

Whirlpool of India

10 August 2018

Reuters: WHIR.BO; Bloomberg: WHIRL IN

Sustains Healthy Growth And Strong Margin

Whirlpool of India (WIL) posted healthy revenue growth of 13% YoY at Rs16.5bn in 1QFY19, broadly in line with our estimate. Sales growth is likely to be aided by distribution network expansion, focused execution on the shop floor through innovative product launches and filling up of product portfolio gap. Gross margin expanded 170bps YoY to 37.6% on a low base (FY18 gross margin was 37.9%). Other expenses (up 26% YoY at Rs2.6bn) rose 170bps YoY as a percentage of sales at 15.6%. EBITDA margin expanded 40bps YoY to 14.8%, translating to 16% YoY rise in EBITDA to Rs2.4bn, 5% above our estimate. Aided by higher other income (up 63% YoY at Rs357mn), PAT grew 23% YoY to Rs1.6bn. The bottom-line was 10% above our estimate of Rs1.5bn. We continue to remain optimistic about WIL outpacing industry growth along with maintaining its superior financial franchise. We expect WIL to report healthy 18% revenue CAGR over FY18-FY20E, despite the higher base of FY17 and FY18. With moderate margin expansion and rising other income, the earnings CAGR is likely to be much stronger at 31% over FY18-FY20E. We have assigned a P/E of 40x to WIL (up from 38x earlier) based on +0.5 standard deviation above the past three years' median P/E and PEG ratio of 1.3x. We have revised upwards our target price on WIL to Rs1,900 (from Rs1,780 earlier). The WIL stock has given stellar returns since our initiating coverage report in March 2017 (up 66% in 18 months) and we feel a significant re-rating from the current valuation is unlikely. We have thus downgraded the rating on WIL to Accumulate (from Buy earlier).

Sustains healthy revenue growth: WIL sustained its strong-growth trajectory with a healthy revenue growth of 13% YoY in 1QFY19, indicating robust traction for its consumer durable portfolio. The healthy growth was achieved despite an unfavourable summer season owing to unseasonal rains across India. This impacted industry growth of cooling products like refrigerators (~61% of WIL's sales) and air-conditioners (~10% of WIL's sales). While we expect the home appliance industry to post a 15% CAGR over the next five years, WIL is likely to outpace the home appliance industry's growth. Distribution reach expansion, plugging of portfolio gap (front-load washing machine, high-end refrigerator) and scaling up of other product categories are likely to be key drivers of growth for WIL. We expect WIL to post 18% revenue CAGR over FY18-FY20E.

Healthy margin profile: Gross margin expanded 170bps YoY to 37.6% in 1QFY19 (on a low base) and was broadly in line with FY18 gross margin level of 37.9%. EBITDA margin increased 40bps YoY to 14.8% as 1Q is a seasonally strong quarter for margin. With core strengths like strong brand perception, superior quality products and in-house manufacturing, WIL gives precedence to healthy profitability and free cash flow. With rising economies of scale (18% revenue CAGR) and strong focus on managing costs, EBITDA margin is likely to rise 90bps over FY18-FY20E to 12.5%. Further, WIL has very high cash and investments on its books worth Rs14.4bn in FY18, which is likely to rise to Rs20.4bn in FY20E. Rising cash and investment will lead to a rise in other income, translating to higher earnings CAGR of 31% over FY18-FY20E.

Outlook and valuation: WIL is a strong financial franchise with 31% earnings CAGR over FY18-FY20E, strong free cash flow (Rs8.3bn over FY18-FY20E), lean working capital cycle, superior margin profile, healthy return ratios (RoCE/RoIC of 30.5%/147%, respectively, in FY20E) and high cash balance (Rs125/share in FY20 forming 7% of the CMP) which will support its premium valuation.

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ACCUMULATE

Sector: White Goods

CMP: Rs1,725

Target Price: Rs1,900

Upside: 10%

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Key Data

Current Shares O/S (mn)	126.9
Mkt Cap (Rsbn/US\$bn)	220.6/3.2
52 Wk H / L (Rs)	1,780/1,122
Daily Vol. (3M NSE Avg.)	50,009

Price Performance (%)

	1 M	6 M	1 Yr
Whirlpool of India	14.6	12.6	49.8
Nifty Index	4.8	9.7	16.8

Source: Bloomberg

Y/E March (Rsmn)	1QFY18	4QFY18	1QFY19	YoY (%)	QoQ (%)
Net sales	14,640	12,577	16,511	12.8	31.3
Raw material costs	9,383	7,993	10,301	9.8	28.9
Staff costs	1,110	1,109	1,200	8.1	8.2
Other expenses	2,039	2,069	2,570	26.0	24.2
Total expenditure	12,532	11,171	14,070	12.3	26.0
EBITDA	2,108	1,406	2,440	15.8	73.5
EBITDA margin (%)	14.4	11.2	14.8	-	-
Depreciation	278	234	272	(2.1)	16.5
Interest costs	19	1	18	(9.3)	2,414.3
Other income	219	234	357	63.2	52.5
PBT	2,029	1,406	2,507	23.6	78.4
Tax	702	492	869	23.9	76.7
PAT	1,327	914	1,638	23.4	79.2
PAT margin (%)	9.1	7.3	9.9	-	-
EPS (Rs)	10.5	7.2	12.9	23.4	79.2

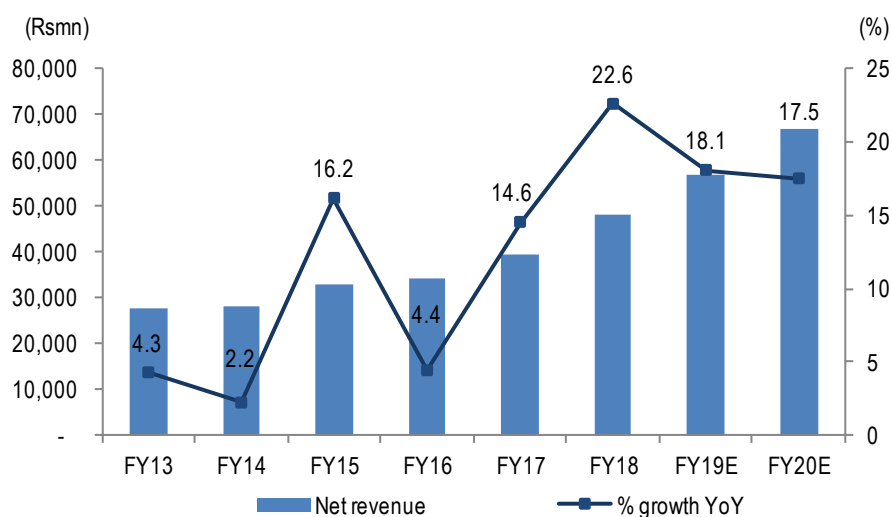
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	34,399	39,408	48,319	57,070	67,076
EBITDA	3,835	4,888	5,600	6,791	8,385
PAT	2,400	3,105	3,507	4,788	6,024
EPS (Rs)	18.9	24.5	27.6	37.7	47.5
EPS growth (%)	14.0	29.4	12.9	36.5	25.8
EBITDA margin (%)	11.1	12.4	11.6	11.9	12.5
P/E (x)	91.2	70.5	62.4	45.7	36.3
P/BV (x)	18.8	14.8	12.2	10.0	8.3
EV/EBITDA (x)	54.8	42.6	37.3	30.3	24.2
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

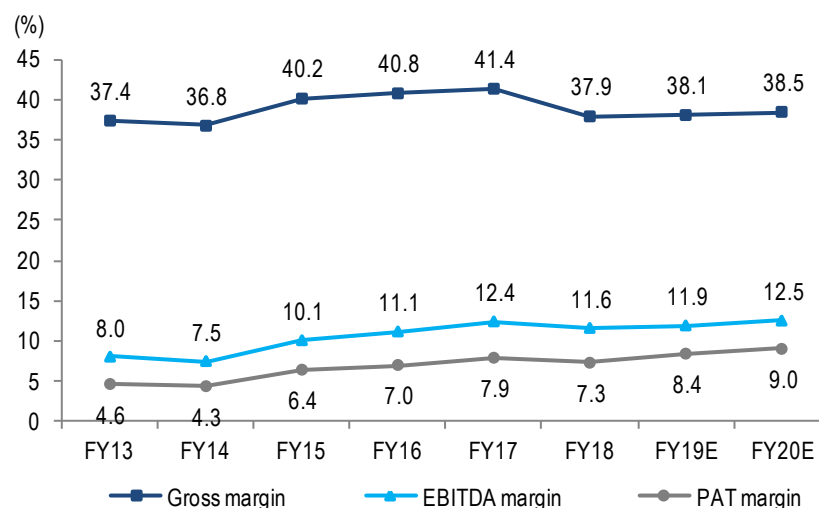
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Trend in net revenues



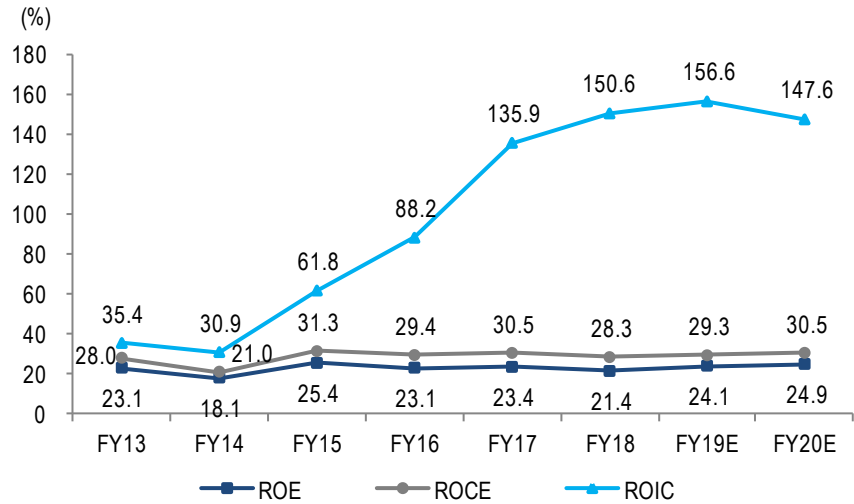
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Trend in margins



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Trend in return ratios



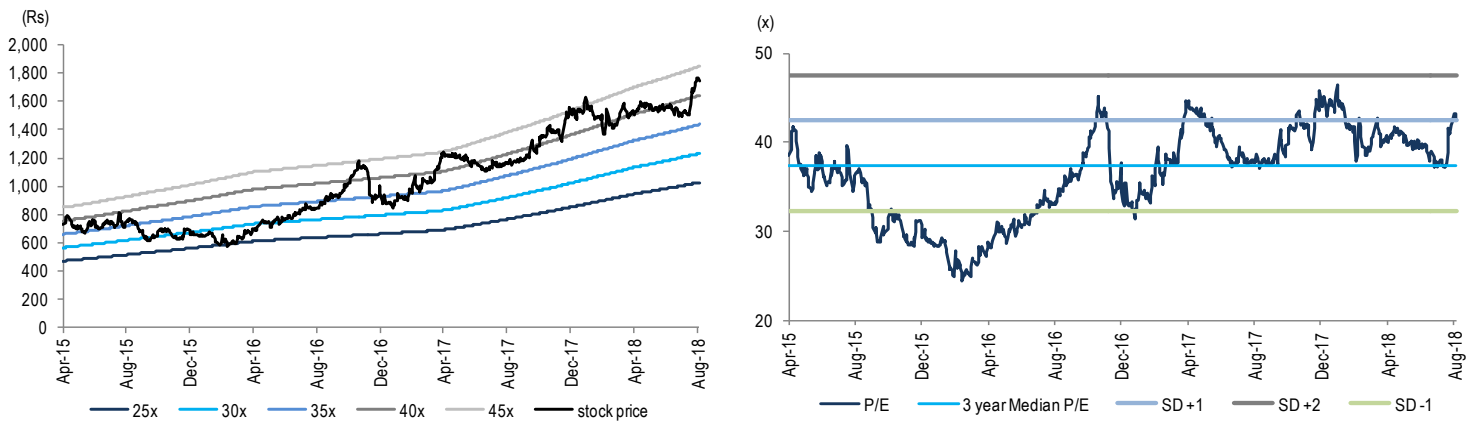
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Our estimates versus actual performance

1QFY19 (Rsmn)	Actual	Our estimate	Deviation (%)
Revenues	16,511	16,836	(1.9)
EBITDA	2,440	2,323	5.1
PAT	1,638	1,484	10.4

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	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 9: 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
Long-term 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 8: 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)
Dividends 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 10: Key ratios

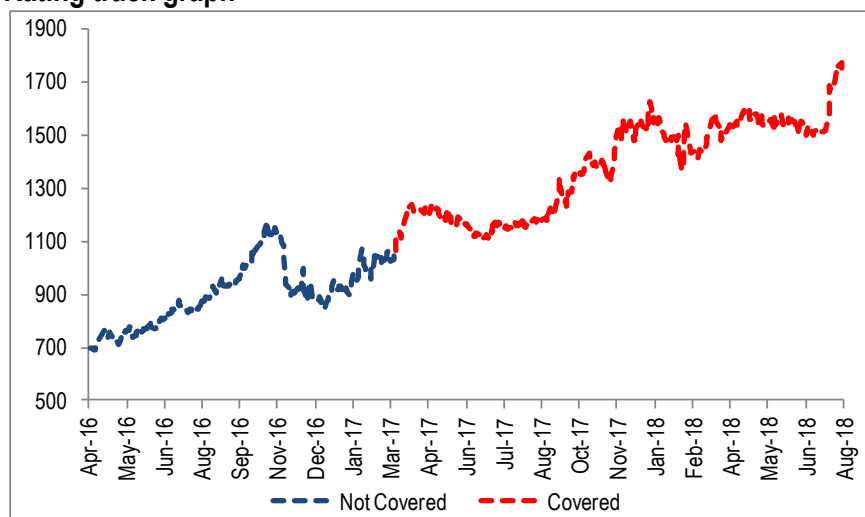
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Per share (Rs)					
EPS	18.9	24.5	27.6	37.7	47.5
Book value	91.9	116.9	141.6	172.1	208.7
Valuation (x)					
P/E	91.2	70.5	62.4	45.7	36.3
P/BV	18.8	14.8	12.2	10.0	8.3
EV/EBITDA	54.8	42.6	37.3	30.3	24.2
EV/sales	6.1	5.3	4.3	3.6	3.0
Return ratios (%)					
RoCE	29.4	30.5	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

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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