23 MAY 2017 Quarterly Update

WHIRLPOOL OF INDIA

MIDCAPS

HOLD

Target Price: Rs 1,170

Super quarter; super-normal valuations

Whirlpool reported Q4FY17 net sales of Rs 10.1 bn, up 20% YoY in a seasonally strong quarter for Refrigerators (55% of sales) and Air-conditioners (10% of sales). This was above our estimate of 16% YoY growth. Gross margin declined110 bps to 41.5% likely due to input cost inflation. Core EBITDA margin (excl. 'other income') decline was however limited to 30 bps YoY to 12.3% (above our estimate of 9%), offset partially by lower employee costs. Tax rate was 36% vs. 31% YoY. PAT at Rs 743 mn was up 7% YoY (inline). The company also declared a token dividend of Rs 3/share (12% payout).

We estimate 15% sales growth in FY18/19 given a favorable macro; flat/+50bps EBITDA margin given rising input costs, high competition which could be partially offset by scale benefits. Roll forward to FY19E; Maintain HOLD with revised TP of Rs 1,170 (30x FY19 EPS).

CMP	: Rs 1,193
Potential Upside	: -2%

MARKET DATA

No. of Shares	: 127 mn
Free Float	: 25%
Market Cap	: Rs 151 bn
52-week High/ Low	: Rs 1,290 / Rs 720
Avg. Daily vol. (6mth)	: 80,204 shares
Bloomberg Code	: WHIRL IB Equity
Promoters Holding	: 75%
FII / DII	: 6% / 8%

FY17 performance and outlook

Net sales (net of excise) atRs 39.4 bn was up 15% YoY. Gross margin expanded ~60 bps YoY to 41.4%, while EBITDA margin expanded 125 bps YoY to 12.4%. PAT at Rs 3.1 bn was up 29% YoY. Net cash stood at Rs 10.5 bn, vs. Rs 8.5 bn in FY16. Whirlpool also declared a dividend for the first time in its history; however, it was a rather disappointing payout at 12% of PAT (at Rs 3/share).

We have a positive long-term bias on the stock given its strong brand recall, focus on profitability and strong cash generation. In our view, secular growth prospects of the company remain intact as ownership levels remain low and current growth is fuelled by replacement demand rather than first-time buyers. However, we remain on sidelines with a HOLD rating as valuations are rich and factor in an ambitious 20% sales growth over the next decade followed by 5% terminal growth (assuming FCF/PAT of 90%, CoE of 12.5%).

Financial summary (Standalone)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	34,399	39,408	45,381	52,188
Adj PAT (Rs mn)	2,408	3,105	4,092	4,950
Con. EPS* (Rs)	-	-	30.2	37.7
EPS (Rs)	19.0	24.5	32.3	39.0
Change YOY (%)	14.4	28.9	31.8	21.0
P/E (x)	62.8	48.7	37.0	30.6
RoE (%)	23.6	22.9	23.8	23.3
RoCE (%)	34.9	34.8	34.3	33.5
EV/E (x)	37.2	28.8	24.0	19.3
DPS (Rs)	-	-	-	-

Source: *Consensus broker estimates, Company, Axis Capital

Note: Our net sales are adjusted for trade discounts which are captured in operating expenses

Key drivers

(%)	FY17	FY18E	FY19E
Revenue growth	15	15	15
Core EBITDA margin	12.4	12.5	13.0

Price performance

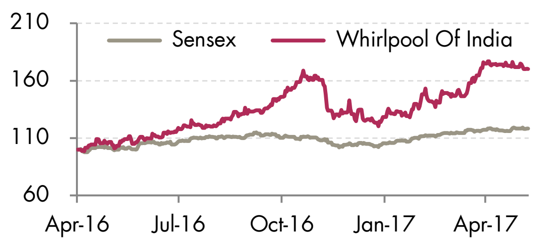

Exhibit 1: Results update – consolidated

	Quarter ended					12 months ended		
(Rs mn)	Mar-17	Mar-16	% Chg	Dec-16	% Chg	FY18E	FY17	% Chg
Total income	**10,146**	**8,485**	**19.6**	**9,747**	**4.1**	**45,381**	**39,408**	**15.2**
EBITDA	1,246	1,066	16.8	843	47.7	5,678	4,888	16.2
Other income	168	152	10.4	190	(11.3)	1,000	730	37.0
PBIDT	**1,414**	**1,219**	**16.0**	**1,033**	**36.9**	**6,678**	**5,618**	**18.9**
Depreciation	248	205	20.9	195	27.4	783	875	(10.5)
Interest	6	14	(56.3)	22	(71.9)	50	59	(15.1)
PBT	**1,159**	**999**	**16.0**	**815**	**42.2**	**5,846**	**4,685**	**24.8**
Tax	415	306	35.7	261	59.2	1,754	1,580	11.0
Reported PAT	**744**	**693**	**7.4**	**554**	**34.2**	**4,092**	**3,105**	**31.8**
No. of shares (mn)	127	127	-	127	-	127	127	-
EBITDA margin (%)	12.3	12.6	-	8.7	41.9	12.5	12.4	-
PBIDT margin (%)	13.9	14.4	-	10.6	31.5	14.7	14.3	-
EPS - annualized (Rs.)	**23.5**	**21.8**	**7.4**	**17.5**	**34.2**	**32.3**	**24.5**	**31.8**

Source: Company, Axis Capital

Financial summary (Standalone)

Profit &loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	34,399	39,408	45,381	52,188
Other operating income	-	-	-	-
Total operating income	**34,399**	**39,408**	**45,381**	**52,188**
Cost of goods sold	(22,429)	(25,348)	(28,584)	(32,786)
Gross profit	11,970	14,060	16,797	19,402
Gross margin (%)	*34.8*	*35.7*	*37.0*	*37.2*
Total operating expenses	(8,135)	(9,172)	(11,118)	(12,629)
EBITDA	**3,835**	**4,888**	**5,678**	**6,773**
EBITDA margin (%)	*11.1*	*12.4*	*12.5*	*13.0*
Depreciation	(769)	(875)	(783)	(852)
EBIT	**3,066**	**4,014**	**4,896**	**5,921**
Net interest	(52)	(59)	(50)	(50)
Other income	553	730	1,000	1,200
Profit before tax	**3,568**	**4,685**	**5,846**	**7,071**
Total taxation	(1,159)	(1,580)	(1,754)	(2,121)
Tax rate (%)	*32.5*	*33.7*	*30.0*	*30.0*
Profit after tax	2,408	3,105	4,092	4,950
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	2,408	3,105	4,092	4,950
Adj. PAT margin (%)	*7.0*	*7.9*	*9.0*	*9.5*
Net non-recurring items	-	-	-	-
Reported net profit	2,408	3,105	4,092	4,950

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	1,269	1,269	1,269	1,269
Reserves & surplus	10,250	13,423	17,515	22,465
Net worth	11,446	15,666	18,784	23,734
Borrowing	-	-	-	-
Other non-current liabilities	30	(159)	(159)	(159)
Total liabilities	**11,615**	**15,645**	**18,763**	**23,713**
Gross fixed assets	11,606	12,796	13,496	14,196
Less: Depreciation	(7,944)	(8,818)	(9,601)	(10,453)
Net fixed assets	3,662	3,978	3,895	3,744
Add: Capital WIP	367	295	-	-
Total fixed assets	4,029	4,274	3,895	3,744
Total Investment	-	-	-	-
Inventory	6,835	8,888	8,846	10,150
Debtors	1,926	2,049	2,006	2,307
Cash & bank	8,563	10,590	15,210	20,357
Loans & advances	634	807	1,148	1,320
Current liabilities	10,898	12,471	12,341	14,165
Net current assets	7,061	9,861	14,868	19,969
Other non-current assets	-	-	-	-
Total assets	**11,615**	**15,645**	**18,763**	**23,713**

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	3,568	4,685	5,846	7,071
Depreciation & Amortisation	769	875	783	852
Chg in working capital	*1,319*	*(774)*	*(387)*	*46*
Cash flow from operations	**4,548**	**3,264**	**4,538**	**5,897**
Capital expenditure	*(839)*	*(1,119)*	*(405)*	*(700)*
Cash flow from investing	**(314)**	**391**	**(405)**	**(700)**
Equity raised/ (repaid)	-	-	-	-
Debt raised/ (repaid)	-	-	-	-
Dividend paid	-	-	-	-
Cash flow from financing	**(53)**	**(117)**	**(108)**	**(108)**
Net chg in cash	4,181	3,539	4,026	5,090

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	19.0	24.5	32.3	39.0
CEPS (Rs)	25.0	31.4	38.4	45.7
DPS (Rs)	-	-	-	-
Dividend payout ratio (%)	-	-	-	-
GROWTH				
Net sales (%)	(11.5)	14.6	15.2	15.0
EBITDA (%)	15.8	27.5	16.2	19.3
Adj net profit (%)	14.4	28.9	31.8	21.0
FDEPS (%)	14.4	28.9	31.8	21.0
PERFORMANCE				
RoE (%)	23.6	22.9	23.8	23.3
RoCE (%)	34.9	34.8	34.3	33.5
EFFICIENCY				
Asset turnover (x)	10.2	9.6	10.2	14.4
Sales/ total assets (x)	1.7	1.6	1.5	1.5
Working capital/ sales (x)	-	-	-	-
Receivable days	20.4	19.0	16.1	16.1
Inventory days	81.6	94.0	81.3	81.6
Payable days	103.7	116.0	90.7	90.9
FINANCIAL STABILITY				
Total debt/ equity (x)	-	-	-	-
Net debt/ equity (x)	(0.8)	(0.8)	(0.9)	(1.0)
Current ratio (x)	1.6	1.8	2.2	2.4
Interest cover (x)	59.2	68.1	97.9	118.4
VALUATION				
PE (x)	62.8	48.7	37.0	30.6
EV/ EBITDA (x)	37.2	28.8	24.0	19.3
EV/ Net sales (x)	4.1	3.6	3.0	2.5
PB (x)	13.2	9.7	8.1	6.4
Dividend yield (%)	-	-	-	-
Free cash flow yield (%)	2.5	1.4	2.7	3.4

Source: Company, Axis Capital

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SELL	Less than -10%

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