



RESULT UPDATE

WHIRLPOOL OF INDIA

Good quarter amid tough environ

India Equity Research | Consumer Durables



Whirlpool of India (WHIRL) posted 38%/27% growth in revenue and EBITDA (beat of ~25% and PAT beat of 10%). Key highlights: a) Strong revenue growth (unlike peers) propelled by festive season sales (early Diwali) in line with our channel checks; b) Launch of new range of premium refrigerators, obedient with parent's business strategy to augment product portfolio to plug key gaps, especially in core products like refrigerators & washing machines; and c) Investment of INR3.2bn in Whirlpool Brazil's bonds taking total investment to INR6.45bn for H1FY18. We believe WHIRL's strategy has already started yielding results given sustained outperformance (instilling confidence), which we expect will continue on reasonable earnings growth/free cash (24%/33% CAGR over FY17-19E) and full benefits to accrue over next 2-3 years. WHIRL remains one of our top picks in consumer durables basket given strong cash flow/earnings growth. Maintain 'BUY/SO' with TP of INR 1,511.

Q2FY18: Key Highlights

Revenue growth stood at 38% (unlike peers who reported muted growth), driven by: a) Pick up in restocking post clearance of GST inventory; b) Festive season sales and early Diwali (both in line with our channel checks conducted earlier this month); and c) Launch of new premium range of refrigerators. EBITDA margin declined marginally (down 85bps YoY) due to adverse impact of GST transition and re-emergence of raw material related headwinds. However, given WHIRL's SKU ramp up strategy and improved competitive profile, we expect it to sustain growth.

What do we expect going forward?

WHIRL is expected to benefit from parent's strategy to plug product gaps in current portfolio which has started translating. Continued ramp up in top line (26% YoY growth in H1FY18) raises confidence in WHIRL's target revenue of USD1bn by FY20 (16% CAGR) spearheaded by new product launches and distribution ramp up. Ergo, we expect the company to continue to gain market share and clock profitable growth led by ceaseless efforts to command higher ASP for premium products.

Outlook and valuations: Rerating ongoing; maintain 'BUY'

We believe WHIRL is the best positioned MNC in high-end white goods space as it has improved its competitive profile vs large peers and is likely to sustain strong improvement in top line and OPMs. At CMP, the stock trades at 37x FY19E.

Financials (Standalone)			(INR mn)					
Year to March	Q2FY18	Q2FY17	% change	Q1FY18	% chang	FY17E	FY18E	FY18E
Net revenues	11,597	8,434	37.5	14,640	(20.8)	39,408	45,825	53,522
EBITDA	1,135	897	26.6	2,108	(46.1)	4,888	5,999	7,284
Adj. profit	680	587	15.7	1,327	(48.8)	3,105	3,902	4,792
Diluted EPS (INR)	5.4	4.6	15.7	10.5	(48.8)	24.5	30.8	37.8
Diluted P/E (x)						57.2	45.5	37.1
ROAE (%)						23.4	23.2	22.7

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA (R: WHIR.BO, B: WHIRL IN)

CMP	: INR 1,401
Target Price	: INR 1,511
52-week range (INR)	: 1,450 / 836
Share in issue (mn)	: 126.9
M cap (INR bn/USD mn)	: 178 / 2,743
Avg. Daily Vol.BSE/NSE('000)	: 78.3

SHARE HOLDING PATTERN (%)

	Current	Q1FY18	Q4FY17
Promoters *	75.0	75.0	75.0
MF's, FI's & BK's	9.7	8.6	8.4
FII's	5.2	6.4	6.5
Others	10.1	10.0	10.1
* Promoters pledged shares (% of share in issue)			NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	11.3	4.8	4.7
3 months	20.7	3.2	2.7
12 months	22.6	20.1	23.0

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Financial snapshot

(INR mn)

Year to March	Q2FY18	Q2FY17	% change	Q1FY18	% change	YTD18	FY18E	FY19E
Net revenues	11,597	8,434	37.5	14,640	(20.8)	26,237	45,825	53,522
Direct costs	7,029	4,696	49.7	9,383	(25.1)	16,412	26,808	31,310
Employee expenses	1,215	1,018	19.4	1,110	9.5	2,325	4,586	5,079
Other expenses	2,218	1,824	21.6	2,040	8.7	4,258	8,432	9,848
EBITDA	1,135	897	26.6	2,108	(46.1)	3,243	5,999	7,284
Depreciation	255	207	23.3	278	(8.3)	533	1,044	1,118
EBIT	880	690	27.5	1,830	(51.9)	2,710	4,955	6,167
Other income	277	186	48.5	217	27.7	493	972	1,100
Interest	17	16	7.6	17	(1.2)	34	60	61
Add: Prior period items								
Profit before tax	1,140	861	32.4	2,029	(43.8)	3,169	5,867	7,206
Provision for taxes	460	273	68.3	702	(34.4)	1,162	1,966	2,414
Reported net profit	680	587	15.7	1,327	(48.8)	2,007	3,902	4,792
Adjusted Profit	680	587	15.7	1,327	(48.8)	2,007	3,902	4,792
Equity capital(FV INR 5)	1,269	1,269		1,269		2,537	1,269	1,269
No. of shares (mn)	127	127		127		254	127	127
Diluted EPS (INR)	5.4	4.6	15.7	10.5	(48.8)	15.8	30.8	37.8
As % of net revenues								
Raw material	60.6	55.7		64.1		62.6	58.5	58.5
Employee cost	10.5	12.1		7.6		8.9	10.0	9.5
Other expenses	19.1	21.6		13.9		16.2	18.4	18.4
EBITDA	9.8	10.6		14.4		12.4	13.1	13.6
Depreciation	2.2	2.5		1.9		2.0	2.3	2.1
EBIT	7.6	8.2		12.5		10.3	10.8	11.5
Interest expenditure	0.1	0.2		0.1		0.1	0.1	0.1
Other income	2.4	2.2		1.5		1.9	2.1	2.1
Reported net profit	5.9	7.0		9.1		7.6	8.5	9.0
Tax rate	40.4	31.8		34.6		36.7	33.5	33.5

Company Description

Whirlpool, right since inception in 1911 as the first commercial manufacturer of motorised washers to its current market position of being the world's number one manufacturer and marketer of major home appliances, has always set industry milestones and benchmarks. The parent company is headquartered at Benton Harbor, Michigan, USA with global presence in over 170 countries and manufacturing operations in 13 countries with 11 major brand names, such as, Whirlpool, KitchenAid, Roper, Estate, Bauknecht, Laden and Ignis. The company came to India in the late 1980s under a joint venture with TVS group and established its first manufacturing facility in Pondicherry. Today, WPIL headquartered in Gurugram, is the most recognised brand in home appliances in India and enjoys market share of over 25% with a product portfolio that comprises washing machines, refrigerators, microwave ovens and ACs.

Investment Theme

Shift in parent's strategy, a key growth driver - There is a clear shift in the parent's focus to double Whirlpool India's top-line in next 4 years, implying 17% revenue CAGR over FY17-19E. Earlier, WPIL laid emphasis on margin expansion and cash generation at the expense of market share, which eventually failed to materialise. In past 2 years, the company shifted focus with a comprehensive plan to boost its product portfolio—addressing key gaps—thereby expanding its offerings in refrigerators, washing machines and ACs which helped it gain back its margins & cash flows.

Sharp dealer focus - Also, WPIL has embarked on an aggressive programme to expand its touch points from current 18-19K to more than 27K over FY15-20, which will help it achieve third highest touch points. Also, its better dealer focus is clearly visible in the sharp rise in trade discounts in past 2 years, which has increased from 13% to 18% levels. Despite the sharp rise in trade discounts and sustained focus on ad spend, WPIL managed to increase its profitability, which we believe was led by better cost management and focus on average realisations.

Key Risks

Competition

Rising competitive intensity especially from growing local peers, we believe could be a risk to our growth and profitability estimates.

Consumer discretionary slow down

Rise in disposable income levels are key driver for consumer discretionary and hence any slowdown in disposable income could post down side risk to Whirlpool's earnings.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.9	6.6	6.8	7.4
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.5	67.1	65.0	66.0
Company				
Refrigerators market growth rate(%)	5.4	10.2	12.0	12.0
Refrigerators Market Share	15.0	16.0	16.8	17.6
Qty of WM Sold by WHIRL ('000 units)	896	959	1,026	1,098
Avg realisaion/unit of WM (INR)	10,122	10,476	10,790	11,114
Qty of AC Sold by WHIRL ('000 units)	238.5	279.4	327.3	381.9
Avg realisaion/unit of AC (INR)	16,873	17,281	17,770	18,210
Depreciation	6.8	7.3	7.5	7.2
Tax rate (%)	32.6	33.7	33.5	33.5
Capex (INR mn)	787	1,118	1,410	1,600

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Income from operations	34,399	39,408	45,825	53,522
Materials costs	20,365	23,101	26,808	31,310
Employee costs	3,827	4,116	4,586	5,079
Other mfg expenses	6,373	7,302	8,432	9,848
Total operating expenses	30,564	34,519	39,826	46,238
EBITDA	3,835	4,888	5,999	7,284
Depreciation	769	875	1,044	1,118
EBIT	3,066	4,014	4,955	6,167
Add: Other income	553.29	729.9	972.17	1,100.25
Less: Interest Expense	52	59	60	61
Profit Before Tax	3,567	4,685	5,867	7,206
Less: Provision for Tax	1,159	1,580	1,966	2,414
Reported Profit	2,408	3,105	3,902	4,792
Exceptional Items	(8)	-	-	-
Adjusted Profit	2,400	3,105	3,902	4,792
Shares o /s (mn)	127	127	127	127
Diluted shares o/s (mn)	127	127	127	127
Adjusted Diluted EPS	19.0	24.5	30.8	37.8
Adjusted Cash EPS	25.0	31.4	39.0	46.6

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	88.9	87.6	86.9	86.4
EBITDA margins	11.1	12.4	13.1	13.6
Net Profit margins	7.0	7.9	8.5	9.0

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	4.4	14.6	16.3	16.8
EBITDA	15.8	27.5	22.7	21.4
Adjusted Profit	14.4	28.9	25.7	22.8

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	1,269	1,269	1,269	1,269	
Shareholders' funds	11,657	14,831	18,732	23,524	
Long Term Liabilities	856	1,322	1,322	1,322	
Sources of funds	12,543	15,994	19,895	24,687	
Gross Block	11,321	12,513	13,923	15,523	
Net Block	3,661	3,978	4,344	4,826	
Capital work in progress	367	295	295	295	
Non current investments	-	1,297	1,297	1,297	
Cash and Equivalent	8,564	10,590	14,956	20,005	
Inventories	6,835	8,888	9,548	10,723	
Sundry Debtors	1,926	2,049	2,385	2,786	
Loans & Advances	161	163	169	177	
Other Current Assets	999	1,343	1,411	1,481	
Current Assets (ex cash)	9,921	12,442	13,513	15,167	
Sundry creditors	9,663	12,347	14,249	16,642	
Provisions	307	262	262	262	
Total Current Liab	9,970	12,609	14,510	16,903	
Net Curr Assets-ex cash	(49)	(166)	(997)	(1,736)	
Net Deferred tax	30	(159)	(159)	(159)	
Uses of funds	12,543	15,994	19,895	24,687	
BVPS (INR)	91.9	117.0	147.7	185.5	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	2,408	3,105	3,902	4,792	
Add: Depreciation	769	875	1,044	1,118	
Interest (Net of Tax)	35	39	40	41	
Others	(410)	(703)	(952)	(1,080)	
Less: Changes in WC	(635)	(520)	(831)	(739)	
Operating cash flow	3,437	3,836	4,865	5,609	
Less: Capex	787	1,118	1,410	1,600	
Free Cash Flow	2,651	2,717	3,455	4,009	

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow		3,437	3,836	4,865	5,609
Investing cash flow		(284)	(1,801)	(438)	(500)
Financing cash flow		(9)	(13)	(60)	(61)
Net cash Flow		3,145	2,022	4,367	5,048
Capex		(787)	(1,118)	(1,410)	(1,600)

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	23.1	23.4	23.2	22.7
ROACE (%)	27.3	29.5	29.8	29.4
Inventory Days	120	124	126	118
Debtors Days	18	18	18	18
Payable Days	159	174	181	180
Cash Conversion Cycle	(20)	(31)	(38)	(44)
Current Ratio	1.0	1.0	0.9	0.9

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	3.1	2.8	2.6	2.4
Fixed Asset Turnover	9.2	10.3	11.0	11.7
Equity Turnover	3.0	3.0	2.4	2.5

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	19.0	24.5	30.8	37.8
Y-o-Y growth (%)	14.5	28.9	25.7	22.8
Adjusted Cash EPS (INR)	25.0	31.4	39.0	46.6
Diluted P/E (x)	73.8	57.2	45.5	37.1
P/B (x)	15.2	12.0	9.5	7.6
EV / Sales (x)	4.9	4.2	3.5	2.9
EV / EBITDA (x)	44.1	34.2	27.1	21.6

Additional Data

Directors Data

Mr. Arvind Uppal	Chairman & Executive Director	Mr. Sunil D'Souza	Managing Director
Mr. Anil Berera	Executive Director & CFO	Mr. Vikas Singhal	Executive Director
Mr. Anand Bhatia	Non-Executive & Independent Director	Mr. Sanjiv Verma	Non-Executive & Independent Director
Mr. Simon J.Scarff	Non-Executive, Independent Director	Mrs. Sonu Bhasin	Non-Executive, Independent Director

Auditors - S.R. Batliboi & Co. LLP

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Whirlpool financial	75	Templeton asset mgmt	2.84
Birla sun life asset	1.66	Vanguard group	1.01
Kotak mahindra	0.91	Jupiter inv mgmt gro	0.78
Hdfc asset managemen	0.73	Sundaram asset manag	0.71
Goldman sachs group	0.69	Icici prudential ass	0.59

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
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No Data Available

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
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No Data Available

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Bajaj Electricals	HOLD	SP	M	Crompton Greaves Consumer Electrical	BUY	SO	L
Finolex Cables	BUY	SO	L	Havells India	BUY	SO	L
KEI Industries	BUY	SO	L	Symphony	BUY	SO	L
V Guard Industries	HOLD	SP	L	Voltas	BUY	SO	L
Whirlpool of India	BUY	SO	M				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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Coverage group(s) of stocks by primary analyst(s): Consumer Durables

Bajaj Electricals, Crompton Greaves Consumer Electrical, Finolex Cables, Havells India, KEI Industries, Symphony, V Guard Industries, Voltas, Whirlpool of India

Recent Research

Date	Company	Title	Price (INR)	Recos
26-Oct-17	V Guard Industries	Re-stocking spurs revenue beat; <i>Result Update</i>	208	Hold
08-Sep-17	Bajaj Electricals	Change underway; <i>Company Update</i>	340	Hold
07-Sep-17	KEI Industries	On a strong growth trajectory; <i>Company Update</i>	264	Buy

Distribution of Ratings / Market Cap

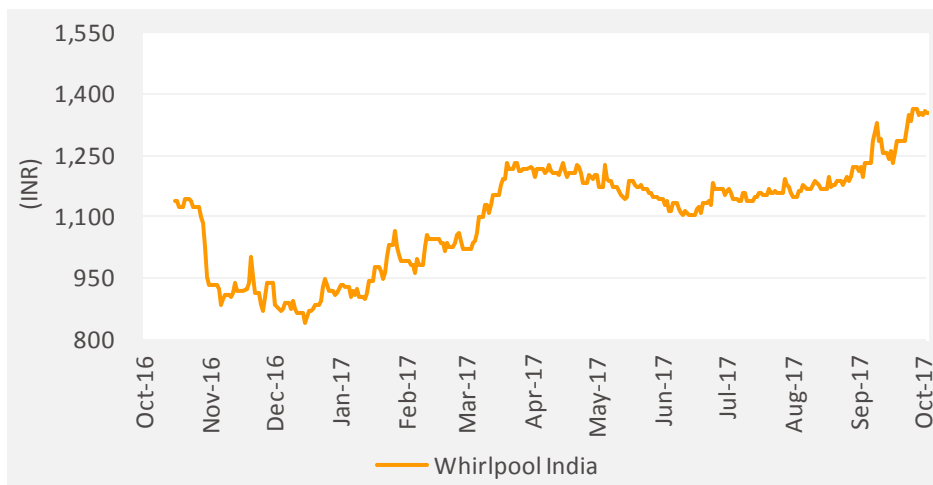
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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