

## On right track with revenue growth and margins expansion

We maintain our Hold rating on IFB Industries with a revised TP of Rs790 (28x FY19E EPS). We believe that positives of the current quarter are captured in the stock price post the steep 25% rally in last one month. We increase our target multiple factoring re-rating in the consumer durable sector post the healthy revenue growth across players. Increasing distribution reach strategy of the management to drive volume growth has started to bear fruit with strong growth across categories. New product launches coupled with mix change and domestic manufacturing would drive margins in medium term. Re-entry into refrigerator category from Q1FY19 would further help to drive revenues.

- Q2FY18 result above expectations:** Revenue growth was 37% YoY to Rs6,020mn (6% above expectation) on the back of healthy 41% YoY growth in the home appliances division and 19% YoY growth in the engineering division. Operating profit was up 80% to Rs613mn (52% above expectation) as operating margins expanded by 241bps YoY to 10.2%. EBIT margins in the home appliance division were up 233bps YoY to 9%, while engineering division's margin was at 10.6% (up 271bps YoY). PAT was at Rs366mn, (69% above expectations) up 91% YoY on healthy operating margin.
- Highest quarterly growth in last 9 years:** Company posted healthy 37% YoY revenue growth on the back of restocking by retailers, early festive demand and increase in distribution. While the growth rate would normalise, we expect the same to be high 20% going forward with new product launches. In the core front load washing machine it posted 46% volume growth while in top load washing machine the growth was 41%. Company is introducing new range from H2FY18 which would drive growth. In the microwave category it posted 60% volume growth and gained market share while AC category continue to disappoint with mere 12% volume growth. Online sales continue to gain traction and now account for 21% of volumes while IFB Point account for 12% of sales. Management maintained they are on track to launch the refrigerator in Q1FY19.
- Healthy operating leverage leads to double digit margins:** Company posted double digit margins for the first time in 7 years on the back of increasing share from own manufactured washing machines, healthy operating leverage and prudent cost management. Further company has slowed the expansion of IFB Points and is closely monitoring its profitability. We believe with that company could increase operating margins by 200bps in FY19 from 5.6% in FY17. Benefits of import substitution would come from Q4FY18. Company is increasing capacity in top load washing machine while new product launches would increase capex in the home appliance division.
- Estimates increased, maintain Hold:** We have increased our revenue estimates by 4.3%/5.2% for FY18E/FY19 on the back of strong growth in Q2FY18 while operating profit have been increased by 8.4%/9.1% for FY18E/FY19E on healthy margin expansion. PAT is increased by mere 1.1%/2.2% as we have increased our tax rate. We maintain our Hold rating on the stock with a revised TP of Rs790 (28x FY19E EPS). We have increased our multiple given the visibility on healthy margins, strong revenue growth and re-rating in the sector. We continue to value it at 30% discount to Whirlpool.

Y/E Mar (Rsmn)	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	Q2FY18E	Var (%)
<b>Net Sales</b>	<b>6,020</b>	<b>4,394</b>	<b>37.0</b>	<b>4,917</b>	<b>22.4</b>	<b>5,688</b>	<b>5.8</b>
COGS	3,514	2,494	40.9	2,871	22.4	3,250	8.1
Employee Expenses	530	392	35.2	516	2.6	525	0.9
Admin & Other Exp	1,362	1,166	16.9	1,321	3.1	1,510	(9.8)
<b>EBITDA</b>	<b>613</b>	<b>342</b>	<b>79.6</b>	<b>209</b>	<b>193.1</b>	<b>403</b>	<b>52.1</b>
<i>EBITDA margin (%)</i>	<i>10.2</i>	<i>7.8</i>	<i>241 bps</i>	<i>4.3</i>	<i>593 bps</i>	<i>7.1</i>	<i>310 bps</i>
Depreciation & Amm.	129	109		125		130	
Other Income	33	44		34		35	
Interest	11	14		11		12	
<b>PBT</b>	<b>507</b>	<b>263</b>	<b>92.8</b>	<b>107</b>	<b>372.0</b>	<b>296</b>	<b>71.1</b>
Tax	141	71		34		80	
<b>Adjusted PAT</b>	<b>366</b>	<b>192</b>	<b>90.7</b>	<b>74</b>	<b>395.5</b>	<b>216</b>	<b>69.1</b>

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	FDEPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY15	12,615	23.5	866	6.9	497	130.2	12.3	13.7	11.4	25.8	14.1
FY16	15,009	19.0	694	4.6	314	(36.9)	7.7	7.8	7.2	61.7	27.1
FY17	17,407	16.0	974	5.6	510	62.5	12.6	11.5	10.2	34.9	17.6
FY18E	21,628	24.3	1,361	6.3	713	39.8	17.6	14.2	12.6	51.1	26.5
FY19E	25,798	19.3	1,959	7.6	1,141	60.1	28.2	19.1	16.6	31.9	18.1

Source: Company, Centrum Research Estimates, standalone financials

In the interest of timeliness, this document is not edited

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Target Price	Rs790	Key Data				
CMP*	Rs898	Bloomberg Code	IFBI IN			
Downside	12%	Curr Shares O/S (mn)	40.5			
Previous Target	Rs605	Diluted Shares O/S(mn)	40.5			
Previous Rating	Hold	Mkt Cap (Rsbn/USDmn)	36.4/563.2			
<b>Price Performance (%)*</b>		52 Wk H / L (Rs)	1016.5/365			
		1M	6M	1Yr	5 Year H / L (Rs)	1016.5/38.4
IFBI IN	24.9	39.9	82.1		Daily Vol. (3M NSE Avg.)	56470
Nifty	6.0	12.2	23.2			

\*as on 3 November 2017; Source: Bloomberg, Centrum Research

### Shareholding pattern (%)\*

	Sep-17	Jun-17	Mar-17	Dec-16
Promoter	75.0	75.0	75.0	75.0
FIs	5.5	2.4	1.7	1.4
DIs	6.8	9.3	9.0	9.2
Others	12.8	13.3	14.4	14.4

Source: BSE, \*as on 3 November 2017

### Earning Revision

Particulars (Rs mn)	FY18E			FY19E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	21,628	20,727	4.3	25,798	24,530	5.2
EBITDA	1,361	1,255	8.4	1,959	1,796	9.1
<i>Ebitda margin (%)</i>	<i>6.3</i>	<i>6.1</i>	<i>24 bps</i>	<i>7.6</i>	<i>7.3</i>	<i>27 bps</i>
PAT	713	705	1.1	1,141	1,117	2.2

Source: Centrum Research Estimates

### Centrum vs. Bloomberg Consensus\*

Particulars (Rs mn)	FY18E			FY19E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Sales	21,628	20,690	4.5	25,798	24,699	4.5
EBITDA	1,361	1,251	8.8	1,959	1,890	3.7
PAT	713	669	6.6	1,141	1,134	0.7

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
2	0	1	605	790	30.6

\*as on 3 November 2017; Source: Bloomberg, Centrum Research Estimates

Ankit Kedia, ankit.kedia@centrum.co.in; 91 22 4215 9634

Varshit Shah, varshit.shah@centrum.co.in; 91 22 4215 9495

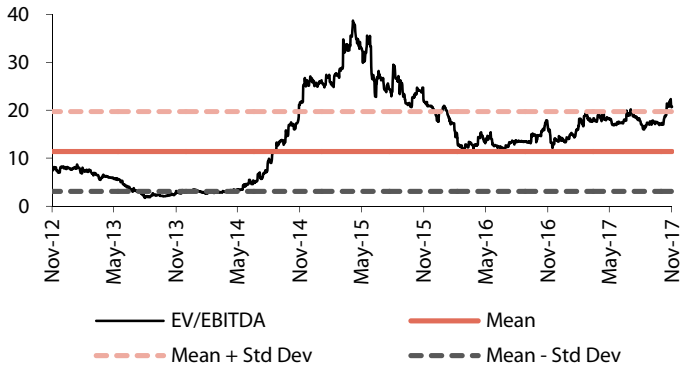
## Valuation

### Exhibit 1: Sensitivity Analysis

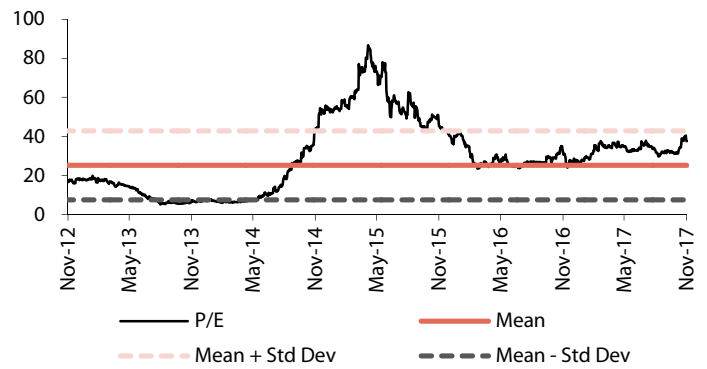
Sensitivity to key variables	% change	% impact on EBITDA	% impact on EPS
Home Appliances – Domestic Manufacturing	1	1.3	1.6
RM Cost	1	(5.7)	(7.1)

Source: Centrum Research Estimates

### Exhibit 2: 1 year forward EV/EBITDA chart



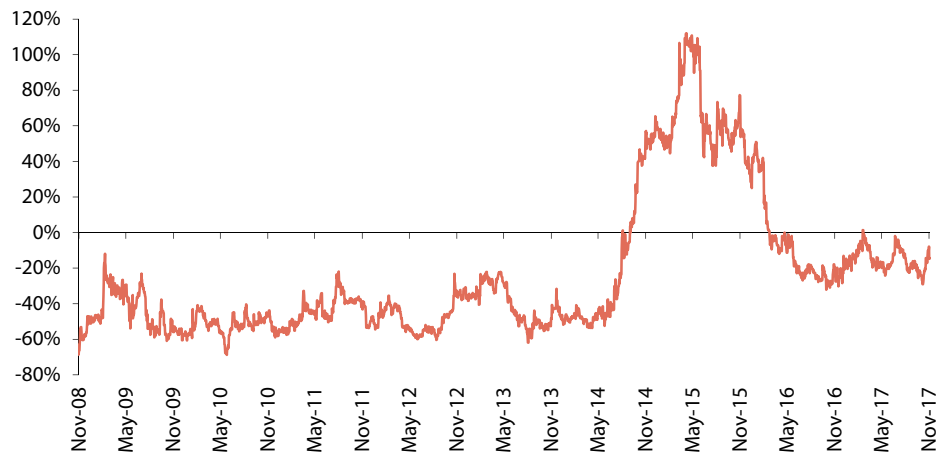
### Exhibit 3: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Source: Bloomberg, Company, Centrum Research Estimates

### Exhibit 4: Prem/Disc. of IFB over Whirlpool



Source: Bloomberg consensus, Companies, Centrum Research Estimates for IFB

### Exhibit 5: Comparative Valuations

Company	Mkt Cap (Rs mn)	CAGR FY17-FY19E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
IFB Industries*	36,402	21.7	41.8	49.6	5.6	6.3	7.6	34.9	51.1	31.9	17.6	26.5	18.1	11.5	14.2	19.1	0.0	0.0	0.0
Whirlpool of India	1,75,426	17.6	21.3	23.4	12.4	12.7	13.2	37.5	45.0	37.1	22.0	27.8	23.2	23.4	23.2	23.0	0.3	0.3	0.4
Hitachi Home	64,853	20.9	31.2	44.8	8.6	8.8	10.1	47.5	59.8	38.2	23.6	31.2	22.3	20.3	22.8	27.1	0.1	0.1	0.2
Symphony	1,09,532	20.5	26.1	24.1	25.8	27.3	28.2	51.8	52.8	42.2	43.2	42.0	33.2	42.6	40.7	44.1	0.4	0.8	0.8

Source: Bloomberg consensus, Companies; \*Centrum Research Estimates

## Quarterly financials, Operating Metrics and Key Performance Indicators

### Exhibit 6: Quarterly Financials (standalone)

Y/E Mar (Rs mn)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
<b>Total Income</b>	<b>4,125</b>	<b>3,685</b>	<b>4,177</b>	<b>4,394</b>	<b>4,544</b>	<b>4,292</b>	<b>4,917</b>	<b>6,020</b>
COGS	2,478	2,086	2,442	2,494	2,633	2,485	2,871	3,514
Staff cost	402	415	386	392	412	446	516	530
Admin & other expenses	1,077	1,094	1,086	1,166	1,201	1,263	1,321	1,362
Total Expenditure	3,957	3,595	3,915	4,052	4,246	4,193	4,708	5,406
<b>EBITDA</b>	<b>168</b>	<b>90</b>	<b>262</b>	<b>342</b>	<b>298</b>	<b>99</b>	<b>209</b>	<b>613</b>
Depreciation	117	103	105	109	108	114	125	129
EBIT	50	(13)	157	232	190	(15)	84	485
Interest	7	4	7	14	9	8	11	11
Other Income	13	71	18	44	27	34	34	33
Exceptional Item	0	0	0	0	0	0	0	0
PBT	56	53	167	263	209	11	107	507
Total tax	(9)	3	12	71	53	(16)	34	141
Reported PAT	65	50	156	192	156	27	74	366
<b>Adj PAT</b>	<b>65</b>	<b>50</b>	<b>156</b>	<b>192</b>	<b>156</b>	<b>27</b>	<b>74</b>	<b>366</b>
<b>Growth %</b>								
Revenue	24.8	12.7	18.7	19.4	10.2	16.5	17.7	37.0
EBIDTA	(22.6)	(37.3)	19.3	57.5	77.7	9.4	(20.2)	79.6
Adj PAT	(59.0)	325.4	47.5	105.8	140.4	(46.6)	(52.5)	90.7
<b>Margins %</b>								
Gross Margin	39.9	43.4	41.5	43.2	42.1	42.1	41.6	41.6
EBIDTA	4.1	2.4	6.3	7.8	6.6	2.3	4.3	10.2
EBIT	1.2	(0.4)	3.8	5.3	4.2	(0.4)	1.7	8.0
Adj PAT	1.6	1.4	3.7	4.4	3.4	0.6	1.5	6.1
<b>Segmental Breakup</b>								
Home Appliances - Sales	3,437	2,985	3,464	3,625	3,821	3,546	4,093	5,113
YoY Growth (%)	27.9	13.4	19.6	22.0	11.2	18.8	18.2	41.0
Engineering - Sales	688	700	713	768	723	746	824	907
YoY Growth (%)	11.5	9.9	14.3	8.5	5.1	6.6	15.5	18.1
Home Appliances - EBIT	39	18	167	244	205	19	77	463
EBIT Margin (%)	1.1	0.6	4.8	6.7	5.4	0.5	1.9	9.1
Engineering - EBIT	60.5	48.1	50.9	60.5	47.4	44.5	72.5	96.9
EBIT Margin (%)	8.8	6.9	7.1	7.9	6.6	6.0	8.8	10.7

Source: Company, Centrum Research

### Exhibit 7: Assumptions

Assumption Table	FY14	FY15	FY16	FY17	FY18E	FY19E
Home Appliance revenue growth %	11.1	20.9	20.4	17.6	26.6	20.1
Engineering revenue growth %	13.8	33.1	15.1	8.5	12.9	14.9

Source: Company, Centrum Research

## Financials (standalone)

### Exhibit 8: Income Statement

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
<b>Revenue</b>	<b>12,615</b>	<b>15,009</b>	<b>17,407</b>	<b>21,628</b>	<b>25,798</b>
Employee Cost	1,224	1,556	1,659	2,139	2,525
%of revenue	9.7	10.4	9.5	9.9	9.8
Material cost	7108	8607	10054	12671	15032
%of revenue	56.3	57.3	57.8	58.6	58.3
Other expenses	3,417	4,152	4,720	5,457	6,283
% of revenue	27.1	27.7	27.1	25.2	24.4
<b>EBIDTA</b>	<b>866</b>	<b>694</b>	<b>974</b>	<b>1,361</b>	<b>1,959</b>
EBIDTA Margins (%)	6.9	4.6	5.6	6.3	7.6
Depreciation & Amortization	406	454	436	512	572
<b>EBIT</b>	<b>459</b>	<b>241</b>	<b>538</b>	<b>849</b>	<b>1,386</b>
Interest expenses	17	22	32	44	40
<b>PBT for operations</b>	<b>442</b>	<b>219</b>	<b>506</b>	<b>805</b>	<b>1,346</b>
Other income	151	133	112	145	175
Exceptional item	-	-	-	-	-
<b>PBT</b>	<b>593</b>	<b>352</b>	<b>618</b>	<b>950</b>	<b>1,521</b>
Provision for tax	95	38	108	238	380
Effective tax rate (%)	16.1	10.8	17.5	25.0	25.0
<b>Net Profit</b>	<b>497</b>	<b>314</b>	<b>510</b>	<b>713</b>	<b>1,141</b>
<b>Adj Net Profit</b>	<b>497</b>	<b>314</b>	<b>510</b>	<b>713</b>	<b>1,141</b>

Source: Company, Centrum Research Estimates

### Exhibit 9: Key Ratios

Y/E March	FY15	FY16	FY17	FY18E	FY19E
<b>Growth ratios (%)</b>					
Revenues	23.5	19.0	16.0	24.3	19.3
EBIDTA	91.6	(19.8)	40.3	39.7	43.9
Adj Net Profit	130.2	(36.9)	62.5	39.8	60.1
<b>Margin ratios (%)</b>					
EBIDTA Margins	6.9	4.6	5.6	6.3	7.6
PBT from operations Margins	3.5	1.5	2.9	3.7	5.2
PAT Margins	3.9	2.1	2.9	3.3	4.4
<b>Return Ratios (%)</b>					
ROCE	11.4	7.2	10.2	12.6	16.6
RoE	13.7	7.8	11.5	14.2	19.1
RoC	11.0	5.4	10.3	12.0	18.1
<b>Turnover Ratios (Days)</b>					
Gross block turnover ratio(x)	2.7	2.8	3.0	3.3	3.5
Inventory	65	52	49	50	50
Debtors	26	28	29	28	28
Creditors	66	55	55	55	55
Cash conversion cycle	25	25	23	23	23
<b>Solvency Ratio</b>					
Debt-equity	0.1	0.0	0.1	0.0	0.0
Net Debt-equity	(0.2)	(0.1)	(0.1)	(0.1)	(0.2)
Current ratio	1.4	1.4	1.4	1.3	1.4
Interest coverage ratio	26.4	10.8	17.0	19.3	34.7
Gross Debt/EBITDA	0.4	0.2	0.3	0.2	0.1
<b>Per Share (Rs)</b>					
FDEPS (Adjusted)	12.3	7.7	12.6	17.6	28.2
CEPS	22.3	18.9	23.3	30.2	42.3
Book Value	95.5	103.2	115.4	133.0	161.1
Dividend	0.0	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0	0.0
<b>Valuations (x)</b>					
PER	25.8	61.7	34.9	51.1	31.9
P/BV	3.3	4.6	3.8	6.8	5.6
EV/EBIDTA	14.1	27.1	17.6	26.5	18.1
Dividend yield(%)	0.0	0.0	0.0	0.0	0.0
5 Yr Avg AOCF/EV yield %	4.1	2.4	3.1	1.7	2.4

Source: Company, Centrum Research Estimates

### Exhibit 10: Balance Sheet

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Share Capital	413	413	413	413	413
Reserves & Surplus	3,457	3,770	4,263	4,976	6,116
<b>Total Shareholders Funds</b>	<b>3,870</b>	<b>4,183</b>	<b>4,676</b>	<b>5,388</b>	<b>6,529</b>
Loan Funds	345	164	285	222	222
Minority Interest	0	0	0	0	0
Deferred Tax Liabilities	259	258	288	288	288
<b>Total Liabilities</b>	<b>4,473</b>	<b>4,605</b>	<b>5,249</b>	<b>5,899</b>	<b>7,040</b>
Gross Block	5,141	5,541	6,084	7,034	7,834
Less:- Accumulated Depreciation	2,411	2,802	3,034	3,546	4,118
Net Block	2,730	2,739	3,050	3,488	3,716
Capital WIP	57	238	139	139	139
<b>Net fixed assets</b>	<b>2,787</b>	<b>2,977</b>	<b>3,189</b>	<b>3,627</b>	<b>3,855</b>
Investments	517	169	611	811	811
Inventory	2,231	2,144	2,349	2,963	3,534
Receivables	907	1,155	1,382	1,659	1,979
Loans & advances	820	980	1,102	1,298	1,445
Other Assets	2	8	6	6	6
Cash & bank balances	445	482	463	79	794
<b>Total current assets</b>	<b>4,405</b>	<b>4,768</b>	<b>5,302</b>	<b>6,004</b>	<b>7,757</b>
Trade Payables	2,267	2,266	2,631	3,259	3,887
Other current liabilities	643	690	862	889	1,060
provisions	327	352	360	396	435
<b>Net current assets</b>	<b>1,169</b>	<b>1,460</b>	<b>1,449</b>	<b>1,461</b>	<b>2,374</b>
<b>Total</b>	<b>4,473</b>	<b>4,605</b>	<b>5,249</b>	<b>5,899</b>	<b>7,040</b>

Source: Company, Centrum Research Estimates

### Exhibit 11: Cash Flow

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
<b>CF before WC changes</b>	<b>904</b>	<b>745</b>	<b>1,039</b>	<b>1,361</b>	<b>1,959</b>
Working capital changes	66	(165)	29	(396)	(199)
<b>Cash from Operations</b>	<b>824</b>	<b>487</b>	<b>926</b>	<b>727</b>	<b>1,380</b>
Adj. OCF (OCF-Interest)	806	465	894	683	1,340
Net capex	(815)	(658)	(626)	(950)	(800)
Adj. FCF (AOCF-Capex)	(9)	(193)	268	(267)	540
<b>Cash from investing</b>	<b>(903)</b>	<b>(210)</b>	<b>(1,036)</b>	<b>(1,005)</b>	<b>(625)</b>
<b>Cash from financing</b>	<b>(153)</b>	<b>(209)</b>	<b>90</b>	<b>(107)</b>	<b>(40)</b>
<b>Net change in cash</b>	<b>(233)</b>	<b>69</b>	<b>(19)</b>	<b>(384)</b>	<b>715</b>

Source: Company, Centrum Research Estimates

## Appendix A

### Disclaimer

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## IFB Industries price chart



Source: Bloomberg, Centrum Research

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		IFB Industries
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#### Website: [www.centrum.co.in](http://www.centrum.co.in)

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#### Compliance Officer Details:

Kavita Ravichandran  
 (022) 4215 9842; Email ID: [Compliance@centrum.co.in](mailto:Compliance@centrum.co.in)

## Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)

Registered Office Address	Corporate Office & Correspondence Address
Bombay Mutual Building , 2nd Floor, Dr. D. N. Road, Fort, Mumbai - 400 001	Centrum House 6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai 400 098. Tel: (022) 4215 9000