



# Whirlpool India

Sector: Consumer Durable

## Q3FY18 Result Update

CMP: ₹ 1,446

*“Strong Sales growth, Margin contracts ”*

Recommendation: BUY

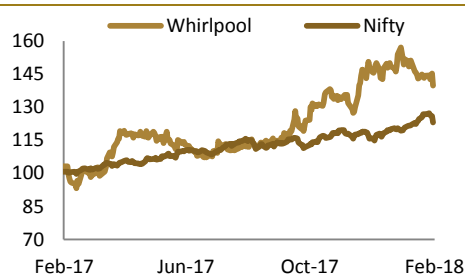
### Market statistics

Current stock price (₹)	1,446
Shares O/S (cr.)	12.7
Mcap (₹cr)	18,344
52W H/L (₹)	1,680/945
6m avg. volume	63,882
Bloomberg	WHIRL IN

### Shareholding pattern

Promoters	75.00
Domestic Institution	9.68
Foreign Institution	5.01
Non-institution	10.31
of which more than 1%	
Franklin Templeton Mutual Fund	2.52
Aditya Birla Sun life Trustee pvt ltd	1.28

### Whirlpool vs Nifty



### Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
ROE (%)	20.8	20.7	21.3
ROCE (%)	24.7	25.7	27.2
P/B(x)	8.9	9.9	7.8
P/E(x)	42.7	47.7	36.5
EPS (₹)	24.3	30.6	40.0
EV/OCF (x)	31.2	34.0	26.1

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**Whirlpool reported moderate Q3FY18 performance. Net sales showed strong growth 18.3%YoY to Rs 9,580mn.**

**Gross margin contracted by 206bps to 41.3%. Employee expenses & other expenses moved by -109bps & 14ps YoY % of sales in Q3FY18. Hence, EBITDA margin contracted by 110bps to 9.3% YoY. EBITDA grew by 5.7%YoY. ETR was higher at 36.3% vs 32% in Q3FY18. Other income grew healthy by 12%. APAT (including other comprehensive income) saw 4.3% decline to ₹538mn in Q2FY18.**

**Strong Q2FY18 sales, new launches across segments support topline:** Whirlpool delivered strong sales growth of 18.3% ahead of our expectation. Company continue to add new SKU's in every segment to cater from mass to premium audience. **In Refrigerators segment**, Whirlpool has ~67SKU's & price point starting from 25K to 1.5lac. This resembles, whirlpool refrigerators portfolio covers entire spectrum from mass to super premium category. Whirlpool continues to focus to gain foothold in front loading machines (accounts 20-25% of market). **In Washing machines segment**, Whirlpool has currently ~28SKU's with 23 SKU's in top load and remaining front load ranging from 10K to 47K. By entering into front load, whirlpool aims to plug in the portfolio gap in washing machine segment which it was not earlier present. Company has proactively taken steps to capture the cooling segment by launching premium **side Split AC** in the quarter. AC sales contributed ~13% of sales in FY17; we believe AC would become significant segment in coming years for Whirlpool. Currently they have 20 SKU's in Split ranging from 31K to 52K. Interesting to note they are not only focused on this three large categories but are trying to enhance their small segments by launching new products like 1) Air-purifiers 2) Microwave oven 3) Built in coffee machines: 4) Cooker Hoods 5) Wall Mounted hoods 7) Built in Dishwashers 8) They have also launched built in refrigerators, wine coolers, water purifiers & stackable washer and dryers. We are confident that the company can report healthy sales growth in the coming quarters backed by new launches, effective marketing initiatives and improvement in macroeconomic drivers.

**If Economy Improves, Whirlpool Can Deliver Far Superior Growth:** We have analyzed Whirlpool's last 14 years of performance and compared with GDP growth rate. We found that in strong GDP growth rate, Whirlpool has witnessed superior growth of 2-3x of GDP growth as compared to <1x growth in the slowing GDP. With anticipation of improving economy, we expect Whirlpool can replicate its ability to accelerate growth rates backed by its diversified product portfolio, solid distribution network, aggressive marketing efforts & new launches.

### Outlook & Valuation:

Although Whirlpool's long term historical growth rate is not very encouraging as compared to high growth displayed by other CD companies. However, Whirlpool's rich experience in the Indian market along with balanced product portfolio gives us confidence that the company can show healthy sales growth going ahead. In contrast to global market, India has one of the lowest penetrations levels for the large home appliances. Whirlpool has long presence in the Indian market and has played critical part for developing home appliances market in India.

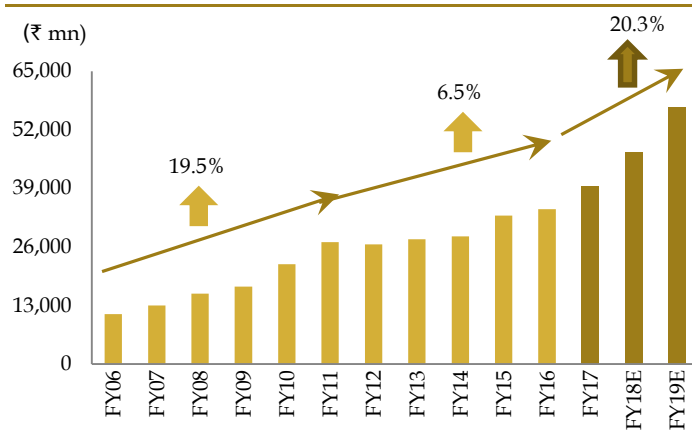
Therefore, Whirlpool can be viewed as a good long term investment stock on account of (1) India's improving economy, (2) Low penetration for large home appliances in India, (3) Whirlpool's strong hold in the mid-price segment, (4) Whirlpool's potential entry in new categories, (5) Debt free company and (6) Advantage of rich experience & size in the listed peers. **Valuation:** The stock trades at a P/E of 47.7& 36.5x of FY18& FY19 estimated EPS. We expect robust earnings performance would continue to drive the stock going ahead too. **We maintain BUY rating.**



**Exhibit 1: Key Highlight of Quarterly Performance**

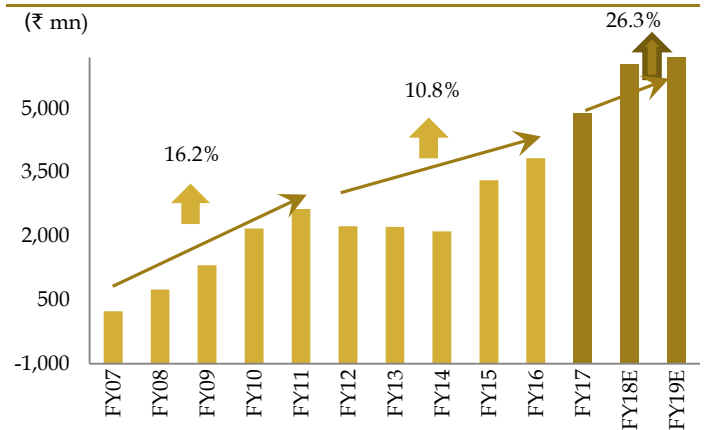
Particulars (₹mn)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
<b>Total Revenue</b>	<b>8,029</b>	<b>8,485</b>	<b>12,727</b>	<b>8,434</b>	<b>8,102</b>	<b>10,146</b>	<b>14,640</b>	<b>11,597</b>	<b>9,580</b>
YoY Growth (%)	11.3	9.4	17.3	19.9	0.9	19.6	15.0	37.5	18.3
Gross Profit	3,190	3,617	4,843	3,738	3,512	4,213	5,257	4,568	3,956
Gross Margin (%)	39.7	42.6	38.1	44.3	43.3	41.5	35.9	39.4	41.3
YoY bps	-6bps	-83bps	-3bps	34bps	361bps	-110bps	-215bps	-493bps	-206bps
Employee Expenses	1,016	951	1,038	1,018	1,034	1,027	1,110	1,215	1,118
YoY Growth (%)	32.4	14.1	14.2	7.0	1.8	8.0	7.0	19.4	8.1
% of sales	12.7	11.2	8.2	12.1	12.8	10.1	7.6	10.5	11.7
YoY bps	202bps	46bps	-22bps	-146bps	11bps	-108bps	-57bps	-159bps	-109bps
Other Expenses	1,523	1,600	1,903	1,824	1,635	1,941	2,040	2,218	1,946
YoY Growth (%)	(2.4)	(6.4)	11.9	17.7	7.3	21.3	7.2	21.6	19.1
% of sales	19.0	18.9	15.0	21.6	20.2	19.1	13.9	19.1	20.3
YoY bps	-266bps	-319bps	-72bps	-40bps	121bps	27bps	-102bps	-250bps	14bps
<b>EBITDA</b>	<b>652</b>	<b>1,066</b>	<b>1,903</b>	<b>897</b>	<b>843</b>	<b>1,246</b>	<b>2,107</b>	<b>1,135</b>	<b>891</b>
YoY Growth (%)	19.8	28.9	24.9	51.1	29.4	16.8	10.7	26.6	5.7
EBITDA Margin (%)	8.1	12.6	15.0	10.6	10.4	12.3	14.4	9.8	9.3
YoY bps	58bps	190bps	91bps	220bps	229bps	-29bps	-56bps	-85bps	-110bps
<b>PBT</b>	<b>574</b>	<b>999</b>	<b>1,850</b>	<b>861</b>	<b>815</b>	<b>1,159</b>	<b>2,029</b>	<b>1,140</b>	<b>834</b>
YoY Growth (%)	24.6	37.9	27.6	58.0	42.0	16.0	9.7	32.5	2.2
Total Tax	187	306	630	273	261	415	702	406	302
Effective tax rate (%)	33	31	34	32	32	36	35	36	36
<b>Reported PAT</b>	<b>387</b>	<b>693</b>	<b>1,220</b>	<b>587</b>	<b>554</b>	<b>744</b>	<b>1,327</b>	<b>735</b>	<b>531</b>
YoY Growth (%)	22.8	25.3	26.0	64.3	43.1	7.4	8.8	25.1	(4.1)
<b>Adjusted PAT</b>	<b>388</b>	<b>685</b>	<b>1,215</b>	<b>591</b>	<b>562</b>	<b>714</b>	<b>1,326</b>	<b>718</b>	<b>538</b>
YoY Growth (%)	23.1	23.9	27.5	71.8	44.8	4.2	9.2	21.5	(4.3)

**Exhibit 2: Sales Performance**



Source: Company, Trust

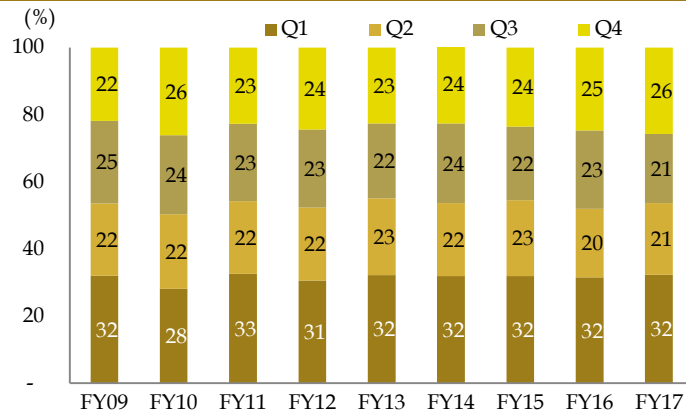
**Exhibit 3: EBITDA Performance**



Source: Company, Trust

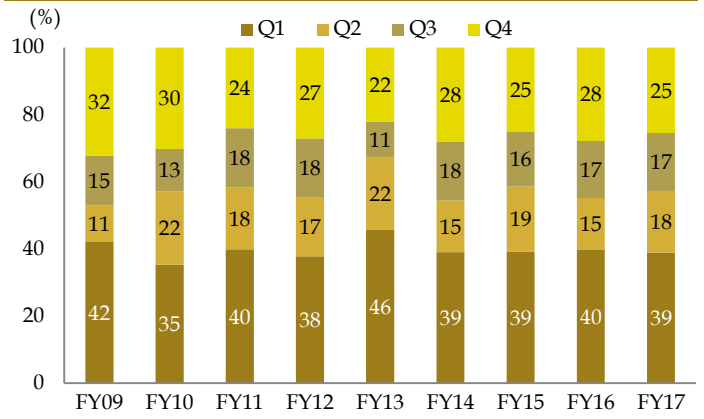


**Exhibit 4: Quarterly Sales Mix**



Source: Company, Trust

**Exhibit 5: Quarterly EBITDA Mix**



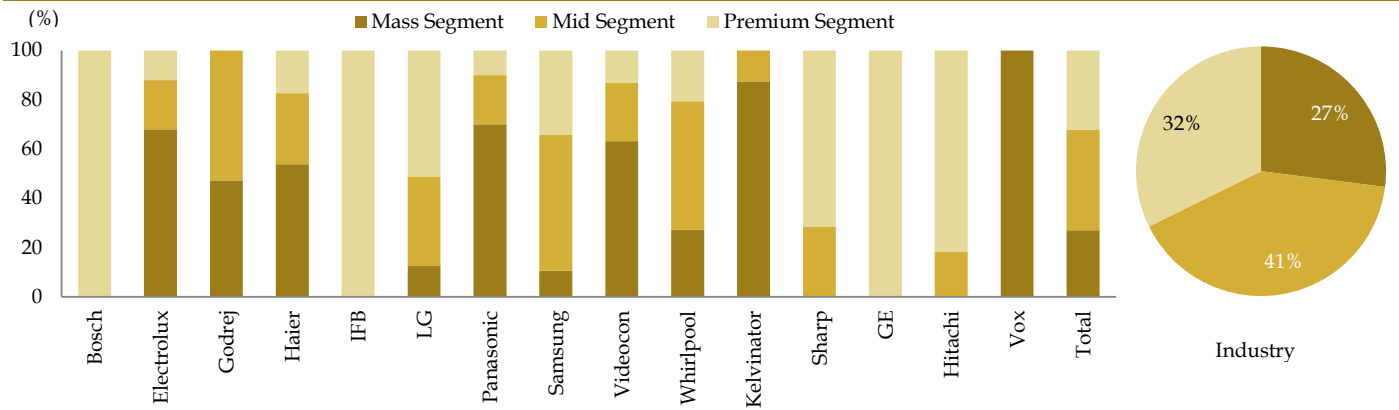
Source: Company, Trust

### Competitive Positioning in Refrigerator

Refrigerator category is ~₹130bn market largely dominated by LG, Samsung, Videocon, Godrej & Whirlpool with combined market share of >80%. LG is the lead player with >25% market share followed by Samsung. Whirlpool is largely present in the mass & mid segment of the refrigerator category with few products in the premium segment. Whirlpool is having one of the highest product offering in the refrigerator category with +180 products. Whirlpool’s refrigerator price range starts from +₹10,000 (less than ₹10,000 range is catered by Videocon, Electrolux & Kelvinator) to +₹75,000 (strong competition from LG, Samsung, Bosch, Sharp & Hitachi). Whirlpool is stronger in the economy segment and direct-cool refrigerator contributes 75% as compared to industry average of 70%. Frost Free refrigerator is gaining share and reached to ~30% as compared to 10% 5 years back, therefore, Whirlpool would have to focus more for frost free segment.

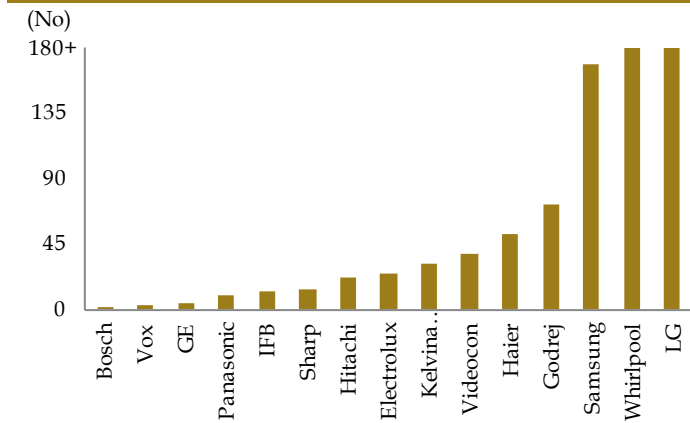


**Exhibit 6: Product Price Segmentation: Industry prefers mid segment (₹15,000-₹30,000)...**



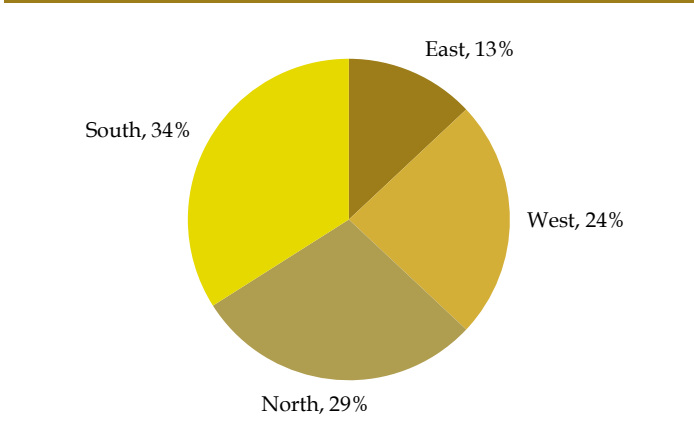
Source: Snapdeal.com, Trust  
 Note: Mass Segment: <₹15,000 | Mid Segment: +₹15,000-₹30,000 | Premium Segment: >₹30,000

**Exhibit 7: Product-wise Comparison**



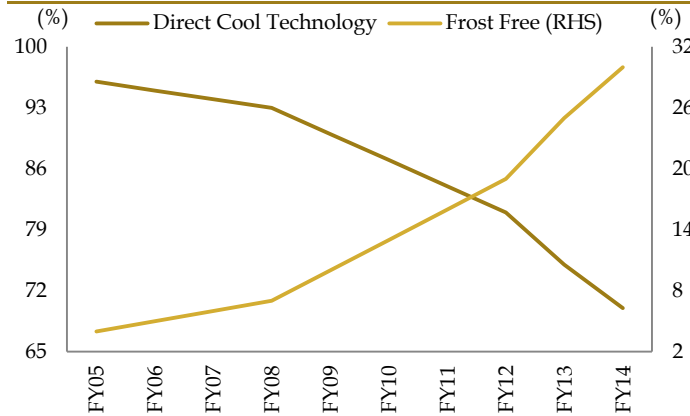
Source: Snapdeal.com, Trust

**Exhibit 8: Regional Mix**



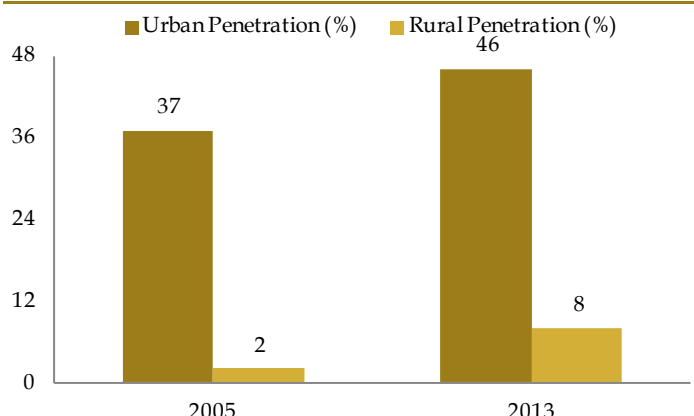
Source: Industry, Trust

**Exhibit 9: Frost Free Refrigerator are gaining share**



Source: Industry, Trust

**Exhibit 10: Refrigerator Penetration**



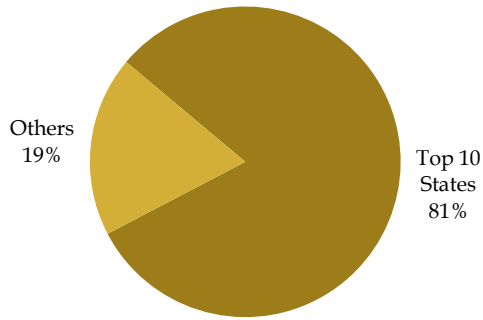
Source: Industry, Trust



### Wide Distribution Network

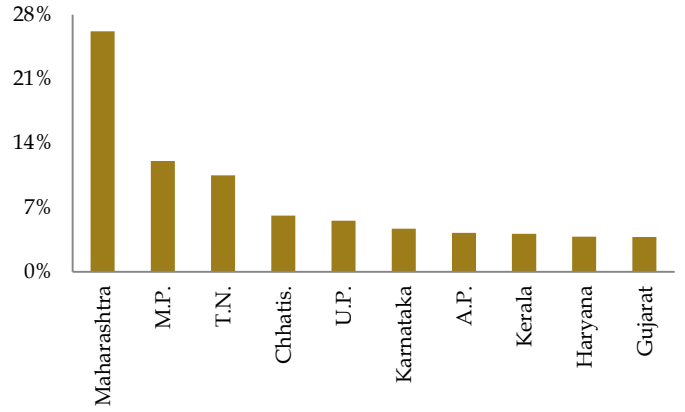
Whirlpool has vast distribution network for all its products which company is leveraging through consistent new product/segment launches over the years. As per the data available on company website, top 10 states contribute 80% of its total distribution network in which Maharashtra, MP and Tamil Nadu are the key markets. These 10 states are core states of Indian economy. We expect that Whirlpool can further leverage this distribution by introducing its globally present brands in India.

**Exhibit 11: Distribution Breakup**



Source: Company Web, Trust

**Exhibit 12: Top 10 States**



Source: Company Web, Trust



## Financials

### P&L Statement

Y/E Mar (₹ mn)	FY15	FY16	FY17	FY18E	FY19E
<b>Net Revenues</b>	<b>32,938</b>	<b>34,399</b>	<b>39,408</b>	<b>46,906</b>	<b>57,056</b>
% Growth	16.2	4.4	14.6	19.0	21.6
Raw Material	19,713	20,365	23,101	27,909	34,233
Staff	3,153	3,827	4,116	4,572	5,119
Selling and Distribution Expenses	5,526	5,089	5,785	6,571	7,711
Other Expenses	1,234	1,284	1,517	1,805	2,196
Total Expenditures	29,625	30,564	34,519	40,857	49,259
<b>EBITDA</b>	<b>3,313</b>	<b>3,836</b>	<b>4,888</b>	<b>6,049</b>	<b>7,797</b>
% Growth	56.6	15.8	27.5	23.7	28.9
<b>EBITDA Margins (%)</b>	<b>10.1</b>	<b>11.1</b>	<b>12.4</b>	<b>12.9</b>	<b>13.7</b>
Other Income	380	553	729	945	1,080
Interest	6	52	59	59	59
Depreciation	681	769	875	902	957
<b>Profit Before Tax</b>	<b>3,005</b>	<b>3,559</b>	<b>4,684</b>	<b>6,033</b>	<b>7,861</b>
Provision for tax	900	1,159	1,580	2,151	2,791
Effective tax rate (%)	30.0	32.6	33.7	35.7	35.5
<b>Reported PAT</b>	<b>2,105</b>	<b>2,369</b>	<b>3,080</b>	<b>3,882</b>	<b>5,070</b>
% Growth	71.3	12.5	30.0	26.1	30.6
<b>Adjusted Net Profit</b>	<b>2,105</b>	<b>2,369</b>	<b>3,080</b>	<b>3,882</b>	<b>5,070</b>
% Growth	71.6	12.5	30.0	26.1	30.6

### Balance Sheet

₹mn (Y/E Mar)	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	<b>1,269</b>	<b>1,269</b>	<b>1,269</b>	<b>1,269</b>	<b>1,269</b>
Reserves & surplus	7,918	10,388	13,562	17,444	22,514
<b>Shareholders' funds</b>	<b>9,187</b>	<b>11,657</b>	<b>14,831</b>	<b>18,712</b>	<b>23,783</b>
Total Debt	-	-	-	-	-
Others	817	925	1,392	1,324	1,324
<b>Capital Employed</b>	<b>10,003</b>	<b>12,582</b>	<b>16,222</b>	<b>20,036</b>	<b>25,106</b>
Net Fixed Assets	4,007	4,029	4,274	3,426	2,820
Cash & Cash Eq.	5,357	8,563	10,590	13,555	17,422
Net Current Assets (Ex-cash)	310	(494)	(822)	(983)	(1,172)
Investments	-	-	1,297	3,297	5,297
Others	330	484	883	741	741
<b>Total Assets</b>	<b>10,004</b>	<b>12,582</b>	<b>16,221</b>	<b>20,036</b>	<b>25,106</b>

**Cash Flow**

₹mn (Y/E Mar)	FY15	FY16	FY17	FY18E	FY19E
Pre-tax profit	3,005	3,560	4,685	6,033	7,861
Depreciation	681	764	861	902	957
Total Tax Paid	(847)	(1,168)	(1,805)	(2,151)	(2,791)
Chg in working capital	559	636	520	161	190
Other operating activities	-399.3	-352.8	-425.1	0	0
<b>Cash flow from oper (a)</b>	<b>2,999</b>	<b>3,438</b>	<b>3,836</b>	<b>4,945</b>	<b>6,216</b>
Capital Expenditure	(848)	(787)	(1,118)	(55)	(350)
Chg in investments	-	(15)	(1,375)	(2,000)	(2,000)
Other investing activities	295.21	517.3	692.4	0	0
<b>Cash flow from inv.(b)</b>	<b>(553)</b>	<b>(284)</b>	<b>(1,801)</b>	<b>(2,055)</b>	<b>(2,350)</b>
<b>Free cash flow</b>	<b>2,151</b>	<b>2,651</b>	<b>2,717</b>	<b>4,890</b>	<b>5,866</b>
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	-	-	-	-	-
Interest paid	(6)	(9)	(13)	(59)	(59)
Dividend (incl. Tax)	-	-	-	-	-
Other financing activities	-	-	-	-	-
<b>Cash flow from fin. (c)</b>	<b>(6)</b>	<b>(9)</b>	<b>(13)</b>	<b>84</b>	<b>(59)</b>
<b>Net chg in cash (a+b+c)</b>	<b>2,441</b>	<b>3,145</b>	<b>2,022</b>	<b>2,974</b>	<b>3,807</b>

**Key Ratios**

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
Raw Material Cost/Sales (%)	59.8	59.2	58.6	59.5	60.0
Manpower Cost/Sales (%)	9.6	11.1	10.4	9.7	9.0
A&P Cost/Sales (%)	2.9	2.9	3.1	3.1	3.1
Revenue Growth (%)	16.2	4.4	14.6	19.0	21.6
EBITDA Margins (%)	10.1	11.1	12.4	12.9	13.7
Net Income Margins (%)	6.4	6.9	7.8	8.3	8.9
ROCE (%)	26.3	24.4	24.7	25.7	27.2
ROE (%)	22.9	20.3	20.8	20.7	21.3

**Valuation Parameters**

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (₹.)	16.6	18.7	24.3	30.6	40.0
P/E (x)	42.2	36.4	42.7	47.7	36.5
BV (₹)	72.4	91.9	116.9	147.5	187.5
P/BV (x)	9.7	7.4	8.9	9.9	7.8
EV/EBITDA (x)	25.2	20.3	24.5	27.8	20.8
Fixed assets turnover ratio (x)	8.2	8.5	9.2	13.7	20.2
Net Debt/Equity (x)	(0.6)	(0.7)	(0.7)	(0.7)	(0.7)
EV/Sales (x)	2.5	2.3	3.0	3.6	2.8

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