Whirlpool of India

18 September 2018

Reuters: WHIR.BO; Bloomberg: WHIRL IN

FY18 AGM Update

Aims To Sustain Healthy Growth Trajectory

We attended the annual general meeting (AGM) of Whirlpool of India (WIL) held on 17 September 2018. The management expects healthy growth momentum of the consumer durable market in India to continue while it was optimistic about outpacing industry growth aided by distribution expansion, strengthening product portfolio as well as inorganic growth. WIL is enhancing its capacity in refrigerators and washing machines to meet the rising demand and aims to launch new models/variants regularly in every two months. WIL is also upbeat about the growth prospects of the cooking segment and intends to scale up its presence after the acquisition of 49% stake in Elica PB India. We remain optimistic on WIL's future prospects and retain our earnings estimates and target price of Rs1,900 (based on 40x FY20E earnings) on the stock. However, our rating on WIL stands upgraded to Buy (from Accumulate earlier) after the recent correction in stock price. Key takeaways from the meeting are as follows:

Current status of consumer durable industry

- With the Indian economy gaining momentum, the management expects the consumer durable industry to sustain its healthy growth rate. The size of the industry is likely to double in the next five years from the current level of Rs400bn (share of urban market is 65%).
- Cut in GST rate from 28% to 18% on refrigerators and washing machines is likely to boost festive sales. GST reduction is also likely to lead to rise in market penetration level and premiumisation, especially in case of replacement demand. In the long run, growth in rural and semi-urban markets is likely to outpace the urban markets owing to lower penetration level as well as macro drivers like rising electrification, direct benefit transfer, healthy monsoon and minimum support prices to farmers.
- Consumer financing is gaining traction and currently accounts for 25% to 35% of industry sales, with higher prominence in southern and western regions.
- Rising competition and entry of new brands is a reality, given the current scale and future growth prospects of India's consumer durable industry.
- Key headwinds faced by the industry currently are rising commodity prices and the depreciating Indian rupee.

WIL – Business update

- 78% of WIL's FY18 revenues came from its core categories of refrigerators (57% of sales) and washing machines (21% of sales). Air-conditioners (ACs) accounted for 9% of sales, while the remaining 13% came from categories such as microwave ovens, built-in kitchen appliances, water purifiers as well as spares and service.
- WIL posted above-industry growth rates in FY18 driven by channel expansion (actual billing points grew 25% over last year), strengthening product portfolio, higher exports and stronger off-take from e-commerce.

BUY

Sector: White Goods

CMP: Rs1,600

Target Price: Rs1,900

Upside: 19%

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Key Data

Current Shares O/S (mn)	126.9
Mkt Cap (Rsbn/US$bn)	202.2/2.8
52 Wk H / L (Rs)	1,955/1,194
Daily Vol. (3M NSE Avg.)	56,283

Price Performance (%)

	1 M	6 M	1 Yr
Whirlpool of India	(8.1)	2.5	23.8
Nifty Index	(1.0)	11.4	11.9

Source: Bloomberg

- WIL registered 16% YoY volume growth in international sales. It made significant inroads in untapped African markets, mainly South Africa and Morocco in the laundry appliance category. Healthy growth across categories was sustained in key markets such as Philippines, Bangladesh, Sri Lanka, Nepal and Australia. The outlook on exports is promising.
- Among product categories, WIL is witnessing strong growth in direct cool single-door refrigerators and is falling short of capacity. YTD growth in direct cool category is 23%. WIL has lined up a capex of Rs1.8bn to increase its direct cool refrigerator capacity by 0.6mn units per annum (existing capacity is 2.1 mn units per annum).
- WIL acquired 49% stake in Elica PB India for Rs1.6bn, in line with its strategy of expanding in the cooking segment.
- WIL has been going for prudent price hikes since October 2017 to pass on the rise in commodity costs to consumers.
- E-commerce accounted for high single-digit share in FY18 sales and has grown significantly over the past two years. WIL has partnered with both Amazon and Flipkart, besides having its own online 'W' stores. The management expects strong traction from the e-commerce channel to continue and has also increased digital marketing spending to aid growth.
- WIL has shut down 15% of its warehouses post implementation of GST to rationalise its supply chain. The GST mechanism enables it to directly despatch its product to all the states from its manufacturing plant.

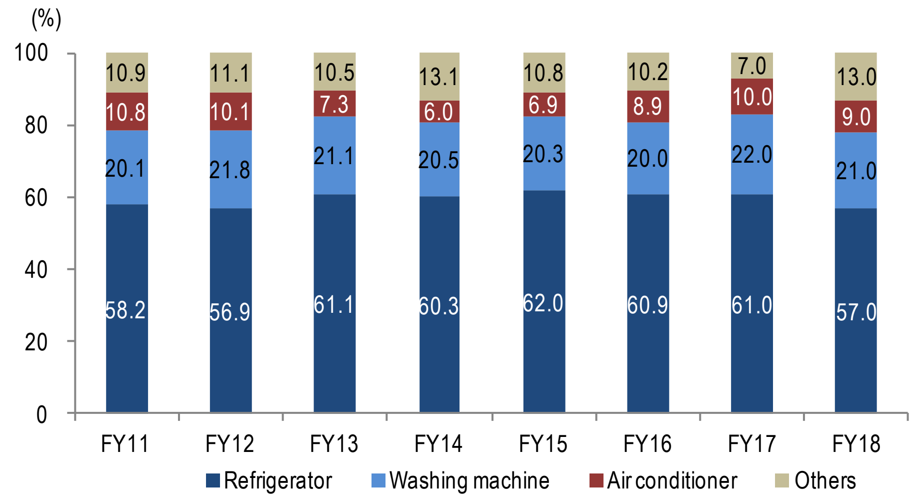
WIL - Future growth strategy

- With socio-economic prospects of India looking favourable, WIL intends to grow organically (capacity expansion in refrigerator and washing machine) as well as inorganically (Elica). WIL has a strong brand and distribution reach and it wants to leverage the same by expanding its product portfolio.
- While WIL has a strong presence in the mass-premium segment, it aims to grow more in the other segments such as mass segment and premium segment. WIL has recently launched new products in semi-automatic washing machine, larger size washing machine (7.5kg to 8.5kg), premium refrigerator (4 doors) and IoT-enabled air-conditioner as well as forayed into dish-washer category. WIL aims to launch a new product/variant every two months to refresh and strengthen its product portfolio.
- Cooking product revenues of Elica is six times higher and its distribution network is four times larger than that of WIL in India. Besides, Elica also has strong product design and sales teams. WIL expects its cooking product revenues to leapfrog after the Elica deal as it will gain from Elica’s manufacturing and design capabilities as well as distribution network (Elica’s sales team will now market WIL’s products too).
- WIL intends to expand its distribution reach, especially in semi-urban and rural areas.
- WIL expects to sustain healthy fixed asset turnover and working capital cycle.

Outlook and valuation

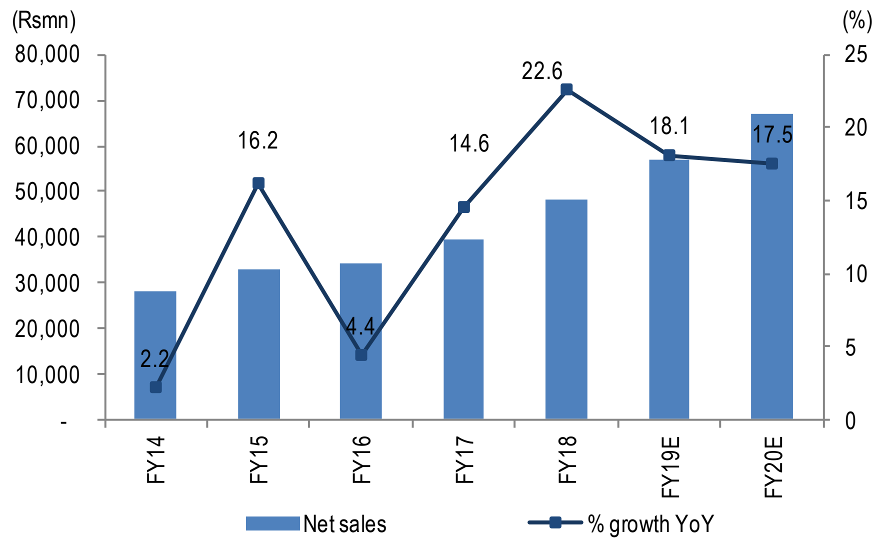
WIL offers strong scalability in the rapidly growing consumer durable industry owing to significant distribution network expansion as well as strengthening of the product portfolio. We expect WIL to register 18% revenue CAGR and 31% earnings CAGR over FY18-FY20E aided by moderate margin expansion and rising other income. WIL is a strong financial franchise with robust operating/free cash flow (Rs12.1bn/Rs8.3bn, respectively, over FY18-FY20E), lean working capital cycle, healthy margin profile, healthy return ratios (RoCE/RoIC of 28%/150%, respectively, in FY18) and a high cash balance (Rs77/share in FY18 forming 4.8% of CMP, and likely to rise to Rs125/share in FY20E forming 7.8% of CMP) which will support its premium valuation. We have assigned a P/E of 40x to WIL based on +0.5 standard deviation above the past three years’ median P/E and PEG ratio of 1.3x. We have retained our earnings estimates and target price of Rs1,900 on WIL. However, our rating on the stock stands revised to Buy (from Accumulate earlier) after the recent correction in stock price.

Exhibit 1: WIL's revenue mix



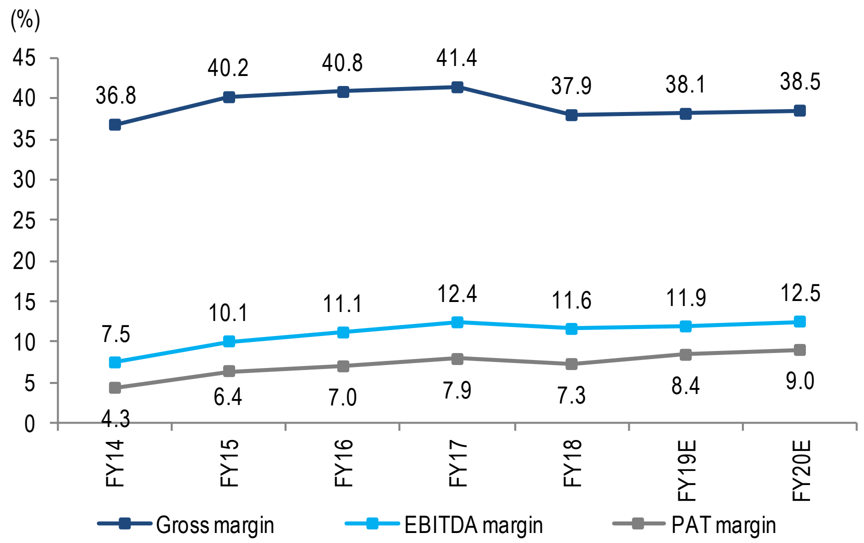
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Trend in net revenues



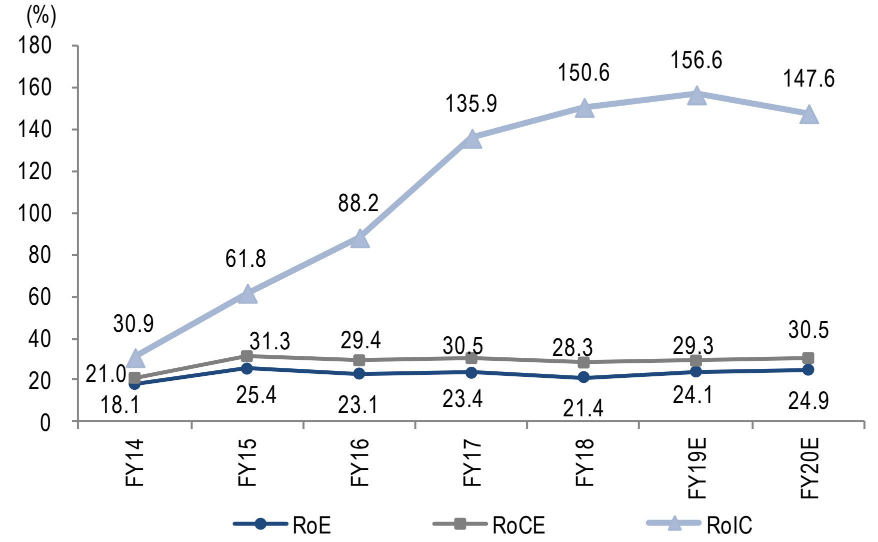
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Trend in margins



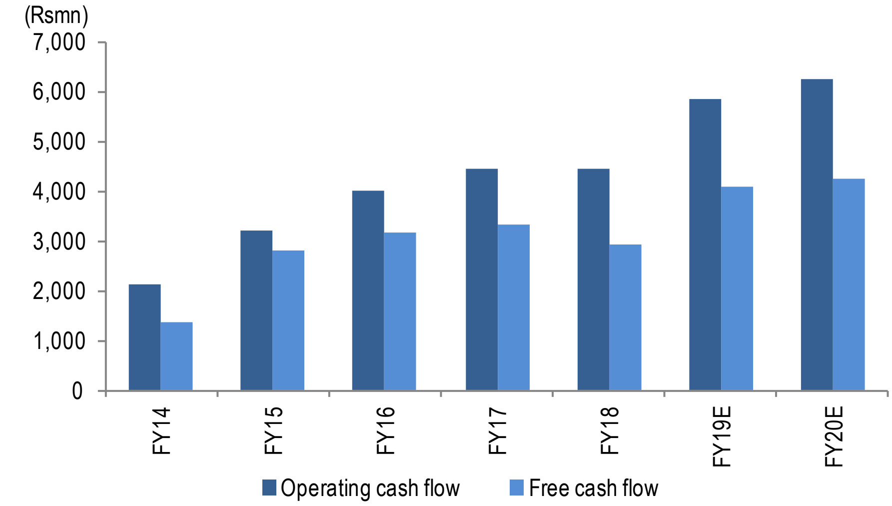
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Trend in return ratios



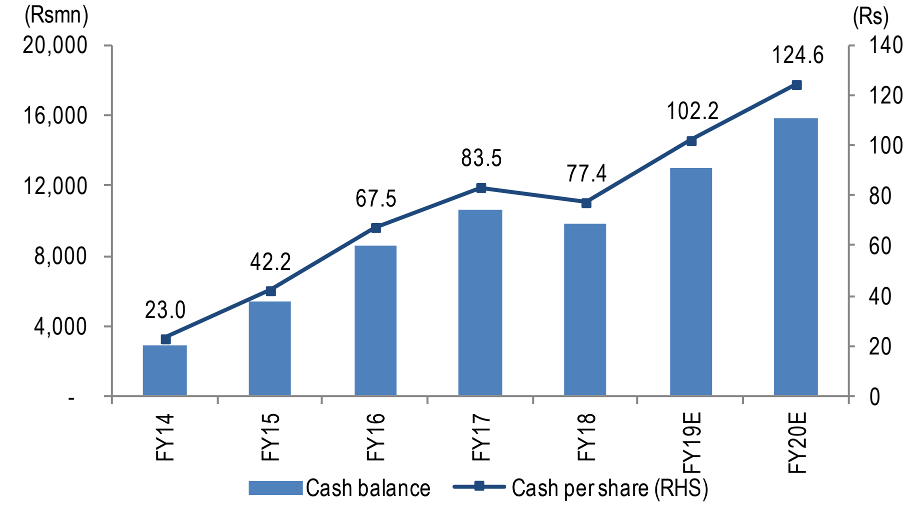
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Trend in operating and free cash flow



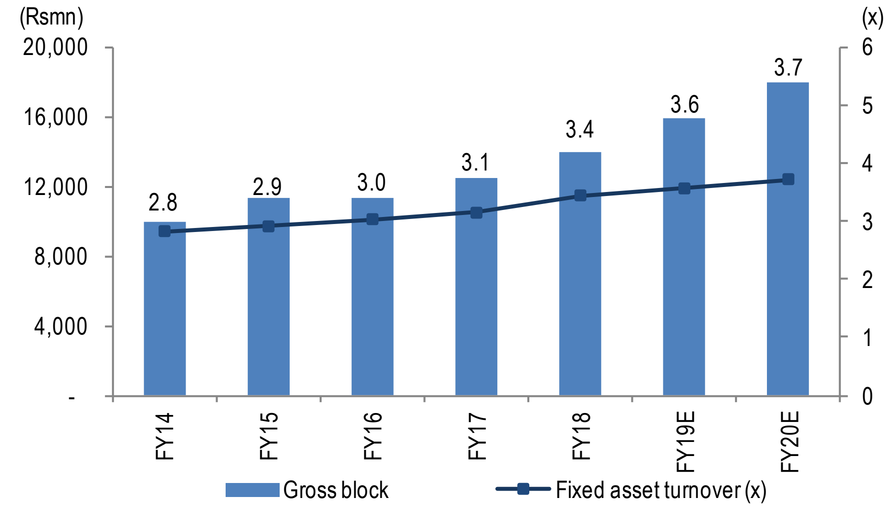
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Rising cash balance



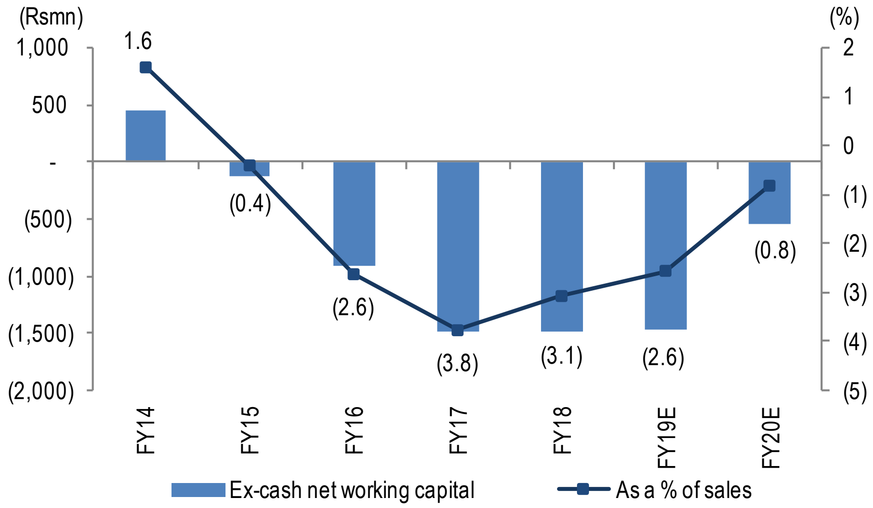
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Trend in gross block and fixed-asset turnover



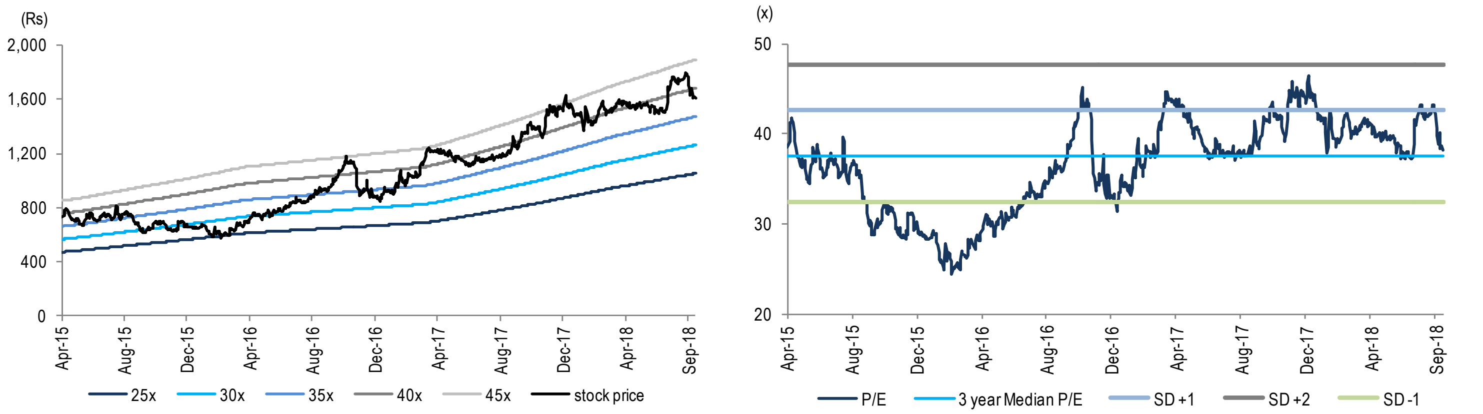
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Ex-cash net working capital position



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: One-year forward P/E



Source: Nirmal Bang Institutional Equities Research

Financials

Exhibit 10: Income statement

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Net sales	34,399	39,408	48,319	57,070	67,076
% growth YoY	*4.4*	*14.6*	*22.6*	*18.1*	*17.5*
Raw material costs	20,365	23,101	29,988	35,326	41,252
Staff costs	3,827	4,116	4,553	5,250	6,037
Other overheads	6,373	7,302	8,179	9,702	11,403
Total expenditure	30,564	34,519	42,719	50,278	58,692
EBITDA	3,835	4,888	5,600	6,791	8,385
% growth	*15.8*	*27.5*	*14.6*	*21.3*	*23.5*
EBITDA margin (%)	*11.1*	*12.4*	*11.6*	*11.9*	*12.5*
Other income	553	730	867	1,340	1,590
Interest costs	52	59	44	40	36
Depreciation	769	875	1,015	1,050	1,104
Profit before tax	3,559	4,685	5,408	7,042	8,835
Tax	1,159	1,580	1,902	2,254	2,811
PAT	2,400	3,105	3,507	4,788	6,024
PAT margin (%)	*7.0*	*7.9*	*7.3*	*8.4*	*9.0*
EPS (Rs)	18.9	24.5	27.6	37.7	47.5
% growth	*14.0*	*29.4*	*12.9*	*36.5*	*25.8*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Cash flow

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
EBIT	3,066	4,014	4,585	5,741	7,280
(Inc)/dec. in working capital	772	583	(1)	(25)	(911)
Cash flow from operations	**3,838**	**4,597**	**4,584**	**5,716**	**6,369**
Other income	553	730	867	1,340	1,590
Depreciation	769	875	1,015	1,050	1,104
Tax paid (-)	(1,154)	(1,769)	(2,021)	(2,254)	(2,811)
Net cash from operations	**4,006**	**4,433**	**4,445**	**5,852**	**6,253**
Capital expenditure (-)	(838)	(1,120)	(1,531)	(1,750)	(2,000)
Net cash after capex	**3,168**	**3,313**	**2,913**	**4,102**	**4,253**
Interest paid (-)	(52)	(59)	(44)	(40)	(36)
Dividend paid (-)	-	(458)	(611)	(917)	(1,375)
Inc./(dec.) in total borrowings	-	-	-	-	-
(Inc.)/dec. in investments	-	(1,297)	(3,266)	-	-
Cash from financial activities	**(52)**	**(1,814)**	**(3,921)**	**(956)**	**(1,410)**
Others	90	528	237	-	-
Opening cash balance	5,357	8,563	10,590	9,819	12,965
Closing cash balance	8,563	10,590	9,819	12,965	15,807
Change in cash balance	3,206	2,027	(771)	3,146	2,842

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Balance sheet

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Share capital	1,269	1,269	1,269	1,269	1,269
Reserves	10,388	13,562	16,695	20,566	25,215
Net worth	11,657	14,831	17,963	21,835	26,484
Total loans	-	-	-	-	-
Deferred tax liability net	30	(159)	(279)	(279)	(279)
Liabilities	**11,686**	**14,671**	**17,684**	**21,556**	**26,205**
Net block	3,661	3,978	4,459	5,390	6,285
Capital work-in-progress	367	295	331	100	100
Investments	-	1,297	4,563	4,563	4,563
Inventories	6,835	8,888	8,101	10,162	12,432
Debtors	1,926	2,049	2,403	2,971	3,675
Cash	8,563	10,590	9,819	12,965	15,807
Loans & advances	161	163	191	342	402
Other current assets	999	1,343	2,113	1,997	2,348
Total current assets	18,484	23,032	22,626	28,438	34,665
Creditors	8,728	11,223	11,549	13,259	15,258
Other current liabilities	2,098	2,708	2,746	3,676	4,151
Total current liabilities	10,826	13,931	14,295	16,935	19,409
Net current assets	7,658	9,101	8,332	11,503	15,256
Total assets	**11,686**	**14,671**	**17,684**	**21,556**	**26,205**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Key ratios

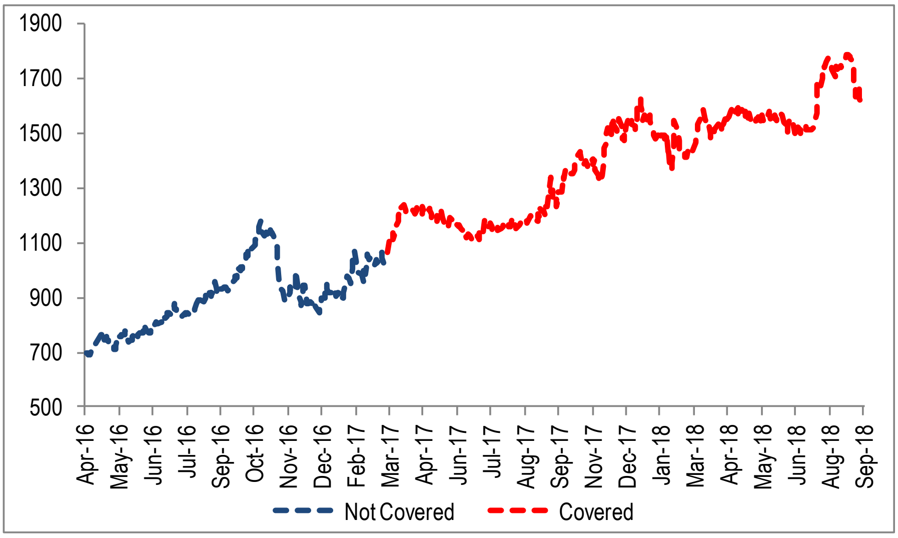
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Per share (Rs)					
EPS	18.9	24.5	27.6	37.7	47.5
Book value	91.9	116.9	141.6	172.1	208.7
Valuation (x)					
P/E	84.6	65.4	57.9	42.4	33.7
P/BV	17.4	13.7	11.3	9.3	7.7
EV/EBITDA	50.7	39.4	34.5	28.0	22.3
EV/sales	5.7	4.9	4.0	3.3	2.8
Return ratios (%)					
RoCE	29.4	30.5	28.3	29.3	30.5
RoE	23.1	23.4	21.4	24.1	24.9
RoIC	88.2	135.9	150.6	156.6	147.6
Profitability ratios (%)					
EBITDA margin	11.1	12.4	11.6	11.9	12.5
EBIT margin	8.9	10.2	9.5	10.1	10.9
PAT margin	7.0	7.9	7.3	8.4	9.0
Turnover ratios					
Total asset turnover ratio (x)	2.9	2.7	2.7	2.6	2.6
Fixed asset turnover ratio (x)	3.0	3.1	3.4	3.6	3.7
Debtor days	20	19	18	19	20
Inventory days	123	140	99	105	110
Creditor days	156	177	141	137	135

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price	Target price (Rs)
16 March 2017	Buy	1,040	1,305
7 April 2017	Buy	1,220	1,305
17 May 2017	Buy	1,190	1,400
6 July 2017	Buy	1,174	1,400
8 August 2017	Buy	1,191	1,400
20 September 2017	Buy	1,335	1,560
9 October 2017	Buy	1,349	1,560
27 October 2017	Buy	1,400	1,620
27 November 2017	Buy	1,515	1,775
9 January 2018	Buy	1,531	1,775
2 February 2018	Buy	1,459	1,740
6 April 2018	Buy	1,530	1,740
9 May 2018	Buy	1,547	1,780
4 June 2018	Buy	1,547	1,780
10 July 2018	Buy	1,523	1,780
10 August 2018	Accumulate	1,725	1,900
18 September 2018	Buy	1,600	1,900

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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