BANYAN series
Growth Without Maintenance

COMPANY UPDATE

WHIRLPOOL OF INDIA

Management sets a bullish tone

India Equity Research| Consumer Durables

Edelweiss
Ideas create, values protect

We recently attended Whirlpool of India's (WHIRL) analyst meet where we interacted with the top brass. Key highlights: a) WHIRL plans to invest more in merchandising, increase promoters on the shop floor, and ad spends would be primarily directed to launch new products, which is well reflected in reducing ad spends & rising trade commissions; and b) SKU launches have seen material traction (up 50%) in past 2-3 years in key segments like refrigerators/washing machines, which remains a focus area. We gain comfort from WHIRL's effective strategies which are already making a significant mark, as visible from strong top-line/OPM growth in past few quarters. We believe the company's vision of achieving 2x top-line by FY20 (implying 16% CAGR over FY16-20) seems achievable given its improving competitive profile. Maintain 'BUY' with revised TP of INR1,760 (INR1,511 earlier) maintaining our 33% premium to sector multiple of 35x, which stands rerated in past 6 months.

Analyst meet: Key highlights

Management set a bullish tone by reiterating their strategic focus on: 1) Brand building by increasing spend on merchandising, 2) Adding promoters on the shop floor; 3) Restricting ad spends for new product launches; and 4) Sprucing up technology/quality by plugging gaps in its product portfolio to gain share in premium category. Along with focus on air, water and cooking product categories for new product launches, WHIRL plans to expand capacity in existing products to meet rising demand by expanding reach (39 vs. 22 branches) and higher extraction from shop floor.

Product, technology, distribution focus to drive 2x sales by FY20E

We expect WHIRL to continue to strengthen its market share across product categories as it reaps technology sourcing benefits from parent (helps improve quality of new products and SKU's). The company's expanding distribution (24k target vs. 18k) and rising extraction from shop floor along with capacity expansion in existing products are likely to boost pan-India sales in turn making the 2x sales target by FY20 achievable.

Outlook and valuations: Rerating ongoing; maintain 'BUY'

We believe with its multilayered strategy to expand capacity (in existing products) and distribution and along with the focus on premium products and new launches, WHIRL will sustain improvement in top line. Maintain **'BUY/SO'**.

Financials

Year to March	FY16	FY17	FY18E	FY19E
Revenues	34,399	39,408	45,825	53,522
Rev. growth (%)	*4.4*	*14.6*	*16.3*	*16.8*
EBITDA	3,835	4,888	5,999	7,284
Adjusted Profit	2,400	3,105	3,902	4,792
Adjusted diluted EPS (INR)	19.0	24.5	30.8	37.8
Diluted P/E (x)	80.1	62.1	49.4	40.2
ROAE (%)	23.1	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 1,521
Target Price	: INR 1,760
52-week range (INR)	: 1,530 / 836
Share in issue (mn)	: 126.9
M cap (INR bn/USD mn)	: 193 / 2,983
Avg. Daily Vol.BSE/NSE('000)	: 74.2

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	10.0	0.6	0.7
3 months	29.9	5.4	7.4
12 months	65.4	28.0	33.6

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Analyst Meet: Key Highlights

Economy:

- According to management, Indian economy is doing extremely well despite being impacted by macro events with one of the key risks being employment generation. Only companies with sound business models have been doing well.
- A stable consumer durables segment is reflection of the economy performing well and improvement in the quality of life.
- Post the 5-6% of GDP growth every 100bps growth will lead to exponential growth for the company, particularly at and after 7%.
- Another aspect benefiting consumer durables industry is the Seventh Pay Commission and OROP which are yet to fully play out and reflect in numbers. Once this happens, a large part of the spending is likely to be discretionary.

Performance:

- Whirlpool posted growth in Q2FY18 despite continuing DeMon and GST-led headwinds with the company tackling the transition very well having geared up for GST implementation 6-8 months in advance.
- On expanded reach and volumes, the company recorded high utilisation levels. Apart from distribution, they launched several new products during the festive season which aided quarter growth.

Strategy:

- **Brand –** The company pulled back on both advertisements and media spends during DeMon and GST (May and June) and instead the company incurred expenditure on the shop floor to hasten execution and thus sales as consumers were out shopping. With launch of some new models, WHIRL resumed its media spends. The company plans to invest more in merchandising on the shop floor and add more promoters at the shops, and the ad spends would be mainly to announce new product launches.
- **Product portfolio –** WHIRL is very strong in the mass premium segment and has opportunity in mass and premium category of products too. The company is likely to expand in this category both for scale and profitability. Thus, the new product launches include semi-automatic washing machines, vita magic direct cool refrigerators, the 400 litres intellimagic refrigerator and 3D cool invertor range ACs.
- **Growth opportunities –** WHIRL is very strong in refrigerators and washing machines, supported by a wide sales and service network which is being expanded continuously. The company also has strong manufacturing and supply capabilities. It will enter/exit categories depending on growth opportunities with a focus on air (ACs, air purifiers), water (water heaters, water purifiers, washing machines) and cooking (built-in kitchen appliances) along with spares and servicing capabilities.
- **Strengthen the foundation** –
    - By expanding both reach & distribution and extraction from shop floor. WHIRL has been able to achieve this by: 1) Expanding its reach - 39 branches YTD from 22 in FY16;, 2) Increasing the number of owners who can better convince customers to buy the products; and 3) Adding more merchandise on the shop floor.

- On product front, WHIRL's focus is on improving product quality in terms of performance and cost of maintaining the product. It is also expanding manufacturing, along with enhancing presence in the premium range.
- On technology front, the target is to become a future ready organisation where they continue to innovate.

Other highlights:

- **Guidance –** Management guided for double digit growth in FY18 and growth ahead of industry
- **Pain points**
  - **Internal -** Large amount of capex which the company hasn't incurred in past few years and was pushing productivity. However, plans are afoot to ramp up capex by 50% and further increase capex over next 3 years.
  - **External -** Economy related headwinds like raw material procurement, etc.
- **Use of cash**
  - **Acquisitions** - Will continue to evaluate acquisition opportunities
  - **Dividend** - WHIRL started paying dividend from FY17
  - **Organic growth** - Spend on products in terms of technology and capacity
- **Acquisitions and launches**
  - **Kitchenaid** - Launched *Kitchenaid* earlier this year which is a super-premium brand and is double the price of WHIRL appliances
  - **Indiset -** WHIRL had acquired Indiset in 2014 which has manufacturing facilities in Europe and WHIRL sources front load washing machines and built-in appliances from there.
  - Key product gaps are mostly in the premium range and will continuously expand adjacent products. Currently, premium products account for 10-15% of every segment.
  - The company made large acquisition in China and will look at global sourcing of raw materials from there.
- **Industry growth trend**

  Industry has been growing in double digits with growth in refrigerators better than washing machines;
  - In washing machines, semi-automatics are growing faster than fully-automatics with increasing penetration and rural demand, demand for front loaders is also increasing;
  - In refrigerators, direct cool is growing faster than frost-free refrigerators, which are seeing more growth in the premium category.
- **Exports –** WHIRL has exports opportunity for kitting of semi-automatic Washing machines into Sri Lanka and Africa and for refrigerators in Philippines and SEA and services are provided to whirlpool global and other entities.
- **Capex –** Capacity expansion on direct cool refrigerators, top loader and semi-automatic washing machines. On being asked whether the company is looking at setting up a factory at another location, management stated they have 3 plants with the best geographic spread and there's enough space to expand without a new unit.
- **Refrigerators' penetration** - 20% out of which 40% is urban and rural is 8%.

- **Tax rate** - Post GST tax rate increased 1.5%
- **Procurement and Hedging** - Commodity and currency impact has been managed very well.
- **Rural Growth** - As long as the economy continues to grow at 7% the company is likely to see exponential growth. With the government's focus sharpening on improving infrastructure, rural is expected to grow faster than the metros. Ergo, see significant expansion at bottom of the pyramid where there is a discerning consumer, which makes it a great opportunity for the company with 80% of demand coming from first time buyers and not replacement buyers (20%).

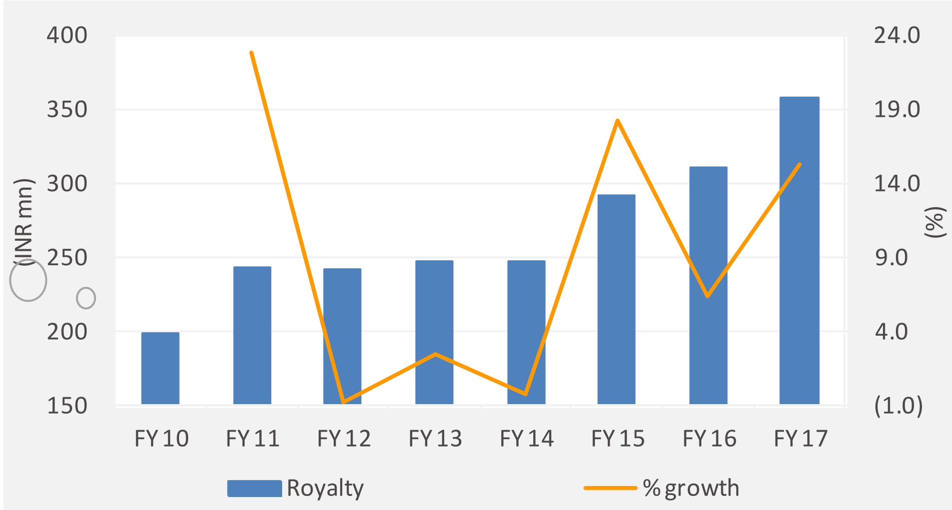
Rising technology transfer from parent, upping its technological ante

WHIRL has a strong market share in mass premium products in India. With its technological prowess in appliances, the company has been instrumental in providing products with additional features (versus peers) at similar price range versus competitors. Also, consumer inspired features of WHIRL's products (auto defrost and active deodorant in refrigerators) attributable to intense focus on technology makes it a preferred brand among consumers especially in direct cool refrigerators and top-load washing machines as per our channel checks.

We believe with its sustained focus on technology, which is visible from the increasing royalty spend WHIRL is expected to reap rising benefits of the technology sourced from parent company. This will further help improve market share in the mass premium category of products, which would help enhance presence in premium and mass range of products.

WHIRL to reap increasing benefits of the technology sourced from parent as visible from increasing royalty spend

Chart 1: Increasing royalty spend with rise in technology borrowing from parent



Source: Company, Edelweiss research

Fig 1: Focus on technology making WHIRL the preferred brand

Active Deo - Integrated at the bottom of the Freshflow air tower, the effective anti-odour action of active deo keeps the refrigerator environment fresh and odour-free.

Auto Defrost – The auto defrost option in the vita magic Whirlpool refrigerator along with other features makes it the best seller.

Additional features - 12 wash programmes (versus 8 wash programmes in competitors) along with built-in heater makes *WHIRL 360* degree washing machines better than the front-load washing machines.

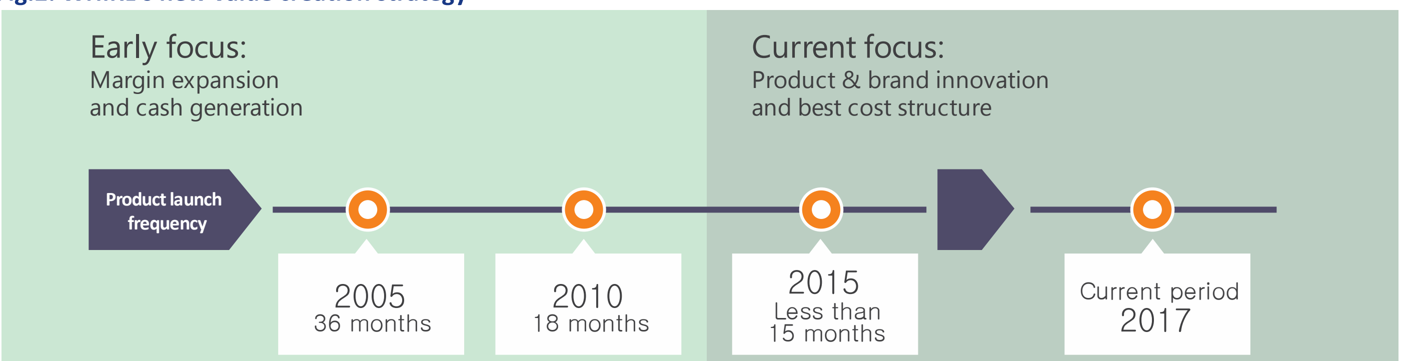
Source: Company, Edelweiss research

Value creation: Filling product gaps (SKUs up 50%), capacity expansion

WHRIL has perpetuated its emphasis on strengthening market share in the mass premium and premium categories. The company plans to achieve this by continuously expanding adjacencies as it fills gaps in its product profile (launched 4 new SKU's recently) with gaps currently seen only in its premium range of products. Also, with the company's focus on air (ACs, air purifiers), water (water heaters, water purifiers, washing machines) and cooking (built-in kitchen appliances), it plans to launch new products sourced from its European manufacturing entity.

Plans are also afoot to expand capacity in direct cool refrigerators, top loaders and semi-automatic washing machines to cater to the increasing demand. This rise in demand is likely to be mainly from rural areas fuelled by the government's focus on improving infrastructure. This provides humungous opportunity for the company with 80% of demand coming from first-time buyers and not replacement buyers (20%).

Fig.2: WHIRL's new value creation strategy

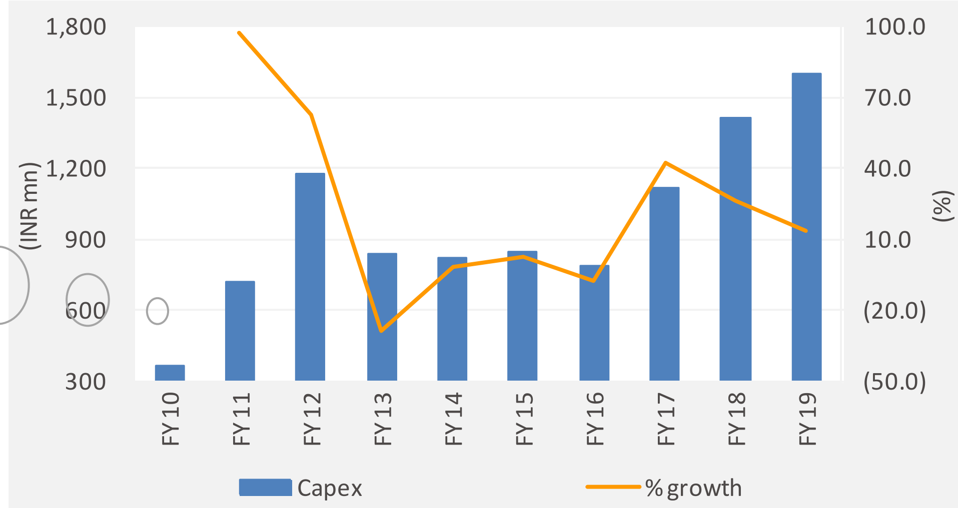


	SKUs before 2016	SKUs Launched in 2016 & 17	Total SKUs
Refrigerator	46	20	66
Washing machine	20	9	29
ACs	19	15	34

Source: Company, Edelweiss research

WHIRL plans to expand capacity in direct cool refrigerators, top-loaders and semi-automatic washing machines to cater to the increasing demand along with capex for manufacture of new products

Chart 2: WHIRL to enhance capex for capacity expansion and new products



Source: Company, Edelweiss research

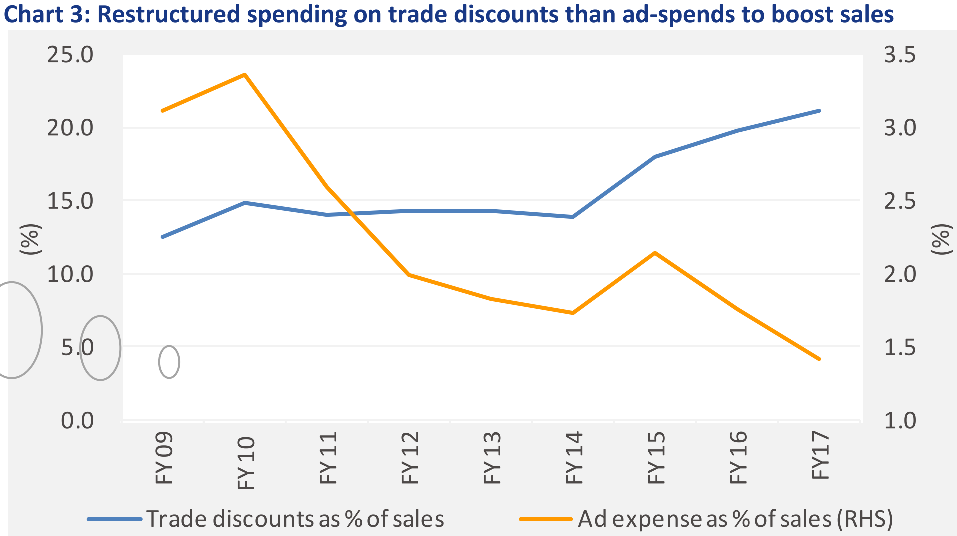
Distribution network expansion (24k vs. 18k) to boost pan-India sales

Two-third of WHIRL's total revenue is generated from urban population, which further increased post demonetisation. The company intends to have pan-India sales by expanding its reach and distribution network and increasing extraction from the shop floor. Accordingly, it expanded its branches to 39 from 22 in FY17 and increased the owners across shop floors (who can better convince customers to buy products), and restricting its ad-spends only for new product launches.

WHIRL's better and revamped focus is clearly evident from its declining ad-spends along with sharp rise in trade discounts in past 2 years - increased from 13% in FY14 to 21% levels in FY17.

WHIRL plans to make more investments towards adding more promoters on the shop floor and restrict ad spends primarily to announce new product launches - well reflected in reducing ad spends & rising trade commissions

Chart 3: Restructured spending on trade discounts than ad-spends to boost sales



Source: Company, Edelweiss research

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	730	972	1,100
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 Equivalents	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

Year to March	FY16	FY17	FY18E	FY19E
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)	80.1	62.1	49.4	40.3
P/B (x)	16.5	13.0	10.3	8.2
EV / Sales (x)	5.4	4.6	3.9	3.2
EV / EBITDA (x)	48.1	37.3	29.7	23.7

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	2.66
Aditya birla sun lif	1.66	Kotak mahindra	0.87
Hdfc asset managemen	0.86	Jupiter inv mgmt gro	0.78
Vanguard group	0.72	Sundaram asset manag	0.71
Goldman sachs group	0.69	Icici prudential ass	0.57

**in last one year*

Bulk Deals

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

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
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
14-Nov-17	**KEI Industries**	Robust growth despite GST headwind; bright prospects; *Result Update*	329	Buy
09-Nov-17	**Bajaj Electricals**	RREP focus dents revenue; BS improvement positive; *Result Update*	384	Hold
07-Nov-17	**Finolex Cables**	Outperformance amid challenges; *Result Update*	617	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 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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