

# Whirlpool of India

5 February 2019

Reuters: WHIR.BO; Bloomberg: WHIRL IN

## Strong Revenue Growth; Margins Likely To Revive

Whirlpool of India (WIL) posted a strong 26% YoY rise in net revenues to Rs12.1bn in 3QFY19, 8% above our estimate. Robust growth is likely to have been aided by festive season sales (Diwali and Dussehra), which was in the third quarter of FY19 versus the second quarter last year. However, the margins declined YoY and were below estimates, just like other consumer durable and electrical peers, owing to volatility in commodity prices and currency rates. Gross margin fell 450bps YoY to 36.8% (FY18 gross margin was 37.9%). EBITDA grew 11% YoY to Rs975mn, translating to EBITDA margin of 8%, down 110bps YoY. The margin was below our estimate of 9.6%. PAT grew 14% YoY to Rs606mn, below our estimate of Rs777mn. While the margin of WIL was weak in 3QFY19, we expect it to normalise from 4QFY19 onwards as: (a) WIL went for a 3% price hike across its portfolio in 3QFY19, the benefits of which will accrue with a lag effect. (b) Commodity costs and currency rates have moderated and stabilised. (c) 3Q is a lean quarter for WIL (1Q and 4Q are strong quarters owing to the summer season, and collectively account for ~65% of annual EBITDA). In 9MFY19, WIL's performance was healthy with 13% revenue growth, 11.1% EBITDA margin (down 40bps YoY) and 17% earnings growth. We have marginally cut our earnings estimate and retained Buy rating on the stock with a revised target price of Rs1,820 (from Rs1,850 earlier) based on 40x September 2020E earnings. We continue to remain optimistic about WIL outpacing industry growth and expect it to report a healthy 16% revenue CAGR over FY18-FY21E, despite the high base of FY17 and FY18. With a 70bps margin expansion and rising other income, the earnings CAGR is likely to be much higher at 22% over FY18-FY21E.

**Healthy growth momentum sustained:** Despite a high base of FY17 and FY18, WIL sustained healthy revenue growth momentum at 13% YoY in 9MFY19 and 26% YoY in 3QFY19. Over the next five years, we expect the home appliance industry to post a 15% CAGR led by low penetration, rising disposable income and also increased availability of consumer durable finance. We expect WIL to outpace the home appliance industry's growth. Distribution reach expansion, focused execution on the shop floor through innovative product launches, plugging of portfolio gap (front-load washing machines, high-end refrigerators), entry into new product categories (dish washers, air purifiers, water purifiers), scaling up the cooking product range post acquisition of 49% stake in Elica India and capacity expansion in core product categories (direct cool refrigerator, semi-automatic washing machine) are likely to be key drivers of growth for WIL. We expect WIL to post a 16% revenue CAGR over FY18-FY21E.

**Margin profile expected to sustain in the 11%-12.5% range:** EBITDA margin in 9MFY19 was 11.1%, down 40bps YoY. FY19 was impacted by the rise in input costs, volatility in currency rates, rise in import duties as well as a relatively softer demand environment (weak summer season, floods in Kerala, high inventory across trade channels etc). We expect consumer demand to improve in the forthcoming quarters led by a normal summer season. Further, WIL went for a 3% price hike across its product portfolio in 3QFY19 which will cushion the margins. With rising economies of scale and strong focus on managing costs, we expect WIL's EBITDA margin to sustain in 11%-12.5% range and are factoring in a 70bps rise in EBITDA margin over FY18-FY21E to 12.3% (similar to FY17 level of 12.4%).

**Outlook and valuation:** WIL is a strong financial franchise with a 22% earnings CAGR over FY18-FY21E, strong free cash flow, lean working capital cycle, healthy margin profile, healthy return ratios and high cash level which will support its premium valuation.

## BUY

**Sector:** White Goods

**CMP:** Rs1,495

**Target Price:** Rs1,820

**Upside:** 22%

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### Key Data

Current Shares O/S (mn)	126.9
Mkt Cap (Rsbn/US\$bn)	191.4/2.7
52 Wk H / L (Rs)	1,955/1,248
Daily Vol. (3M NSE Avg.)	50,803

### Price Performance (%)

	1 M	6 M	1 Yr
Whirlpool of India	8.5	(14.4)	4.3
Nifty Index	1.7	(3.9)	1.4

Source: Bloomberg

Y/E March (Rsmn)	3QFY18	2QFY19	3QFY19	YoY (%)	QoQ (%)	9MFY18	9MFY19	YoY (%)
<b>Net revenues</b>	<b>9,580</b>	<b>11,815</b>	<b>12,115</b>	<b>26.5</b>	<b>2.5</b>	<b>35,816</b>	<b>40,441</b>	<b>12.9</b>
Raw material costs	5,624	7,328	7,654	36.1	4.5	22,036	25,283	14.7
Staff costs	1,118	1,158	1,262	12.8	9.0	3,444	3,619	5.1
Other expenses	1,961	2,252	2,225	13.4	(1.2)	6,218	7,046	13.3
Total expenditure	8,704	10,737	11,140	28.0	3.8	31,697	35,948	13.4
EBITDA	876	1,078	975	11.3	(9.5)	4,119	4,493	9.1
<b>EBITDA margin (%)</b>	<b>9.1</b>	<b>9.1</b>	<b>8.0</b>	-	-	<b>11.5</b>	<b>11.1</b>	-
Depreciation	248	269	252	1.4	(6.4)	781	794	1.5
Interest costs	7	3	53	669.6	1,942.3	43	73	69.7
Other income	213	398	269	26.4	(32.5)	708	1,024	44.6
PBT	834	1,204	939	12.6	(22.0)	4,003	4,650	16.2
Tax	302	419	333	10.1	(20.5)	1,410	1,621	15.0
<b>PAT</b>	<b>531</b>	<b>785</b>	<b>606</b>	<b>14.1</b>	<b>(22.8)</b>	<b>2,593</b>	<b>3,030</b>	<b>16.8</b>
PAT margin (%)	5.5	6.6	5.0	-	-	7.2	7.5	-
<b>EPS (Rs)</b>	<b>4.2</b>	<b>6.2</b>	<b>4.8</b>	<b>14.1</b>	<b>(22.8)</b>	<b>20.4</b>	<b>23.9</b>	<b>16.8</b>

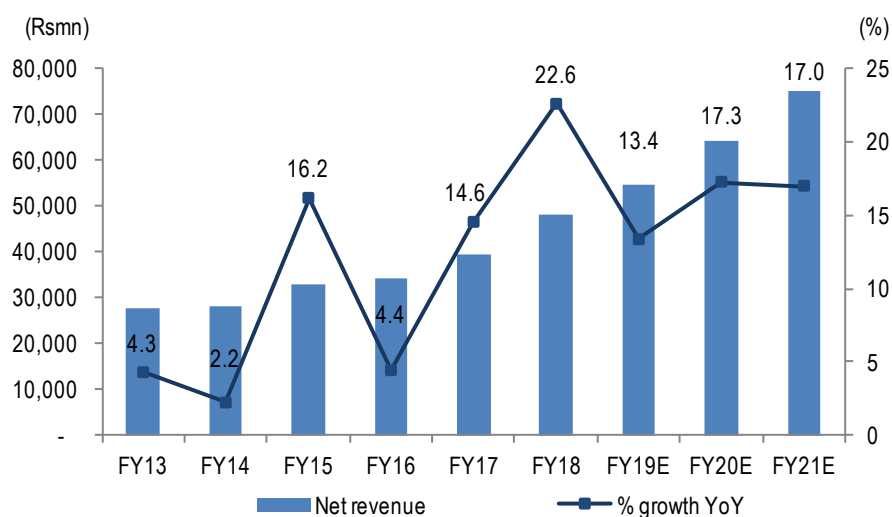
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Revenues	39,408	48,319	54,781	64,254	75,191
EBITDA	4,888	5,600	6,124	7,582	9,249
PAT	3,105	3,507	4,190	5,206	6,335
EPS (Rs)	24.5	27.6	33.0	41.0	49.9
EPS growth (%)	29.4	12.9	19.5	24.2	21.7
EBITDA margin (%)	12.4	11.6	11.2	11.8	12.3
P/E (x)	61.1	54.1	45.3	36.4	29.9
P/BV (x)	12.8	10.6	8.9	7.5	6.3
EV/EBITDA (x)	36.6	32.1	29.0	23.0	18.4
RoCE (%)	30.5	28.3	26.2	28.1	29.3
RoE (%)	23.4	21.4	21.4	22.4	22.9
RoIC (%)	135.9	150.6	133.8	136.3	144.5

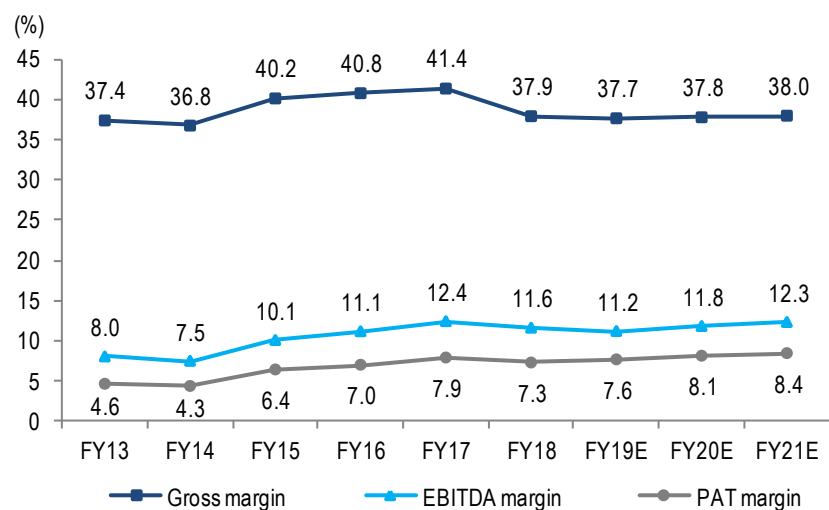
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Trend in net revenues

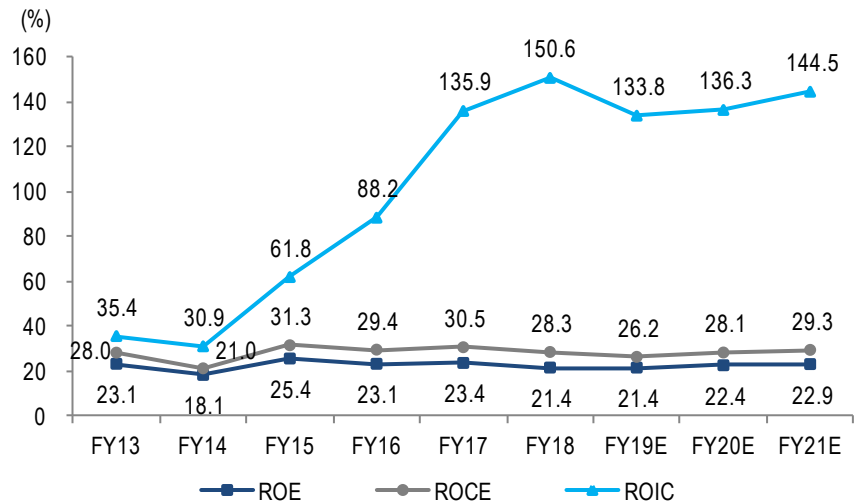


Source: Company, Nirmal Bang Institutional Equities Research

## 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**

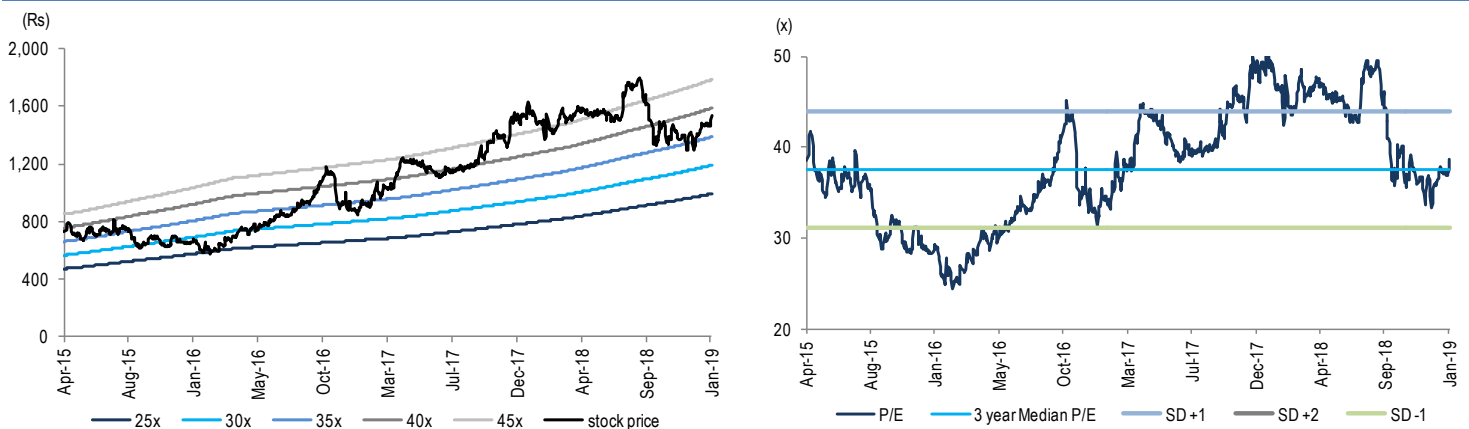
3QFY19 (Rsmn)	Actual	Our estimate	Deviation (%)
Revenues	12,115	11,228	7.9
EBITDA	975	1,075	(9.3)
PAT	606	777	(22.0)

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: Change in our estimates**

(Rsmn)	Old			New			Deviation (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Y/E March									
Revenues	54,237	63,635	74,491	54,781	64,254	75,191	1.0	1.0	0.9
EBITDA	6,454	7,763	9,311	6,124	7,582	9,249	(5.1)	(2.3)	(0.7)
PAT	4,430	5,339	6,390	4,190	5,206	6,335	(5.4)	(2.5)	(0.9)

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: P/E charts**


Source: Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 8: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	39,408	48,319	54,781	64,254	75,191
% growth YoY	14.6	22.6	13.4	17.3	17.0
Raw material costs	23,101	29,988	34,139	39,966	46,618
Staff costs	4,116	4,553	4,930	5,719	6,617
Other overheads	7,302	8,179	9,587	10,987	12,707
Total expenditure	34,519	42,719	48,656	56,672	65,943
EBITDA	4,888	5,600	6,124	7,582	9,249
% growth	27.5	14.6	9.4	23.8	22.0
EBITDA margin (%)	12.4	11.6	11.2	11.8	12.3
Other income	730	867	1,470	1,620	1,795
Interest costs	59	44	79	59	53
Depreciation	875	1,015	1,069	1,134	1,244
Profit before tax	4,685	5,408	6,446	8,009	9,746
Tax	1,580	1,902	2,256	2,803	3,411
PAT	3,105	3,507	4,190	5,206	6,335
PAT margin (%)	7.9	7.3	7.6	8.1	8.4
EPS (Rs)	24.5	27.6	33.0	41.0	49.9
% growth	29.4	12.9	19.5	24.2	21.7

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 10: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Share capital	1,269	1,269	1,269	1,269	1,269
Reserves	13,562	16,695	19,968	23,952	28,760
Net worth	14,831	17,963	21,237	25,221	30,028
Total loans	-	-	-	-	-
Deferred tax liability net	(159)	(279)	(279)	(279)	(279)
<b>Liabilities</b>	<b>14,671</b>	<b>17,684</b>	<b>20,958</b>	<b>24,942</b>	<b>29,749</b>
Net block	3,978	4,459	5,921	6,587	6,943
Capital work-in-progress	295	331	100	100	100
Long-term Investments	1,297	4,563	4,563	4,563	4,563
Inventories	8,888	8,101	9,634	11,497	13,666
Debtors	2,049	2,403	2,777	3,345	3,914
Cash	10,590	9,819	12,139	15,173	19,309
Loans & advances	163	191	329	386	451
Other current assets	1,343	2,113	1,917	2,249	2,632
Total current assets	23,032	22,626	26,795	32,649	39,972
Creditors	11,223	11,549	12,814	14,891	17,242
Other current liabilities	2,708	2,746	3,607	4,066	4,586
Total current liabilities	13,931	14,295	16,421	18,958	21,829
Net current assets	9,101	8,332	10,374	13,692	18,143
<b>Total assets</b>	<b>14,671</b>	<b>17,684</b>	<b>20,958</b>	<b>24,942</b>	<b>29,749</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 9: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
EBIT	4,014	4,585	5,055	6,448	8,004
(Inc)/dec. in working capital	583	(1)	277	(283)	(316)
<b>Cash flow from operations</b>	<b>4,597</b>	<b>4,584</b>	<b>5,333</b>	<b>6,165</b>	<b>7,689</b>
Other income	730	867	1,470	1,620	1,795
Depreciation	875	1,015	1,069	1,134	1,244
Tax paid (-)	(1,769)	(2,021)	(2,256)	(2,803)	(3,411)
<b>Net cash from operations</b>	<b>4,433</b>	<b>4,445</b>	<b>5,616</b>	<b>6,116</b>	<b>7,317</b>
Capital expenditure (-)	(1,120)	(1,531)	(2,300)	(1,800)	(1,600)
<b>Net cash after capex</b>	<b>3,313</b>	<b>2,913</b>	<b>3,316</b>	<b>4,316</b>	<b>5,717</b>
Interest paid (-)	(59)	(44)	(79)	(59)	(53)
Dividends paid (-)	(458)	(611)	(917)	(1,222)	(1,528)
Inc./(dec.) in total borrowings	-	-	-	-	-
(Inc.)/dec. in investments	(1,297)	(3,266)	-	-	-
<b>Cash from financial activities</b>	<b>(1,814)</b>	<b>(3,921)</b>	<b>(996)</b>	<b>(1,281)</b>	<b>(1,581)</b>
Others	528	237	-	-	-
Opening cash balance	8,563	10,590	9,819	12,139	15,173
Closing cash balance	10,590	9,819	12,139	15,173	19,309
Change in cash balance	2,027	(771)	2,320	3,035	4,136

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 11: Key ratios

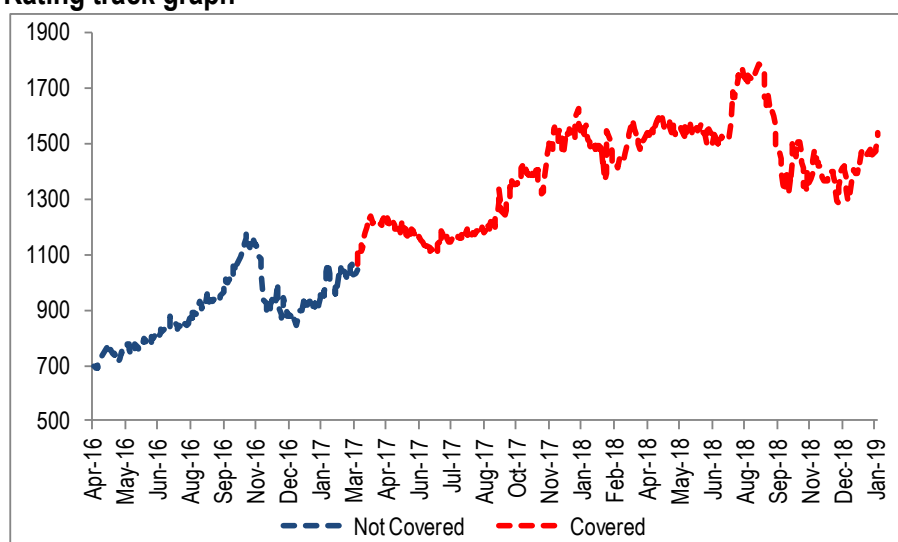
Y/E March	FY17	FY18	FY19E	FY20E	FY21E
<b>Per share (Rs)</b>					
EPS	24.5	27.6	33.0	41.0	49.9
Book value	116.9	141.6	167.4	198.8	236.7
<b>Valuation (x)</b>					
P/E	61.1	54.1	45.3	36.4	29.9
P/BV	12.8	10.6	8.9	7.5	6.3
EV/EBITDA	36.6	32.1	29.0	23.0	18.4
EV/sales	4.5	3.7	3.2	2.7	2.3
<b>Return ratios (%)</b>					
RoCE	30.5	28.3	26.2	28.1	29.3
RoE	23.4	21.4	21.4	22.4	22.9
RoIC	135.9	150.6	133.8	136.3	144.5
<b>Profitability ratios (%)</b>					
EBITDA margin	12.4	11.6	11.2	11.8	12.3
EBIT margin	10.2	9.5	9.2	10.0	10.6
PAT margin	7.9	7.3	7.6	8.1	8.4
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	2.7	2.7	2.6	2.6	2.5
Fixed asset turnover ratio (x)	3.1	3.4	3.3	3.5	3.8
Debtor days	19	18	19	19	19
Inventory days	140	99	103	105	107
Creditor days	177	141	137	136	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
9 October 2018	Buy	1,355	1,900
6 November 2018	Buy	1,401	1,850
9 January 2019	Buy	1,453	1,850
5 February 2019	Buy	1,495	1,820

## Rating track graph



## DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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