

# Whirlpool of India

19 June 2020

Reuters: WHIR.BO; Bloomberg: WHIRL IN

## Valuation fully priced; Structural theme intact

Whirlpool of India (WIL) posted revenue of Rs13.5bn in 4QFY20, flat YoY as the production and sales in the last 10 days of March 2020 were halted due to COVID-19 lockdown. The topline was 3%/2% above our/consensus estimates. Gross margin rose 50bps YoY to 38.1%, likely to be aided by benign commodity costs and premiumisation of product portfolio. EBITDA fell 20% YoY to Rs1.4bn due to lack of operating leverage. EBITDA margin fell 250bps YoY to 10.1%, below our/consensus estimate of 11.2%/10.4%. Lower operating profit and higher interest cost led to 26% YoY decline in PBT to Rs1.2bn. Aided by lower tax rate at 26.5% (vs. 35.5% YoY), decline in PAT was restricted to 16% YoY to Rs874mn. The bottomline was below our/consensus estimate of Rs1bn each, owing to lower topline. The share of profit from Elica JV was healthy at Rs49mn vs. Rs11mn YoY. In FY20, WIL's performance was healthy with 11% YoY revenue growth, 11.2% EBITDA margin (down 70bps YoY due to COVID-19 impact in 4QFY20) and 20% earnings growth. WIL has been our top pick in the consumer durable sector since our initiating coverage report in March 2017 and it has outperformed peers with 15%/20% revenue/earnings CAGR over FY16-FY20. While we believe that WIL continues to offer a structural growth opportunity over the long term along with strongest balance sheet and cash flows in the industry, the valuation in the near term (FY22) is fully priced. Thus, we revise down our rating on the stock to Accumulate (from Buy earlier) with a revised target price of Rs2,120 (Rs2,435 earlier) based on P/E of 40x on revised FY22E earnings, factoring in the COVID-19 impact.

**Flat revenue growth impacted by COVID-19:** WIL posted a flat YoY revenue growth in 4QFY20 to Rs13.5bn as the production and sales were halted in the last 10 days of March 2020, owing to the nationwide lockdown. However, the company witnessed very strong momentum in pre-COVID-19 lockdown period in 4QFY20. In FY20, sales grew by 11% YoY to Rs60bn. We expect WIL to bounce back strongly once the lockdown eases and consumer demand revives. We are factoring in 7% revenue CAGR over FY20-FY22E, aided by 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 (dishwashers, 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).

**Healthy gross margin sustained:** Gross margin was up 50bps YoY at 38.1% in 4QFY20 and up 160bps YoY to 39.1% in FY20. Benign commodity costs and premiumisation of portfolio are likely to have aided gross margin expansion. However, EBITDA margin in 4QFY20 was down by 250bps YoY to 10.1% due to lockdown. In 9MFY20, EBITDA margin was up 40bps YoY at 11.5%. However, COVID-19 impact in 4Q led to a 70bps YoY decline in EBITDA margin for FY20 at 11.2%. With rising economies of scale, strong focus on managing costs, disciplined capital allocation and premiumisation of product portfolio, we expect WIL's EBITDA margin to rise to 12.1% in FY22E, similar to FY19 levels.

**Negative working capital cycle:** WIL has operated at an ex-cash negative working capital cycle for the past six years. As a percentage of sales, the working capital cycle was negative 1.3% in FY20 while in terms of days, it was negative 5 days in FY20. The cash conversion cycle was negative 6 days in FY20.

**Outlook:** WIL is a strong financial franchise with robust cash flow, negative working capital cycle, healthy margin profile, healthy return ratios and high cash & investment level, which will support its premium valuation. We expect 17% earnings CAGR over FY20-FY22E.

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## ACCUMULATE

**Sector:** Consumer Durables

**CMP:** Rs2,111

**Target Price:** Rs2,120

**Upside:** 0.4%

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### Key Data

Current Shares O/S (mn)	126.9
Mkt Cap (Rsbn/US\$bn)	268.1/3.5
52 Wk H / L (Rs)	2,570/1,343
Daily Vol. (3M NSE Avg.)	79,920

### Price Performance (%)

	1 M	6 M	1 Yr
Whirlpool of India	13.9	(3.3)	37.7
Nifty Index	14.4	(17.4)	(13.7)

Source: Bloomberg

Y/E March (Rsmn) (Standalone)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
<b>Net revenues</b>	<b>13,552</b>	<b>12,712</b>	<b>13,536</b>	<b>(0.1)</b>	<b>6.5</b>	<b>53,977</b>	<b>59,925</b>	<b>11.0</b>
Raw material costs	8,463	7,682	8,385	(0.9)	9.2	33,745	36,499	8.2
Staff costs	1,311	1,473	1,426	8.7	(3.2)	4,931	5,896	19.6
Other expenses	2,064	2,661	2,356	14.1	(11.5)	8,879	10,796	21.6
Total expenditure	11,838	11,816	12,166	2.8	3.0	47,555	53,192	11.9
EBITDA	1,714	897	1,370	(20.1)	52.8	6,422	6,733	4.9
<b>EBITDA margin (%)</b>	<b>12.6</b>	<b>7.1</b>	<b>10.1</b>	<b>-</b>	<b>-</b>	<b>11.9</b>	<b>11.2</b>	<b>-</b>
Depreciation	320	294	357	11.8	21.8	1,113	1,293	16.2
Interest costs	33	31	80	139.8	157.6	91	199	118.4
Other income	253	395	257	1.2	(35.0)	1,047	1,287	22.9
PBT	1,614	967	1,189	(26.3)	23.0	6,265	6,529	4.2
Tax	573	235	315	(45.0)	34.4	2,194	1,766	(19.5)
<b>PAT</b>	<b>1,041</b>	<b>732</b>	<b>874</b>	<b>(16.0)</b>	<b>19.4</b>	<b>4,071</b>	<b>4,763</b>	<b>17.0</b>
<b>PAT margin (%)</b>	<b>7.7</b>	<b>5.8</b>	<b>6.5</b>	<b>-</b>	<b>-</b>	<b>7.5</b>	<b>7.9</b>	<b>-</b>
<b>EPS (Rs)</b>	<b>8.2</b>	<b>5.8</b>	<b>6.9</b>	<b>(16.0)</b>	<b>19.4</b>	<b>32.1</b>	<b>37.5</b>	<b>17.0</b>

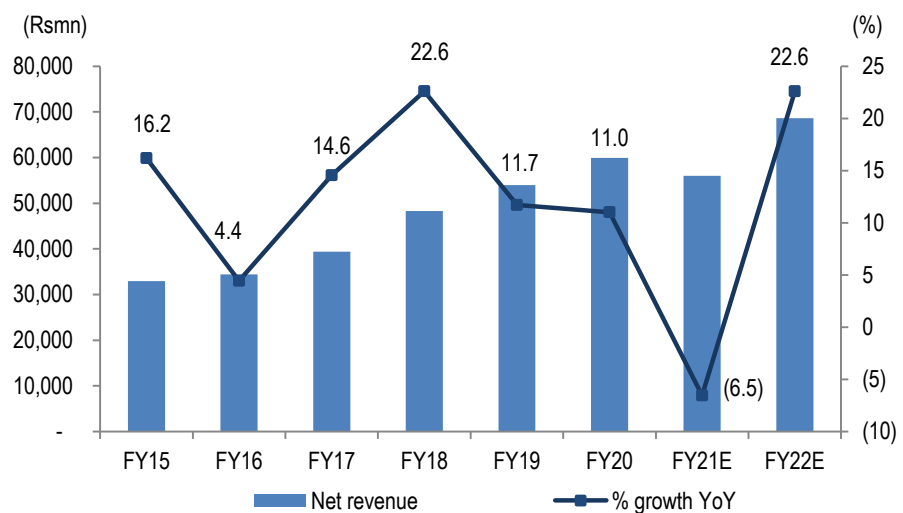
Source: Company, Nirmal Bang Institutional Equities Research

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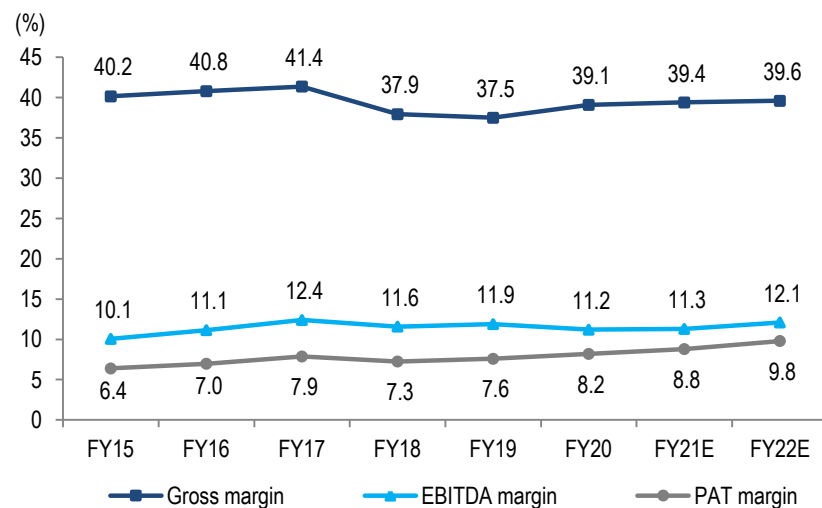
**Exhibit 1: Financial summary (Consolidated)**

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Revenues	48,319	53,977	59,925	56,005	68,667
EBITDA	5,600	6,422	6,733	6,329	8,309
PAT	3,507	4,097	4,902	4,912	6,723
EPS (Rs)	27.6	32.3	38.6	38.7	53.0
EPS growth (%)	12.9	16.8	19.6	0.2	36.8
EBITDA margin (%)	11.6	11.9	11.2	11.3	12.1
P/E (x)	76.4	65.4	54.6	54.5	39.8
P/BV (x)	14.9	12.5	10.4	9.0	7.6
EV/EBITDA (x)	46.1	40.1	37.9	39.7	29.6
Dividend yield (%)	0.2	0.2	0.2	0.3	0.4
RoCE (%)	28.3	27.4	23.5	18.0	21.3
RoE (%)	21.4	20.8	20.8	17.7	20.6
RoIC (%)	150.6	147.2	102.1	71.6	96.6

Source: Company, Nirmal Bang Institutional Equities Research

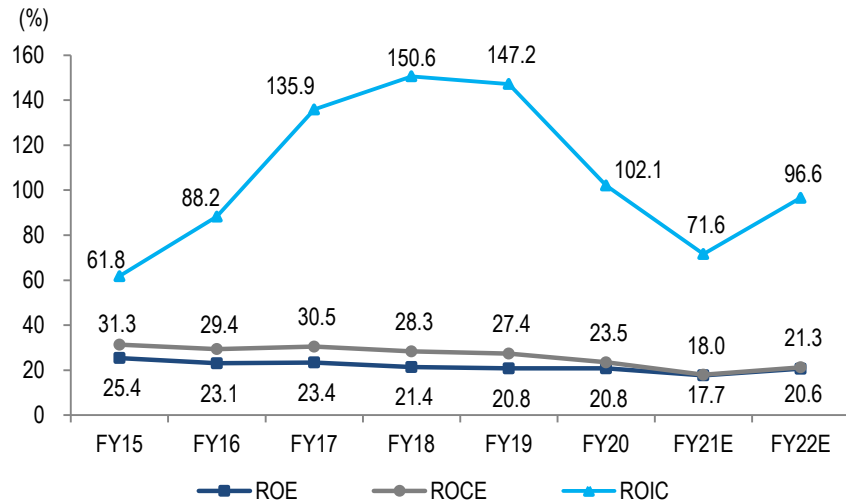
**Exhibit 2: Trend in net revenues**


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**

4QFY20 (Rsmn)	Actual	Our estimate	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenues	13,536	13,107	3.3	13,332	1.5
EBITDA	1,370	1,473	(7.0)	1,383	(1.0)
PAT	874	1,045	(16.4)	1,076	(18.8)

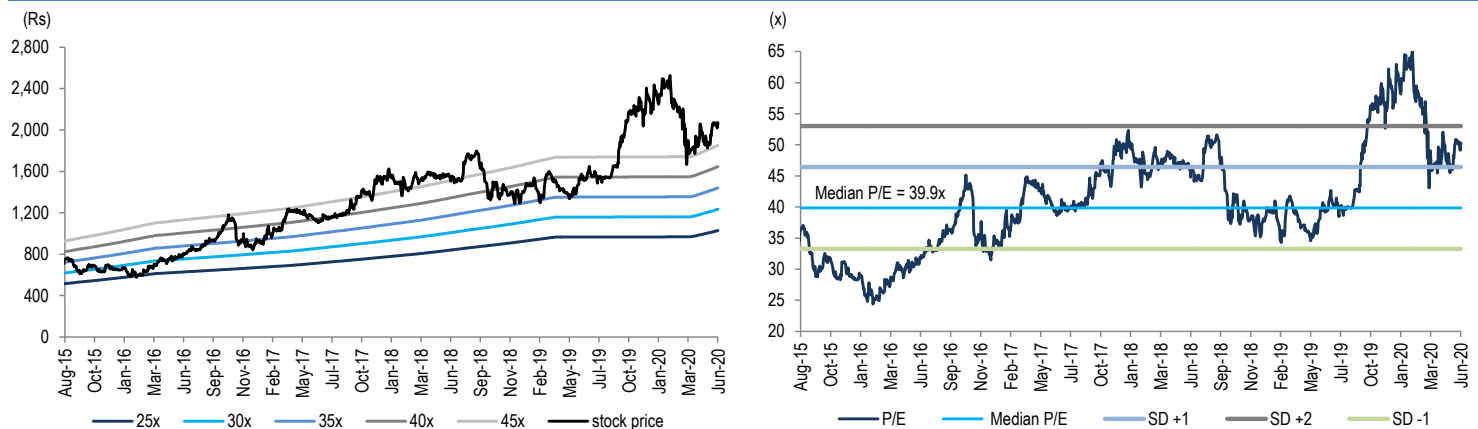
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: Change in our estimates**

(Rsmn)	Old		New		Deviation (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenues	68,119	78,775	56,005	68,667	(17.8)	(12.8)
EBITDA	8,379	10,004	6,329	8,309	(24.5)	(16.9)
PAT	6,573	8,128	4,912	6,723	(25.3)	(17.3)

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)	FY18	FY19	FY20	FY21E	FY22E
Net sales	48,319	53,977	59,925	56,005	68,667
% growth YoY	22.6	11.7	11.0	(6.5)	22.6
Raw material costs	29,988	33,745	36,499	33,939	41,475
Staff costs	4,553	4,931	5,896	6,161	7,073
Other overheads	8,179	8,879	10,796	9,577	11,811
Total expenditure	42,719	47,555	53,192	49,676	60,358
EBITDA	5,600	6,422	6,733	6,329	8,309
% growth	14.6	14.7	4.9	(6.0)	31.3
EBITDA margin (%)	11.6	11.9	11.2	11.3	12.1
Other income	867	1,047	1,287	1,570	1,940
Interest costs	44	91	199	179	161
Depreciation	1,015	1,113	1,293	1,415	1,455
Profit before tax	5,408	6,265	6,529	6,305	8,633
Tax	1,902	2,194	1,766	1,587	2,173
Profit from associates	-	27	139	195	263
PAT	3,507	4,097	4,902	4,912	6,723
PAT margin (%)	7.3	7.6	8.2	8.8	9.8
EPS (Rs)	27.6	32.3	38.6	38.7	53.0
% growth	12.9	16.8	19.6	0.2	36.8

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 10: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	1,269	1,269	1,269	1,269	1,269
Reserves	16,695	20,185	24,366	28,517	34,098
Net worth	17,963	21,454	25,635	29,786	35,367
Total loans	-	-	-	-	-
Deferred tax liability net	(279)	(344)	(375)	(375)	(375)
<b>Liabilities</b>	<b>17,684</b>	<b>21,110</b>	<b>25,260</b>	<b>29,411</b>	<b>34,992</b>
Net block	4,459	5,082	7,089	8,015	8,560
Capital work-in-progress	331	433	441	100	100
Investments	4,563	6,590	5,672	5,672	5,672
Inventories	8,101	8,886	11,989	9,763	11,363
Debtors	2,403	2,556	2,816	2,915	3,386
Cash	9,819	10,610	12,840	16,767	22,100
Other current assets	2,303	2,616	2,381	2,800	3,433
Total current assets	22,626	24,668	30,026	32,246	40,283
Creditors	11,549	12,379	14,311	12,832	15,340
Other current liabilities	2,746	3,285	3,657	3,789	4,282
Total current liabilities	14,295	15,664	17,968	16,621	19,622
Net current assets	8,332	9,004	12,059	15,625	20,661
<b>Total assets</b>	<b>17,684</b>	<b>21,110</b>	<b>25,260</b>	<b>29,411</b>	<b>34,992</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 9: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
EBIT	4,585	5,309	5,440	4,913	6,854
(Inc)/dec. in working capital	(1)	119	(824)	361	297
<b>Cash flow from operations</b>	<b>4,584</b>	<b>5,428</b>	<b>4,616</b>	<b>5,274</b>	<b>7,151</b>
Other income	867	1,047	1,287	1,570	1,940
Depreciation	1,015	1,113	1,293	1,415	1,455
Tax paid (-)	(2,021)	(2,259)	(1,797)	(1,587)	(2,173)
Profit from associates	-	27	139	195	263
<b>Net cash from operations</b>	<b>4,445</b>	<b>5,355</b>	<b>5,538</b>	<b>6,867</b>	<b>8,636</b>
Capital expenditure (-)	(1,531)	(1,839)	(3,308)	(2,000)	(2,000)
<b>Net cash after capex</b>	<b>2,913</b>	<b>3,517</b>	<b>2,231</b>	<b>4,867</b>	<b>6,636</b>
Interest paid (-)	(44)	(91)	(199)	(179)	(161)
Dividends paid (-)	(611)	(764)	(634)	(761)	(1,142)
Inc./(dec.) in total borrowings	-	-	-	-	-
(Inc.)/dec. in investments	(3,266)	(2,027)	919	-	-
<b>Cash from financial activities</b>	<b>(3,921)</b>	<b>(2,882)</b>	<b>86</b>	<b>(940)</b>	<b>(1,303)</b>
Others	237	157	(87)	-	-
Opening cash balance	10,590	9,819	10,610	12,840	16,767
Closing cash balance	9,819	10,610	12,840	16,767	22,100
Change in cash balance	(771)	792	2,230	3,927	5,333

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 11: Key ratios

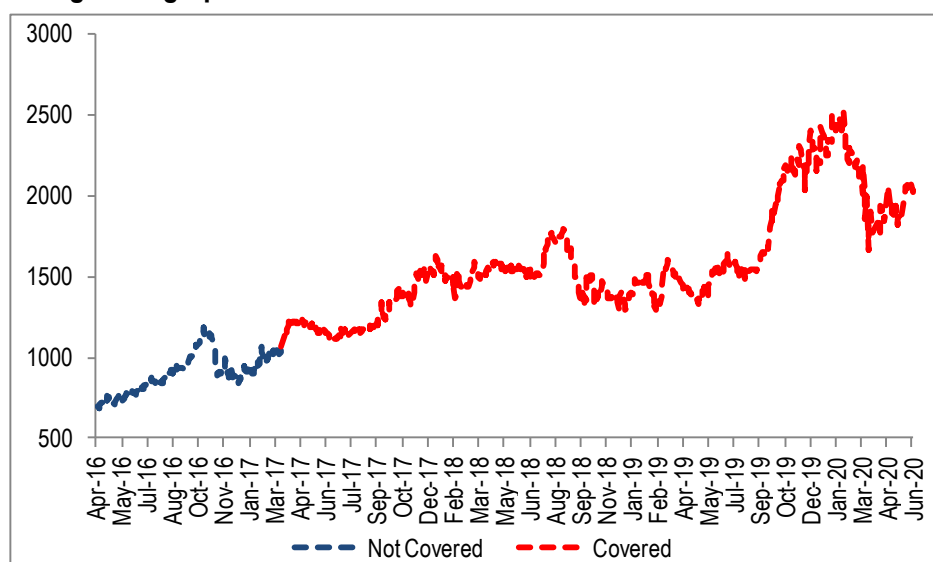
Y/E March	FY18	FY19	FY20	FY21E	FY22E
<b>Per share (Rs)</b>					
EPS	27.6	32.3	38.6	38.7	53.0
Book value	141.6	169.1	202.1	234.8	278.8
<b>Valuation (x)</b>					
P/E	76.4	65.4	54.6	54.5	39.8
P/BV	14.9	12.5	10.4	9.0	7.6
EV/EBITDA	46.1	40.1	37.9	39.7	29.6
EV/sales	5.3	4.8	4.3	4.5	3.6
<b>Return ratios (%)</b>					
RoCE	28.3	27.4	23.5	18.0	21.3
RoE	21.4	20.8	20.8	17.7	20.6
RoIC	150.6	147.2	102.1	71.6	96.6
<b>Profitability ratios (%)</b>					
EBITDA margin	11.6	11.9	11.2	11.3	12.1
EBIT margin	9.5	9.8	9.1	8.8	10.0
PAT margin	7.3	7.6	8.2	8.8	9.8
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	2.7	2.6	2.4	1.9	2.0
Debtor days	18	17	17	19	18
Inventory days	99	96	120	105	100
Creditor days	141	134	143	138	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
9 April 2019	Buy	1,453	1,900
27 May 2019	Buy	1,379	1,840
9 July 2019	Buy	1,552	1,840
13 August 2019	Buy	1,540	1,840
23 September 2019	Buy	1,842	2,205
7 October 2019	Buy	1,996	2,205
11 November 2019	Buy	2,198	2,535
9 January 2020	Buy	2,347	2,535
10 February 2020	Accumulate	2,501	2,485
26 March 2020	Buy	1,825	2,435
9 April 2020	Buy	1,827	2,435
19 June 2020	Accumulate	2,111	2,120

## Rating track graph



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ACCUMULATE -5% to 15%

SELL < -5%

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