

# Whirlpool of India

27 May 2019

Reuters: WHIR.BO; Bloomberg: WHIRL IN

## Heartening Margin Expansion; Sustains Growth Momentum

Whirlpool of India (WIL) posted 8% YoY growth in net revenues to Rs13.5bn in 4QFY19, 5% below our and consensus estimate. The growth is decent considering the high base effect (4QFY18 sales had grown 24% YoY) as well as a delayed summer season (which is likely to have impacted air-conditioner and refrigerator sales). Gross margin expanded 110bps YoY and 70bps QoQ to 37.6%. EBITDA grew 23% YoY to Rs1.7bn, translating to an operating margin of 12.6%, up 150bps YoY. EBITDA margin was above our/consensus estimate of 11.4%/11.1%, respectively, led by higher gross margin and flat other expenses. PAT grew 14% YoY to Rs1.04bn, broadly on expected lines. The expansion in margin, despite high competition and moderate demand scenario, is heartening. We believe the key drivers of margin expansion are: (a) Benefits of price hikes done in 3QFY19. (b) Moderation and stabilisation of commodity costs and currency rates. (c) Premiumisation of product portfolio. In FY19, WIL's performance was healthy with 12% revenue growth (on a high base of 23% YoY growth in FY18), 11.9% EBITDA margin (up 30bps YoY) and 17% earnings growth. As per the management, strong product launches along with execution ramp-up and market share gains led to a healthy growth in sales, margins and earnings. We have tweaked our earnings estimates and retained Buy rating on the stock with a revised target price of Rs1,840 (from Rs1,900 earlier) based on 38x FY21E earnings. We continue to remain optimistic about WIL outpacing industry growth and expect it to report a healthy 17% revenue CAGR over FY19-FY21E. With a 40bps margin expansion and rising other income, the earnings CAGR is likely to be much higher at 22% over FY19-FY21E.

**Sustains healthy growth momentum:** Despite a high base effect, WIL sustained healthy revenue growth momentum at 8% YoY in 4QFY19 and 12% YoY in FY19. Over the next five years, we expect the home appliance industry to post a 15% CAGR led by low market penetration, growth in disposable income and rising consumer durable financing. 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 a 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 17% revenue CAGR over FY19-FY21E.

**Healthy improvement in margin:** EBITDA margin in 4QFY19 was 12.6%, up 150bps YoY. Despite challenges like the rise in input costs, hike in import duty as well as a relatively softer demand environment (owing to a weak summer season), EBITDA margin rose 30bps YoY to 11.9% in FY19. With rising economies of scale, strong focus on managing costs, disciplined capital allocation, premiumisation of product portfolio and benefits of price hikes, we expect WIL's EBITDA margin to rise 40bps over FY19-FY21E to 12.3%.

**Working capital stays negative:** WIL sustained its ex-cash negative working capital cycle for the fifth consecutive year. As a percentage of sales, the working capital cycle was a negative 3% while in terms of days, it was a negative 11 days in FY19. The cash conversion cycle was a negative 20 days in FY19.

**Outlook and valuation:** WIL is a strong financial franchise with 22% earnings CAGR over FY19-FY21E, strong free cash flow, negative working capital cycle, healthy margin profile, healthy return ratios and high cash level which will support its premium valuation.

## BUY

**Sector:** Consumer Durables

**CMP:** Rs1,379

**Target Price:** Rs1,840

**Upside:** 33%

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### Key Data

Current Shares O/S (mn)	126.9
Mkt Cap (Rsbn/US\$bn)	174.4/2.5
52 Wk H / L (Rs)	1,955/1,263
Daily Vol. (3M NSE Avg.)	59,166

### Price Performance (%)

	1 M	6 M	1 Yr
Whirlpool of India	(1.7)	0.9	(10.6)
Nifty Index	1.0	12.5	12.7

Source: Bloomberg

Y/E March (Rsmn) (standalone)	4QFY18	3QFY19	4QFY19	YoY (%)	QoQ (%)	FY18	FY19	YoY (%)
<b>Net revenues</b>	<b>12,577</b>	<b>12,115</b>	<b>13,552</b>	<b>7.7</b>	<b>11.9</b>	<b>48,319</b>	<b>53,977</b>	<b>11.7</b>
Raw material costs	7,993	7,654	8,463	5.9	10.6	29,988	33,745	12.5
Staff costs	1,109	1,262	1,311	18.3	3.9	4,553	4,931	8.3
Other expenses	2,082	2,225	2,064	(0.9)	(7.2)	8,179	8,879	8.6
Total expenditure	11,184	11,140	11,838	5.8	6.3	42,719	47,555	11.3
EBITDA	1,393	975	1,714	23.0	75.7	5,600	6,422	14.7
<b>EBITDA margin (%)</b>	<b>11.1</b>	<b>8.0</b>	<b>12.6</b>	-	-	<b>11.6</b>	<b>11.9</b>	-
Depreciation	234	252	320	36.8	26.8	1,015	1,113	9.7
Interest costs	1	53	33	-	(37.5)	44	91	107.1
Other income	247	269	253	2.7	(5.7)	867	1,047	20.7
PBT	1,406	939	1,614	14.8	72.0	5,408	6,265	15.8
Tax	492	333	573	16.6	72.2	1,902	2,194	15.4
<b>PAT</b>	<b>914</b>	<b>606</b>	<b>1,041</b>	<b>13.9</b>	<b>71.8</b>	<b>3,507</b>	<b>4,071</b>	<b>16.1</b>
PAT margin (%)	7.3	5.0	7.7	-	-	7.3	7.5	-
<b>EPS (Rs)</b>	<b>7.2</b>	<b>4.8</b>	<b>8.2</b>	<b>13.9</b>	<b>71.8</b>	<b>27.6</b>	<b>32.1</b>	<b>16.1</b>

Source: Company, Nirmal Bang Institutional Equities Research

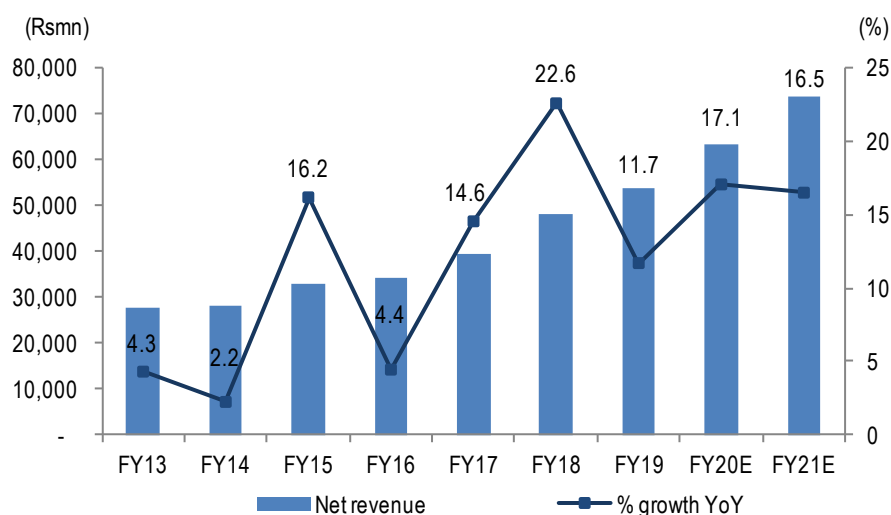
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## Exhibit 1: Financial summary (consolidated)

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	39,408	48,319	53,977	63,195	73,631
EBITDA	4,888	5,600	6,422	7,583	9,057
PAT	3,105	3,507	4,097	5,045	6,143
EPS (Rs)	24.5	27.6	32.3	39.8	48.4
EPS growth (%)	29.4	12.9	16.8	23.1	21.8
EBITDA margin (%)	12.4	11.6	11.9	12.0	12.3
P/E (x)	56.3	49.9	42.7	34.7	28.5
P/BV (x)	11.8	9.7	8.2	6.9	5.9
EV/EBITDA (x)	33.6	29.5	25.6	21.3	17.5
Dividend yield (%)	0.2	0.3	0.4	0.6	0.7
RoCE (%)	30.5	28.3	27.4	27.8	28.7
RoE (%)	23.4	21.4	20.8	21.6	22.3
RoIC (%)	135.9	150.6	147.2	143.3	136.2

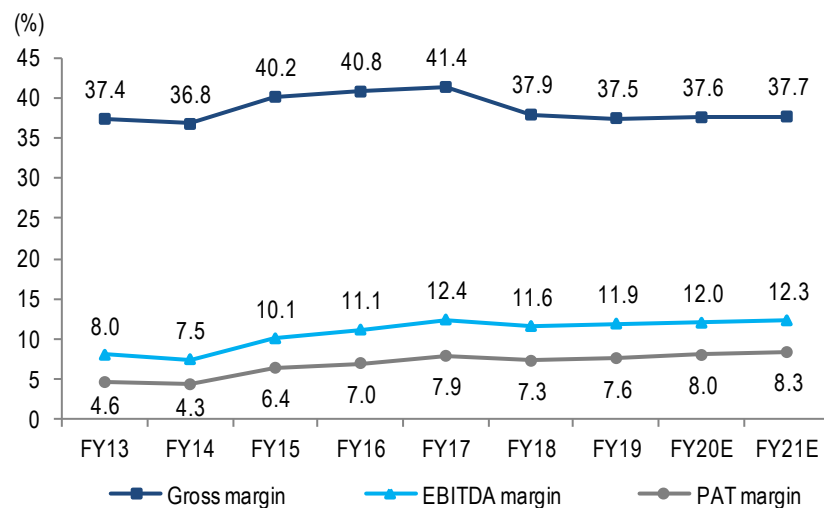
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Trend in net revenues

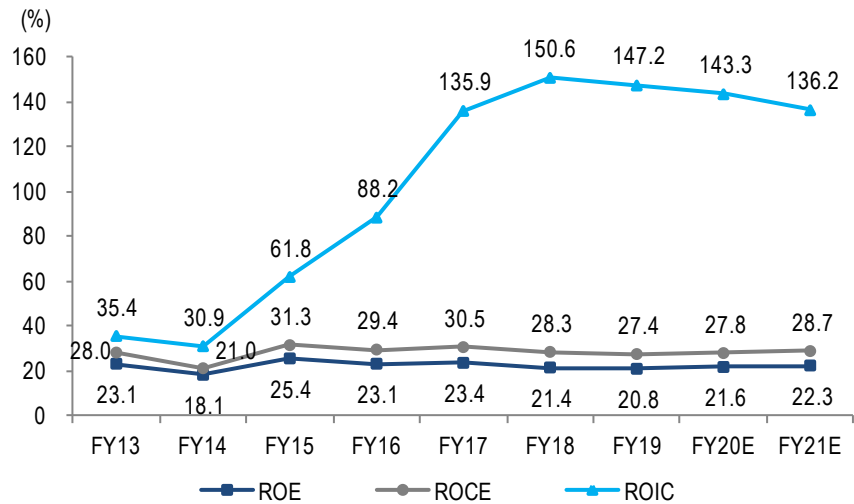


Source: Company, Nirmal Bang Institutional Equities Research

## 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**

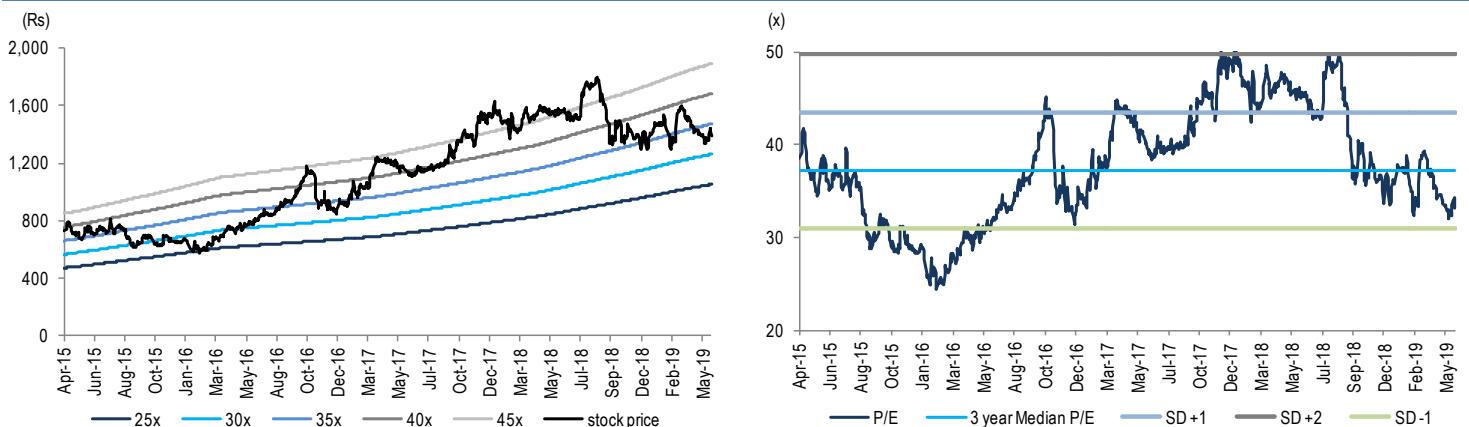
4QFY19 (Rsmn)	Actual	Our estimate	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenues	13,552	14,339	(5.5)	14,363	(5.6)
EBITDA	1,714	1,631	5.1	1,596	7.4
PAT	1,041	1,083	(3.9)	1,023	1.8

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: Change in our estimates**

(Rsmn)	Old		New		Deviation (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Y/E March						
Revenues	64,254	75,191	63,195	73,631	(1.6)	(2.1)
EBITDA	7,582	9,249	7,583	9,057	-	(2.1)
PAT	5,206	6,335	5,045	6,143	(3.1)	(3.0)

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: P/E charts**


Source: Nirmal Bang Institutional Equities Research

## Financials (consolidated)

### Exhibit 8: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	39,408	48,319	53,977	63,195	73,631
% growth YoY	14.6	22.6	11.7	17.1	16.5
Raw material costs	23,101	29,988	33,745	39,433	45,872
Staff costs	4,116	4,553	4,931	5,435	6,259
Other overheads	7,302	8,179	8,879	10,743	12,444
Total expenditure	34,519	42,719	47,555	55,611	64,574
EBITDA	4,888	5,600	6,422	7,583	9,057
% growth	27.5	14.6	14.7	18.1	19.4
EBITDA margin (%)	12.4	11.6	11.9	12.0	12.3
Other income	730	867	1,047	1,326	1,572
Interest costs	59	44	91	68	61
Depreciation	875	1,015	1,113	1,184	1,240
Profit before tax	4,685	5,408	6,265	7,657	9,327
Tax	1,580	1,902	2,194	2,680	3,264
Profit from associates	-	-	27	67	81
PAT	3,105	3,507	4,097	5,045	6,143
PAT margin (%)	7.9	7.3	7.6	8.0	8.3
EPS (Rs)	24.5	27.6	32.3	39.8	48.4
% growth	29.4	12.9	16.8	23.1	21.8

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 10: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	1,269	1,269	1,269	1,269	1,269
Reserves	13,562	16,695	20,185	24,008	28,623
Net worth	14,831	17,963	21,454	25,276	29,892
Total loans	-	-	-	-	-
Deferred tax liability net	(159)	(279)	(344)	(344)	(344)
<b>Liabilities</b>	<b>14,671</b>	<b>17,684</b>	<b>21,110</b>	<b>24,932</b>	<b>29,548</b>
Net block	3,978	4,459	5,082	6,232	6,992
Capital work-in-progress	295	331	433	100	100
Investments	1,297	4,563	6,590	6,590	6,590
Inventories	8,888	8,101	8,886	10,588	12,568
Debtors	2,049	2,403	2,556	3,116	3,833
Cash	10,590	9,819	10,610	13,319	16,500
Loans & advances	163	191	208	379	442
Other current assets	1,343	2,113	2,408	2,844	3,313
Total current assets	23,032	22,626	24,668	30,246	36,655
Creditors	11,223	11,549	12,379	14,261	16,338
Other current liabilities	2,708	2,746	3,285	3,975	4,451
Total current liabilities	13,931	14,295	15,664	18,236	20,789
Net current assets	9,101	8,332	9,004	12,010	15,866
<b>Total assets</b>	<b>14,671</b>	<b>17,684</b>	<b>21,110</b>	<b>24,932</b>	<b>29,548</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 9: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
EBIT	4,014	4,585	5,309	6,400	7,816
(Inc)/dec. in working capital	583	(1)	119	(297)	(675)
<b>Cash flow from operations</b>	<b>4,597</b>	<b>4,584</b>	<b>5,428</b>	<b>6,102</b>	<b>7,141</b>
Other income	730	867	1,047	1,326	1,572
Depreciation	875	1,015	1,113	1,184	1,240
Tax paid (-)	(1,769)	(2,021)	(2,259)	(2,680)	(3,264)
Profit from associates	-	-	27	67	81
<b>Net cash from operations</b>	<b>4,433</b>	<b>4,445</b>	<b>5,355</b>	<b>5,999</b>	<b>6,769</b>
Capital expenditure (-)	(1,120)	(1,531)	(1,839)	(2,000)	(2,000)
<b>Net cash after capex</b>	<b>3,313</b>	<b>2,913</b>	<b>3,517</b>	<b>3,999</b>	<b>4,769</b>
Interest paid (-)	(59)	(44)	(91)	(68)	(61)
Dividends paid (-)	(458)	(611)	(764)	(1,222)	(1,528)
Inc./(dec.) in total borrowings	-	-	-	-	-
(Inc.)/dec. in investments	(1,297)	(3,266)	(2,027)	-	-
<b>Cash from financial activities</b>	<b>(1,814)</b>	<b>(3,921)</b>	<b>(2,882)</b>	<b>(1,290)</b>	<b>(1,589)</b>
Others	528	237	157	-	-
Opening cash balance	8,563	10,590	9,819	10,610	13,319
Closing cash balance	10,590	9,819	10,610	13,319	16,500
Change in cash balance	2,027	(771)	792	2,709	3,181

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 11: Key ratios

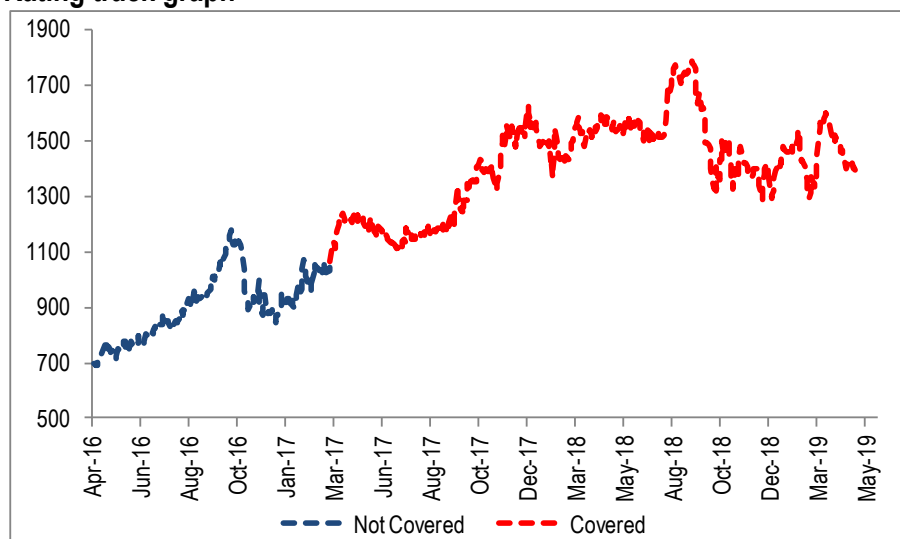
Y/E March	FY17	FY18	FY19	FY20E	FY21E
<b>Per share (Rs)</b>					
EPS	24.5	27.6	32.3	39.8	48.4
Book value	116.9	141.6	169.1	199.2	235.6
<b>Valuation (x)</b>					
P/E	56.3	49.9	42.7	34.7	28.5
P/BV	11.8	9.7	8.2	6.9	5.9
EV/EBITDA	33.6	29.5	25.6	21.3	17.5
EV/sales	4.2	3.4	3.0	2.6	2.2
<b>Return ratios (%)</b>					
RoCE	30.5	28.3	27.4	27.8	28.7
RoE	23.4	21.4	20.8	21.6	22.3
RoIC	135.9	150.6	147.2	143.3	136.2
<b>Profitability ratios (%)</b>					
EBITDA margin	12.4	11.6	11.9	12.0	12.3
EBIT margin	10.2	9.5	9.8	10.1	10.6
PAT margin	7.9	7.3	7.6	8.0	8.3
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	2.7	2.7	2.6	2.5	2.5
Debtor days	19	18	17	18	19
Inventory days	140	99	96	98	100
Creditor days	177	141	134	132	130

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
9 April 2019	Buy	1,453	1,900
27 May 2019	Buy	1,379	1,840

## Rating track graph



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BUY > 15%

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SELL < -5%

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