

Valuation offer little comfort

We maintain our Hold rating on IFB Industries with a revised TP of Rs1165 (30x FY20E EPS). We believe the positive of new models/launches in washing machine category, strong distribution led volume growth coupled with margin expansion is factored in the valuations and offer limited upside. Further more than 30% of the operating profit is from engineering division which would command lower valuation given its high capex and lower return ratios. However we believe the positives of entry in the refrigerator category is yet to be factored in our estimates as we remain conservative given the product failure 3 years back. Price hike in June'18 on the back of Rupee depreciation and RM cost inflation gives us comfort on sustenance of gross margins.

- **Q4FY18 result ahead of expectations:** Revenue growth was 22% to Rs5,231mn (4.2% above expectation) on healthy 19.4% YoY growth in the home appliances division and 35% YoY growth in the engineering division. Operating profit was up 227% to Rs377mn as operating margins expanded to 7.2%. EBIT margin in the home appliance division was 5.2%, while engineering division's margin was 12.2%. PAT was at Rs207mn, up 413% YoY. In FY18, revenue growth was 23.4% to Rs21.5bn while operating profit was up 51.5% to Rs1565mn while PAT was at Rs832mn (up 51%).
- **New launches to boost volume growth:** New models to be introduced in FY19 in the front load washing machine focussing on AI and IoT capabilities, water and energy efficiencies coupled with interface designs would help drive volume growth while introduction of 6kg model in the top load washing machine gives management the confidence to guide for 25K-30K units/month from H2FY19. Company plans to introduce the washer dryer combination model in Q4FY19 which is a growing category to boost sales. Increasing market share in the microwave category to 21% as volume was up 35% in FY18 would further boost sales in FY19E. AC category posted a 20% volume growth in FY18 which we believe would be better in FY19 on new launches and distribution expansion. Pilot/Field testing of refrigerator is on track and expected to be launched in FY19 which would further add to revenues.
- **Price hike to mitigate increase in RM cost:** Company has taken ~3-4% price increase in washing machine category from 1st June'18 to mitigate the impact of depreciating Rupee and increase in RM cost. They further plan to increase prices in other products in next couple of months. The benefit in gross margin expansion as witnessed in FY18 is expected to continue on product mix change, new launches coupled with localisation benefit. Further the engineering division would continue to grow by 20%+ YoY leading to higher operating margin as this division has superior margins and profitability. We believe the other expenses would grow marginally in FY19E on the back of increase in counter sales representatives.
- **Maintain Hold:** We have marginally increased our revenues by 1.4%/3.1% for FY19E/FY20E on higher volumes in washing machine while operating profit has been increased by 1.3%/2.2% over same period on topline growth. PAT is increased by 1.7%/1.9%. We maintain our Hold rating on the stock with a revised TP of Rs1165 (30x FY20E EPS). Key downside risk would be depreciation of Rupee and higher RM cost.

Y/E Mar (Rsmn)	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	Q4FY18E	Var (%)
Net Sales	5,231	4,292	21.9	5,317	(1.6)	5,021	4.2
COGS	2,809	2,485	13.1	2,851	(1.5)	2,737	2.6
Employee Expenses	515	437	17.9	550	(6.4)	525	(1.9)
Admin & Other Exp	1,530	1,255	21.9	1,550	(1.3)	1,500	2.0
EBITDA	377	116	226.8	366	3.1	260	45.3
EBITDA margin (%)	7.2	2.7	452 bps	6.9	33 bps	5.2	204 bps
Depreciation	129	114		132		135	
Other Income	75	41		42		40	
Interest	10	11		11		11	
PBT	314	31	898.4	266	18.0	154	104.0
Tax	107	(9)		79		45	
Adjusted PAT	207	40	412.9	186	11.0	109	89.4

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBIDTA	EBIDTA (%)	Adj PAT	YoY (%)	FDEPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBIDTA (x)
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	1,033	5.9	551	75.8	13.6	12.4	11.2	32.2	16.6
FY18	21,485	23.4	1,566	7.3	832	51.0	20.5	16.2	15.0	46.4	23.7
FY19E	26,209	22.0	2,063	7.9	1,138	36.7	28.1	18.6	17.0	40.1	21.2
FY20E	31,039	18.4	2,736	8.8	1,570	37.9	38.7	21.0	18.9	29.0	15.4

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	Rs1,165	Key Data	
CMP*	Rs1,115	Bloomberg Code	IFBI IN
Upside	4%	Curr Shares O/S (mn)	40.5
Previous Target	Rs1,140	Diluted Shares O/S(mn)	40.5
Previous Rating	Hold	Mkt Cap (Rsbn/USDmn)	45.2/672.7
Price Performance (%)*		52 Wk H / L (Rs)	1547/628.8
	1M 6M 1Yr	5 Year H / L (Rs)	1547/38.4
IFBI IN	(7.4) (21.3) 73.9	Daily Vol. (3M NSE Avg.)	23233
Nifty	(0.2) 4.7 9.5		

*as on 5 June 2018; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Mar-18	Dec-17	Sep-17	Jun-17
Promoter	75.0	75.0	75.0	75.0
FIs	8.3	8.3	5.5	2.4
DIs	2.5	2.9	6.8	9.3
Others	14.2	13.8	12.8	13.3

Source: BSE, *as on 5 June 2018

Earning Revision

Particulars (Rs mn)	FY19E			FY20E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	26,209	25,847	1.4	31,039	30,117	3.1
EBITDA	2,063	2,037	1.3	2,736	2,678	2.2
Ebitda margin (%)	7.9	7.9	(1) bps	8.8	8.9	(8) bps
PAT	1,138	1,119	1.7	1,570	1,541	1.9

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs mn)	FY19E			FY20E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Sales	26,209	26,301	(0.3)	31,039	31,885	(2.7)
EBITDA	2,063	2,325	(11.2)	2,736	3,182	(14.0)
PAT	1,138	1,332	(14.5)	1,570	1,961	(20.0)

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
3	0	1	1,345	1,165	(13.4)

*as on 5 June 2018; Source: Bloomberg, Centrum Research Estimates

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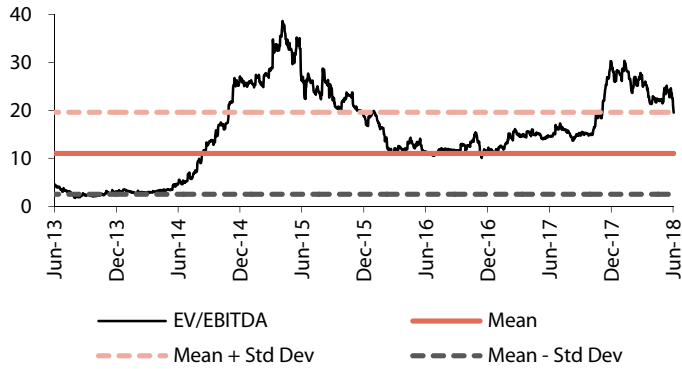
Valuation

Exhibit 1: Sensitivity Analysis

Sensitivity to key variables	% change	% impact on EBITDA	% impact on EPS
Home Appliances – Domestic Manufacturing	1	1.2	1.5
RM Cost	1	(3.6)	(5.1)

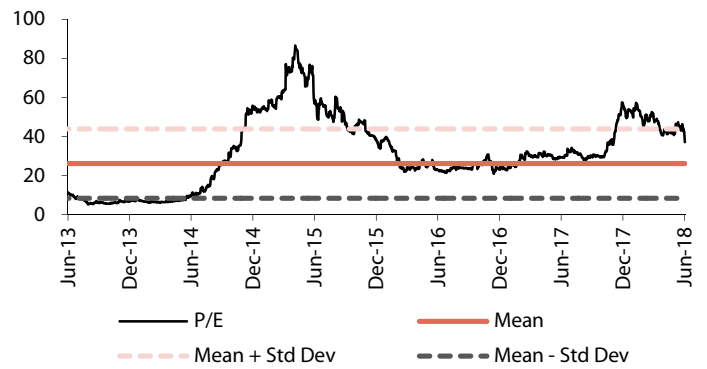
Source: Centrum Research Estimates

Exhibit 2: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 3: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 4: Comparative Valuations

Company	Mkt Cap (Rs mn)	CAGR FY18-FY20E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
IFB Industries*	45,189	20.2	32.2	37.3	7.3	7.9	8.8	46.4	40.1	29.0	23.7	21.2	15.4	16.2	18.6	21.0	0.0	0.0	0.0
Whirlpool of India	67,904	14.5	23.9	28.3	8.7	9.1	10.1	56.9	54.4	39.3	30.4	28.8	22.3	21.5	21.1	23.7	0.1	0.1	0.1
Hitachi Home	1,96,918	17.8	25.0	25.3	11.6	12.4	13.0	47.2	44.1	36.0	28.3	26.4	21.5	21.6	22.6	22.8	0.3	0.3	0.3
Symphony	98,800	14.6	18.0	20.0	27.0	28.5	28.6	53.0	42.0	34.5	43.3	35.0	28.7	37.7	34.5	34.0	0.6	0.7	0.9

Source: Bloomberg consensus, Companies; *Centrum Research Estimates

Quarterly financials, Operating Metrics and Key Performance Indicators

Exhibit 5: Quarterly Financials (standalone)

Y/E Mar (Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Total Income	4,177	4,394	4,544	4,292	4,917	6,020	5,317	5,231
COGS	2,442	2,494	2,633	2,485	2,871	3,514	2,851	2,809
Staff cost	386	392	400	437	516	530	550	515
Admin & other expenses	1,086	1,166	1,198	1,255	1,321	1,362	1,550	1,530
Total Expenditure	3,915	4,052	4,231	4,176	4,708	5,406	4,952	4,854
EBITDA	262	342	314	116	209	613	366	377
Depreciation	105	109	108	114	125	129	132	129
EBIT	157	232	206	2	84	485	234	249
Interest	7	14	12	11	11	11	11	10
Other Income	18	44	26	41	34	33	42	75
Exceptional Item	0	0	0	0	0	0	0	0
PBT	167	263	220	31	107	507	266	314
Total tax	12	71	57	-9	34	141	79	107
Reported PAT	156	192	163	40	74	366	186	207
Adj PAT	156	192	163	40	74	366	186	207
Growth %								
Revenue	18.7	19.4	10.2	16.5	17.7	37.0	17.0	21.9
EBIDTA	19.3	57.5	86.9	28.0	(20.2)	79.6	16.7	226.8
Adj PAT	47.5	105.8	151.7	(19.7)	(52.5)	90.7	14.2	412.9
Margins %								
Gross Margin	41.5	43.2	42.1	42.1	41.6	41.6	46.4	46.3
EBIDTA	6.3	7.8	6.9	2.7	4.3	10.2	6.9	7.2
EBIT	3.8	5.3	4.5	0.0	1.7	8.0	4.4	4.8
Adj PAT	3.7	4.4	3.6	0.9	1.5	6.1	3.5	4.0
Segmental Breakup								
Home Appliances - Sales	3,464	3,625	3,821	3,546	4,093	5,113	4,358	4,234
YoY Growth (%)	19.6	22.0	11.2	18.8	18.2	41.0	14.0	19.4
Engineering - Sales	713	768	723	746	824	907	959	1008
YoY Growth (%)	14.3	8.5	5.1	6.6	15.5	18.1	32.7	35.0
Home Appliances - EBIT	167	244	212	34	77	463	207	221
EBIT Margin (%)	4.8	6.7	5.5	0.9	1.9	9.1	4.8	5.2
Engineering - EBIT	50.9	60.5	54.6	44.5	72.5	96.9	105.9	123.4
EBIT Margin (%)	7.1	7.9	7.6	6.0	8.8	10.7	11.0	12.2

Source: Company, Centrum Research

Exhibit 6: Assumptions

Assumption Table	FY15	FY16	FY17	FY18	FY19E	FY20E
Home Appliance revenue growth %	20.9	20.4	17.6	23.0	22.1	18.7
Engineering revenue growth %	33.1	15.1	8.5	25.4	21.4	16.9

Source: Company, Centrum Research

Financials (standalone)

Exhibit 7: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	15,009	17,407	21,485	26,209	31,039
Employee Cost	1,556	1,615	2,111	2,491	2,890
%of revenue	10.4	9.3	9.8	9.5	9.3
Material cost	8607	10054	12045	14651	17387
%of revenue	57.3	57.8	56.1	55.9	56.0
Other expenses	4,152	4,705	5,763	7,004	8,026
% of revenue	27.7	27.0	26.8	26.7	25.9
EBIDTA	694	1,033	1,566	2,063	2,736
EBIDTA Margins (%)	4.6	5.9	7.3	7.9	8.8
Depreciation & Amortization	454	436	514	530	584
EBIT	241	597	1,052	1,533	2,152
Interest expenses	22	44	43	44	38
PBT for operations	219	554	1,009	1,489	2,114
Other income	133	128	185	185	195
Exceptional item	-	-	-	-	-
PBT	352	682	1,193	1,674	2,309
Provision for tax	38	131	361	536	739
Effective tax rate (%)	10.8	19.1	30.2	32.0	32.0
Net Profit	314	551	832	1,138	1,570
Adj Net Profit	314	551	832	1,138	1,570

Source: Company, Centrum Research Estimates

Exhibit 8: Key Ratios

Y/E March	FY16	FY17	FY18	FY19E	FY20E
Growth ratios (%)					
Revenues	19.0	16.0	23.4	22.0	18.4
EBIDTA	(19.8)	48.7	51.6	31.8	32.6
Adj Net Profit	(36.9)	75.8	51.0	36.7	37.9
Margin ratios (%)					
EBIDTA Margins	4.6	5.9	7.3	7.9	8.8
PBT from operations Margins	1.5	3.2	4.7	5.7	6.8
PAT Margins	2.1	3.2	3.9	4.3	5.1
Return Ratios (%)					
ROCE	7.2	11.2	15.0	17.0	18.9
RoE	7.8	12.4	16.2	18.6	21.0
RoC	5.4	11.2	17.7	21.6	30.4
Turnover Ratios (Days)					
Gross block turnover ratio(x)	2.8	3.0	3.4	3.8	4.0
Inventory	52	49	53	52	52
Debtors	28	29	29	29	29
Creditors	55	55	62	58	58
Cash conversion cycle	25	23	20	23	23
Solvency Ratio					
Debt-equity	0.0	0.1	0.0	0.0	0.0
Net Debt-equity	(0.1)	(0.1)	(0.3)	(0.3)	(0.4)
Current ratio	1.4	1.4	1.3	1.4	1.5
Interest coverage ratio	10.8	13.7	24.5	34.8	56.6
Gross Debt/EBITDA	0.2	0.3	0.1	0.1	0.1
Per Share (Rs)					
FDEPS (Adjusted)	7.7	13.6	20.5	28.1	38.7
CEPS	18.9	24.4	33.2	41.2	53.2
Book Value	103.2	116.4	137.0	165.1	203.8
Dividend	0.0	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0	0.0
Valuations (x)					
PER	61.7	32.2	46.4	40.1	29.0
P/BV	4.6	3.8	7.0	6.8	5.5
EV/EBIDTA	27.1	16.6	23.7	21.2	15.4
Dividend yield(%)	0.0	0.0	0.0	0.0	0.0
5 Yr Avg AOCF/EV yield %	2.4	3.1	1.9	2.0	2.6

Source: Company, Centrum Research Estimates

Exhibit 9: Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
Share Capital	413	413	413	413	413
Reserves & Surplus	3,770	4,304	5,137	6,275	7,845
Total Shareholders Funds	4,183	4,717	5,550	6,688	8,258
Loan Funds	164	285	141	141	141
Minority Interest	0	0	0	0	0
Deferred Tax Liabilities	258	247	53	53	53
Total Liabilities	4,605	5,249	5,743	6,881	8,451
Gross Block	5,541	6,084	6,486	7,286	8,086
Less:- Accumulated Depreciation	2,802	3,034	3,548	4,078	4,662
Net Block	2,739	3,050	2,938	3,208	3,424
Capital WIP	238	139	67	67	67
Net fixed assets	2,977	3,189	3,006	3,275	3,491
Investments	169	611	1263	1263	1263
Inventory	2,144	2,349	3,107	3,734	4,422
Receivables	1,155	1,382	1,723	2,082	2,466
Loans & advances	980	1,102	1,085	1,101	1,148
Other Assets	8	6	5	5	5
Cash & bank balances	482	463	677	1,138	2,383
Total current assets	4,768	5,302	6,598	8,060	10,425
Trade Payables	2,266	2,631	3,664	4,165	4,932
Other current liabilities	690	862	1,001	1,048	1,242
Provisions	352	360	458	504	555
Net current assets	1,460	1,449	1,475	2,343	3,697
Total	4,605	5,249	5,743	6,881	8,451

Source: Company, Centrum Research Estimates

Exhibit 10: Cash Flow

Y/E March (Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
CF before WC changes	745	1,039	1,566	2,063	2,736
Working capital changes	(165)	29	188	(408)	(108)
Cash from Operations	487	926	1,199	1,120	1,889
Adj. OCF (OCF-Interest)	465	882	1,156	1,076	1,851
Net capex	(658)	(626)	(331)	(800)	(800)
Adj. FCF (AOCF-Capex)	(193)	257	825	276	1,051
Cash from investing	(210)	(1,036)	(798)	(615)	(605)
Cash from financing	(209)	90	(187)	(44)	(38)
Net change in cash	69	(19)	214	461	1,246

Source: Company, Centrum Research Estimates

Appendix A

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IFB Industries price chart



Source: Bloomberg, Centrum Research

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