities in future. It is currently in talks with another large global brand for supplying front-load 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 where it enjoys a strong market share of 8% to 8.5%. It accounted for 16.2% of home appliance revenues in FY18. IFB sold 208,684 units of top-load washing machines in FY18, registering a strong volume growth of 19.5%. IFB has enhanced its installed capacity to 3,50,000 units per annum and plans to produce 25,000 to 30,000 units per month from 1QFY19. Growth in top-load washing machine is likely to be driven by better customer service (IFB offers a four-year warranty on its top-load and front-load washing machines, highest in the industry), increase in retail touch points as well as launch of the 6kg variant of top-load washing machine. Among the 4,500 directly-serviced retail outlets of IFB (which mainly sell IFB front-load washing machine), top-load washing machine is currently sold in only ~1,300 to 1,400 outlets. IFB aims to increase this to 2,500 to 3,000 outlets in the near term. IFB's 6kg variant is currently under development and is expected to be launched in 3QFY19 after field testing is completed. The 6kg top-load washing machine is the largest product category in volume terms, forming ~55% to 60% of the total market, and is expected to give a boost to IFB's sales.
- Air-conditioner:** This division accounted for 10.5% of home appliance revenues in FY18 as IFB sold 72,684 units in FY18, achieving a volume growth of 19.7%. Currently, IFB has a low market share in ACs which it wants to improve by leveraging on its distribution network. Inverter ACs, which formed 7% of IFB's total AC sales last year, rose to ~40% of total AC sales (comparison of February to June summer season) and is expected to increase to ~50% or higher in FY19 along with a similar scale-up likely in the industry. IFB is currently expanding its distribution network which is expected to be completed in FY19. IFB outsources the manufacturing of ACs to TCL, a Chinese manufacturer.
- Microwave ovens:** Microwave ovens contributed 12% to home appliance revenues in FY18. IFB has a market share of ~21% in microwave ovens and is among the top three players in India. IFB sold 281,263 units of microwave ovens in FY18 and registered a robust volume growth of 35% in FY18, even though the industry growth was muted. Key drivers of growth in microwave ovens were wider acceptance of new products launched (oil-free cooking offerings) and improved distribution reach. IFB's installed capacity stands at 500,000 units.
- Other product categories:** In the dish-washer category (2.3% of home appliance revenues in FY18), IFB posted 65% YoY sales growth in FY18.

- IFB plans to launch a washer-dryer model by 4QFY19 and expects volume of ~1,000 to 2,000 units initially as the product gains visibility and traction. The washer-dryer segment is a niche segment with only two other major players (Bosch and LG).
- **Distribution network:** IFB has significantly expanded its distribution network over the past one year and currently has indirectly-serviced (through distributors and wholesalers) 7,500 to 8,000 outlets. IFB plans to add ~3,000 to 3,500 more outlets and increase business volume in FY19. In addition, 4,500 retail outlets are directly serviced by IFB.
- Currently, IFB has 440 IFB exclusive stores (IFB Points), of which 140 are company-owned and company-operated (CoCo) while the others are franchisees. 150 to 170 stores of total 440 IFB Points, are currently making losses at the operating level, ranging from Rs50,000 to Rs130,000 a month. The focus for FY19 is to make these IFB Points profitable. An additional 50 stores are under construction as of 4QFY18-end and IFB expects to have 475 to 500 IFB Points by 2QFY19. The management expects bulk of the expansion in future to be driven by franchise stores and not by CoCos. IFB Points contributed ~14% to home appliance sales in volume terms in FY18. The management's focus for FY19 is on improving the profitability of IFB Points and not on further expansion.
- In terms of revenue mix of the home appliance segment in FY18, multi-brand stores contributed 54% to sales volume, IFB Points contributed 14%, IFB website and other e-commerce sites contributed 17%, defence canteen and direct institutional purchases accounted for 1%, dealers (mainly for ACs) contributed 1% and distributors accounted for 15%.
- The company has 1,800 counter sales representatives as of FY18-end (1,250 in multi brand stores, 450 in IFB Points and 100 in distribution network) and plans to add ~900 sales representatives in FY19 (750 will be added to multi-brand outlets and 150 will be added to the distribution network) to drive growth and expand its sales network.
- From 3QFY18, IFB started to localise sourcing of controllers for all its new models of front-load washing machine. The import content has already dropped from 28% to ~20% (as ~50% of the production has been currently shifted to localised controllers). It is further expected to drop to 14% by the end of 2QFY19 as 100% of the production will be shifted to localised controllers.
- IFB plans to launch refrigerators in 3QFY19. The refrigerators are currently in the second month of trials and are expected to continue till August 2018. It 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).
- The management reiterated that Rs6bn quarterly revenues in the home appliance segment will lead to double-digit EBITDA margin because of operating leverage benefit.
- IFB has taken price hikes of ~3% to 4% both in front-load and top-load washing machines during the first week of June and are expected to be fully in effect from the first week of July.
- In FY18, IFB incurred a capex of Rs530mn. It plans to incur a capex of Rs760mn in FY19 (Rs460mn on the home appliance division and Rs300mn on the fine blanking segment).
- Fine blanking segment's GST-adjusted like-to-like revenues grew 34% YoY to Rs1bn in 4QFY18. EBIT rose 177% YoY to Rs123mn in 4QFY18, translating to a robust 680bps rise in EBIT margin to 12.2% (a three-year quarterly high). The segment mainly caters to the automobile sector, of which four-wheeler division contributed 52% to total sales while the two-wheeler division contributed 39% to total sales. Heavy vehicles, electricals and other divisions contributed the remaining 9% to sales. IFB wants to increase its presence in non-automobile sectors like electrical, railway, defence and cycle industries.
- 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.
- Revenues from TAAL in 4QFY18 were Rs67.5mn, while in FY18 they were Rs197mn. The performance is expected to improve in 1QFY19 because of new commercial ventures and improving customer base.
- IFB is in the process of turning around Trishan which it acquired recently. Revenues in 4QFY18 were Rs214mn, while in FY18 they were Rs777mn. The plant had some line-balancing problems which led to inefficient capacity utilisation. The plant is expected to stabilise over the next two quarters.
- Both TAAL and Trishan are expected to be profitable from 1QFY19 onwards.

Exhibit 2: Segment-wise snapshot

(Rsmn)	4QFY17	3QFY18	4QFY18	YoY (%)	QoQ (%)	FY17	FY18	YoY (%)
Revenues								
Home appliance	3,831	4,358	4,234	10.5	(2.8)	15,654	18,084	15.5
Engineering	828	959	1,008	21.7	5.0	3,337	3,814	14.3
Revenue mix (%)								
Home appliance	82.2	82.0	80.8	-	-	82.4	82.6	-
Engineering	17.8	18.0	19.2	-	-	17.6	17.4	-
EBIT (Rsmn)								
Home appliance	34	207	221	559.1	6.5	648	968	49.4
Engineering	45	106	123	177.3	16.5	211	399	89.4
EBIT margin (%)								
Home appliance	0.9	4.8	5.2	-	-	4.1	5.4	-
Engineering	5.4	11.0	12.2	-	-	6.3	10.5	-

Source: Company, Nirmal Bang Institutional Equities Research (Note - YoY growth numbers are understated because revenues is net of GST in 4QFY18 and FY18)

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

(Products)	4QFY17	3QFY18	4QFY18	YoY (%)	QoQ (%)	FY17	FY18	YoY (%)
Revenue break-up (%)								
Front-load washing machine	46.1	50.7	42.9	-	-	48.5	47.3	-
Top-load washing machine	15.9	17.0	14.5	-	-	16.9	16.2	-
Microwave oven	8.9	12.3	10.4	-	-	11.0	12.0	-
ACs	15.6	4.4	16.5	-	-	10.5	10.5	-
Dish-washer	1.5	2.6	2.3	-	-	1.6	2.3	-
Clothes dryer	0.6	0.8	0.6	-	-	0.6	0.8	-
IDW/ILE/EA/MK	2.9	1.5	1.2	-	-	2.4	1.3	-
Others	8.5	10.7	11.6	-	-	8.5	9.7	-
Total	100	100	100	-	-	100	100	-
Net revenues (Rsmn)								
Front-load washing machine	1,766	2,210	1,817	2.9	(17.8)	7,592	8,552	12.6
Top-load washing machine	609	741	614	0.8	(17.1)	2,646	2,924	10.5
Microwave oven	341	536	440	29.2	(17.8)	1,722	2,164	25.7
ACs	598	192	699	16.9	264.3	1,644	1,898	15.5
Dish-washer	57	113	97	69.5	(14.1)	250	414	65.2
Clothes dryer	23	35	25	10.5	(27.1)	94	141	50.5
IDW/ILE/EA/MK	111	65	51	(54.3)	(22.3)	376	242	(35.5)
Others	326	466	491	50.8	5.3	1,331	1,747	31.3
Total	3,831	4,358	4,234	10.5	(2.8)	15,654	18,084	15.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Our estimates versus actual performance

4QFY18 (Rsmn)	Actual	Our estimate	Deviation (%)
Revenues	5,231	6,269	(16.6)
EBITDA	377	715	(47.2)
PAT	207	447	(53.8)

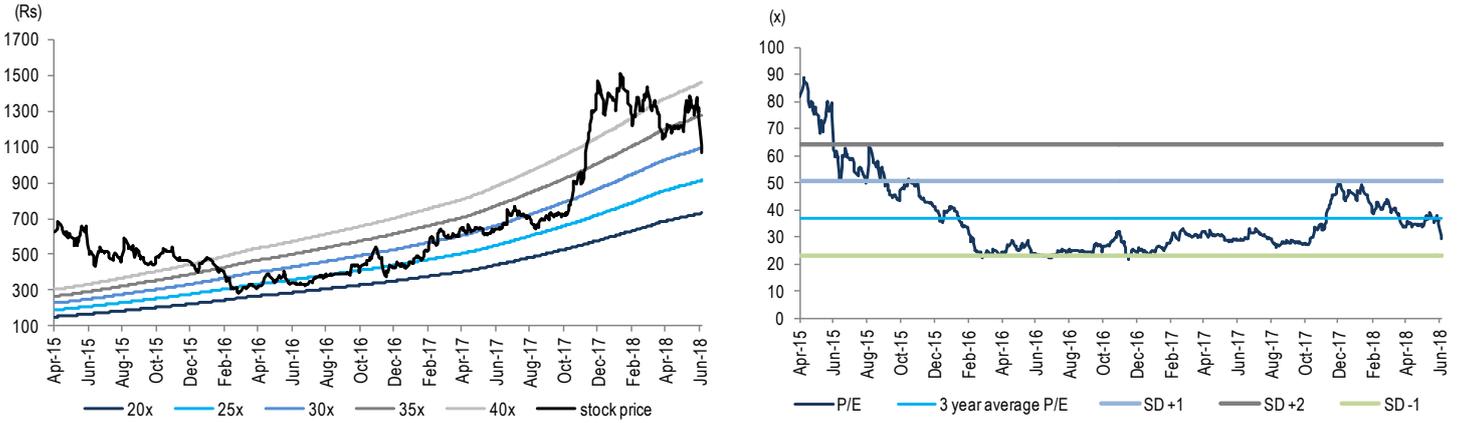
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Change in our estimates

(Rsmn)	Old		New		Deviation (%)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenues	27,075	32,929	26,156	31,272	(3.4)	(5.0)
EBITDA	2,768	3,503	2,389	3,210	(13.7)	(8.4)
PAT	1,733	2,307	1,418	2,006	(18.2)	(13.1)

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	6,609	7,673
Total expenditure	14,315	16,374	19,919	23,767	28,062
EBITDA	694	1,033	1,566	2,389	3,210
% growth	(19.8)	48.7	51.6	52.6	34.3
EBITDA margin (%)	4.6	5.9	7.3	9.1	10.3
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	2,025	2,865
Tax	38	131	361	608	860
PAT	314	551	833	1,418	2,006
PAT margin (%)	2.1	3.2	3.9	5.4	6.4
EPS (Rs)	7.6	13.4	20.2	34.3	48.6
% growth	(36.9)	75.8	51.0	70.3	41.5

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	6,513	8,519
Net worth	4,183	4,715	5,503	6,926	8,931
Total borrowings	164	222	141	111	81
Deferred tax liability	258	(42)	53	53	53
Total liabilities	4,605	4,895	5,696	7,089	9,065
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	1,390	2,835
Other current assets	989	753	1,091	1,360	1,626
Total current assets	4,769	4,948	6,552	8,507	11,140
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	2,558	4,291
Total assets	4,605	4,895	5,696	7,089	9,065

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	1,853	2,652
(Inc./dec.) in working capital	(255)	369	(188)	(370)	(288)
Cash flow from operations	(14)	966	864	1,483	2,364
Other income	133	128	185	210	242
Depreciation	454	436	514	536	558
Tax paid (-)	(39)	(431)	(266)	(608)	(860)
Net cash from operations	534	1,100	1,296	1,622	2,304
Capital expenditure (-)	(563)	(510)	(361)	(800)	(800)
Net cash after capex	(28)	589	935	822	1,504
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	1,390
Closing cash balance	482	463	631	1,390	2,835
Change in cash balance	37	(18)	168	759	1,445

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

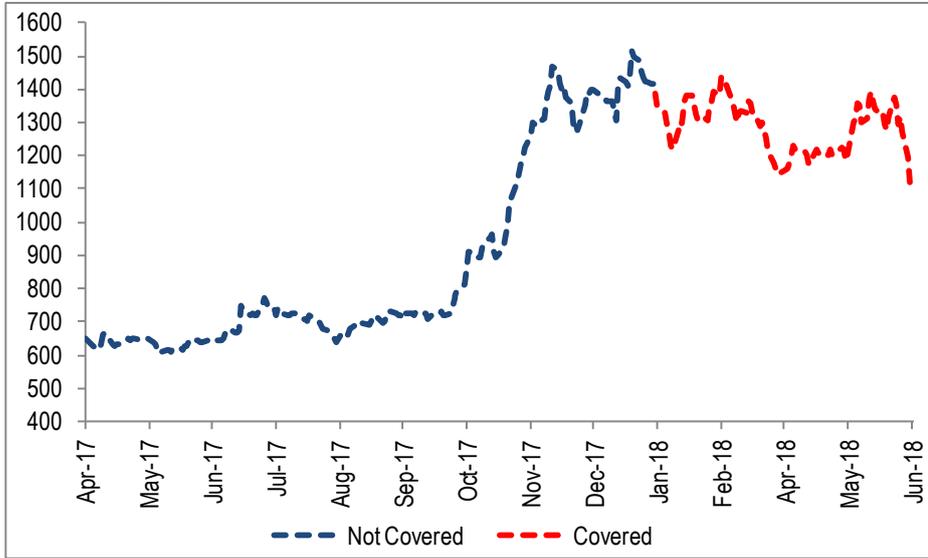
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Per share (Rs)					
EPS	7.6	13.4	20.2	34.3	48.6
Book value	101.3	114.2	133.3	167.8	216.4
Valuation (x)					
P/E	145.5	82.7	54.8	32.2	22.7
P/BV	10.9	9.7	8.3	6.6	5.1
EV/EBITDA	65.2	43.9	28.8	18.6	13.4
EV/sales	3.0	2.6	2.1	1.7	1.4
Return ratios (%)					
RoCE	5.3	12.6	19.9	29.0	32.8
RoE	7.8	12.4	16.3	22.8	25.3
RoIC	6.4	15.4	27.7	45.0	56.4
Profitability ratios (%)					
EBITDA margin	4.6	5.9	7.3	9.1	10.3
EBIT margin	1.6	3.4	4.9	7.1	8.5
PAT margin	2.1	3.2	3.9	5.4	6.4
Turnover ratios					
Total asset turnover ratio (x)	3.3	3.6	3.8	3.7	3.4
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

Rating track graph



DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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