Whirlpool

Initiating Coverage

Equirus

Sound strategy, durable growth plans

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Equirus

Whirlpool of India Ltd.

Initiating Note | Regular Coverage

Absolute : ADD
Relative : Overweight
7% ATR in 18 months

Sound strategy, durable growth plans - initiate with ADD

Consumer Durables

Rating Information	
Price (Rs)	1,555
Target Price (Rs)	1,717
Target Date	30th June'19
Target Set On	11th Jan'17
Implied yrs of growth (DCF)	20
Fair Value (DCF)	925
Fair Value (DDM)	126
Ind Benchmark	SPBSCGIP
Model Portfolio Position	NA

Stock Information	
Market Cap (Rs Mn)	197,330
Free Float (%)	25.00 %
52 Wk H/L (Rs)	1680/887.25
Avg Daily Volume (1yr)	70,407
Avg Daily Value (Rs Mn)	86
Equity Cap (Rs Mn)	1,269
Face Value (Rs)	10
Bloomberg Code	WHIRL IN

Ownership	Recent	3M	12M
Promoters	75.0 %	0.0 %	0.0 %
DII	9.7 %	1.1 %	1.6 %
FII	5.2 %	-1.2 %	-1.2 %
Public	10.1 %	0.1 %	-0.4 %

Price %	1M	3M	12M
Absolute	2.2 %	15.1 %	66.7 %
Vs Industry	-0.1 %	7.4 %	36.0 %
BLSTR	-2.0 %	-0.6 %	61.0 %
VOLT	0.0 %	19.8 %	82.1 %

Standalone Quarterly EPS forecast

Rs/Share	1Q	2Q	3Q	4Q
EPS (17A)	9.6	4.6	4.4	5.9
EPS (18E)	10.5	5.8	4.6	6.9

Whirlpool of India (WHIRL) is one of India's leading home appliance players, with a strong presence in refrigerators and washing machines. The company's success has been driven by its ability to tap customers across price points with its diverse product offerings. Also, its strategy of pushing volume growth during demand up-cycles but changing the product mix and cutting overheads amid muted demand conditions has led to best-in-class margins. Focus on plugging product portfolio gaps and distribution network expansion should drive growth ahead, with favorable industry dynamics aiding growth further. We expect 19%/21%/20% sales/EBIDTA/PAT CAGR over FY17-FY20E. The stock trades at reasonable valuations of ~56x/42x and ~33x/25x FY18E/FY19E EPS and EV/EBIDTA. Initiate coverage with ADD; Jun'19 TP Rs 1,717 (at 44x TTM EPS of Rs 39).

Distribution network expansion, new product launches to drive growth: As per industry reports, WHIRL has a ~36%/~31% share in India's distribution network for refrigerators/washing machines (WM). We believe current penetration levels offer strong growth potential, which could translate into sustainable growth in the mid-to-long term. Further, to meet the ever-changing needs of new-age consumers, WHIIRL's focus remains on constant product innovation. The company targets to plug product gaps in the existing product portfolio with a focus on the premium segment.

Revenue growth to be powered by refrigerators, WM and ACs: We believe the above-mentioned initiatives and good demand conditions would likely result in strong growth for WHIRL across product categories. Accordingly, we expect 18%/19.2%/ 21.3%/16.2% CAGR for refrigerator/WM/AC/MW categories over FY16-FY20E, resulting in total sales CAGR of 18% during this period. We expect sales to grow from Rs 34.4bn in FY16 to Rs 66.3bn in FY20E.

Focus on profitable growth to shore up EBIDTA/PAT: Over the years, WHIRL has focused on profitable growth, as reflected in its margin performance vs. peers, particularly during the difficult period of FY11-FY14. Going forward, the company's focus would remain on premium product launches in refrigerator and WM categories. While we expect margins to improve over the near-to-mid term (to 13% by FY20E), FY18E margins are likely to decline by 90bps to 11.5% yoy on account of GST implementation and rising RM prices. EBIDTA/PAT should grow at a 21%/20% CAGR, from Rs 4.9bn/Rs 3.1bn in FY17 to Rs 8.6bn/Rs 5.4bn in FY20E.

Initiate with ADD: We initiate coverage on WHIRL with an ADD rating and a Jun'19 TP **of** Rs 1,717 set at 44x TTM EPS of Rs 39 (FY20E PE of 40x – implied multiple at TP). WHIRL is trading at ~56x/42x and ~34x/25x of FY18E/FY19E EPS and EV/EBIDTA – reasonable in our view.

Consolidated Financials

Rs. Mn YE Mar	FY17A	FY18E	FY19E	FY20E
Sales	39,408	48,087	57,316	66,330
EBITDA	4,888	5,530	7,322	8,621
Depreciation	875	1,079	1,276	1,521
Interest Expense	59	74	88	96
Other Income	730	993	1,100	1,200
Reported PAT	3,081	3,497	4,658	5,415
Recurring PAT	3,105	3,515	4,658	5,415
Total Equity	14,831	17,755	21,673	26,247
Gross Debt	0	0	0	0
Cash	10,590	12,494	15,389	20,155
Rs Per Share	**FY17A**	**FY18E**	**FY19E**	**FY20E**
Earnings	24.5	27.7	36.7	42.7
Book Value	117	140	171	207
Dividends	3.0	3.8	4.9	5.5
FCFF	16.3	19.9	29.1	44.7
P/E (x)	63.6	56.1	42.4	36.4
P/B (x)	13.3	11.1	9.1	7.5
EV/EBITDA (x)	38.5	33.7	25.0	20.7
ROE (%)	23 %	22 %	24 %	23 %
Core ROIC (%)	53 %	50 %	57 %	61 %
EBITDA Margin (%)	12 %	12 %	13 %	13 %
Net Margin (%)	8 %	7 %	8 %	8 %

Company Snapshot

How we differ from Consensus

	-	Equirus	Consensus	% Diff	Comment
EPS	FY18E	27.7	30.0	-8 %	We are below consensus estimates for FY18E
	FY19E	36.7	35.7	3 %	
Sales	FY18E	48,087	47,381	1 %	
	FY19E	57,316	54,617	5 %	
PAT	FY18E	3,515	3,847	-9 %	
	FY19E	4,658	4,574	2 %	

Key Estimates:

	FY15	FY16	FY17	FY18E	FY19E	FY20E
Refrigerators – Gross Revenues	25,871	27,622	31,282	38,789	46,547	53,529
YoY Growth	**22.6%**	**6.8%**	**13.3%**	**24.0%**	**20.0%**	**15.0%**
Washing Machines - Gross Revenues	8,456	9,071	10,273	12,739	15,287	18,344
YoY Growth	*17.7%*	*7.3%*	*13.3%*	*24.0%*	*20.0%*	*20.0%*
AC – Gross Revenues	3,201	4,075	5,013	6,266	7,519	8,835
YoY Growth	*9.0%*	*27.3%*	*23.0%*	*25.0%*	*20.0%*	*17.5%*
Total Net Revenues	32,938	34,399	39,408	48,087	57,316	66,330
YoY Growth	*16.2%*	*4.4%*	*14.6%*	*22.0%*	*19.2%*	*15.7%*
EBIDTA	3,313	3,835	4,888	5,530	7,322	8,621
EBIDTAM	*10.1%*	*11.1%*	*12.4%*	*11.5%*	*12.8%*	*13.0%*

Our Key Investment arguments:

- Expansion of distribution network across geographies to fuel growth for the company in the coming years. WHIRL also targets to expand its shelf space/visibility in the existing network which will result in higher sales for the company.
- Filling up product gaps with new product launches would further fuel growth.
- Focus will remain on profitable growth

Risk to Our View:

- Sharp increase in inflation will impact consumer disposable incomes.
- Inability to launch upgraded technology/new products can impact operational performance given the highly competitive nature of industry.

Key Triggers

- Low level of inflation and subdued RM prices can act as a strong trigger for margin expansion
- Deeper penetration/entry into tier 2/3 and rural markets could boost sales

Sensitivity to Key Variables	% Change	% Impact on EPS
Raw Material Cost	1 %	-8 %
-	-	-
-	-	-

DCF Valuations & Assumptions

Rf	Beta	Ke	Term. Growth	Debt/IC in Term. Yr
7.3 %	1.0	13.3 %	3.0 %	0.0 %

-	FY18E	FY19E	FY20-27E	FY28-32E	FY33-37E
Sales Growth	22 %	19 %	13 %	8 %	8 %
NOPAT Margin	6 %	7 %	8 %	8 %	8 %
IC Turnover	7.48	7.46	9.82	10.00	10.00
RoIC	50.1 %	56.5 %	81.0 %	84.1 %	83.8 %

Years of strong growth	1	2	10	15	20
Valuation as on date (Rs)	281	345	651	761	846
Valuation as of Jun'18	307	377	711	832	925

Based on DCF, assuming 20 years of 13% CAGR growth and 80% average ROIC, we derive current fair value of Rs. 846 and 30th June 2019 fair value of Rs. 925.

Company Description:

WIL is a manufacturer of home appliances. WIL is primarily engaged in manufacturing and trading of Refrigerators, WM, AC, MW and small appliances and caters to both domestic and international markets. It provides services in the area of product development, and procurement services to Whirlpool Corporation and other group companies. Its geographical segments include Sales within India, Middle East, South East Asia and SAARC markets. Its plants are located at Faridabad, Haryana; Rajangaon, Pune, and Thirubhuvanai Village, Puducherry.

Comparable valuation			Mkt Cap	Price	Target	EPS			P/E			BPS	P/B	RoE			Div Yield	
Company	Reco.	CMP	Rs. Mn.	Target	Date	FY17A	FY18E	FY19E	FY17A	FY18E	FY19E	FY17A	FY18E	FY17A	FY18E	FY19E	FY17A	FY18E
Whirlpool	ADD	1,555	197,330	1,717	30th June'19	24.5	27.7	36.7	63.6	56.1	42.4	116.9	11.1	23 %	22 %	24 %	0.2 %	0.2 %
Bluestar	-	798	76,517	-	-	12.9	16.4	22.7	62.4	49.2	35.4	79.2	17.0	18 %	15 %	11 %	0.9 %	0.2 %
Voltas India	-	626	207,084	-	-	15.4	17.8	20.4	42.0	36.2	31.7	99.9	12.9	17 %	13 %	12 %	0.5 %	0.3 %

Investment Thesis

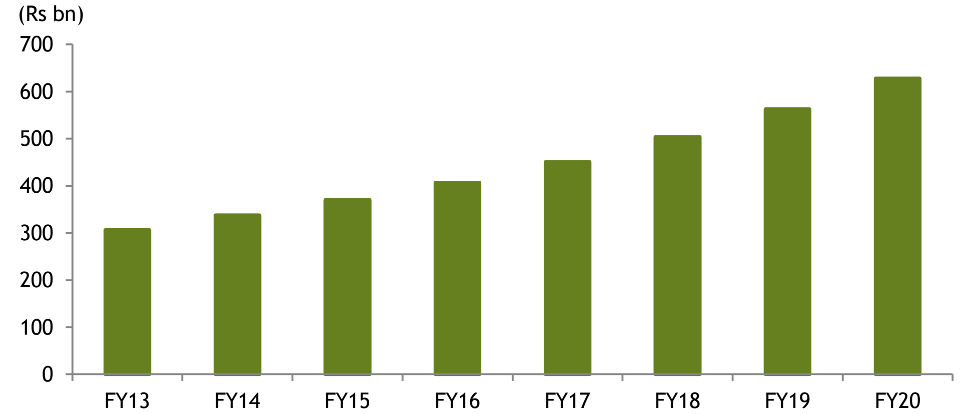
Favorable industry dynamics

Multiple industry growth drivers in place

The Indian home appliances industry has grown at an 10% CAGR over FY13-FY17 and is likely to have touched Rs 4.5trn in FY17. Urban markets accounted for 67% of total home appliances revenues as of FY17. The industry is set to grow at a 12% CAGR over FY17-FY20E driven by the following:

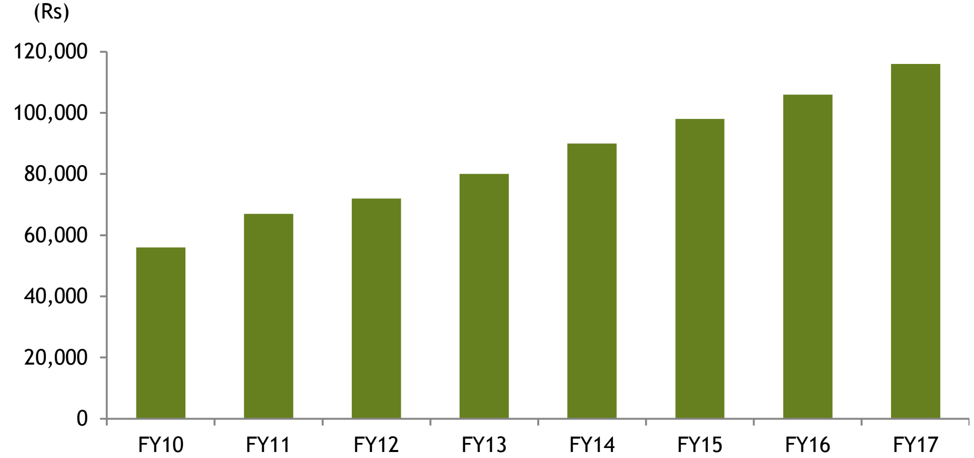
1. A normal monsoon during CY16 and CY17 has built pent up demand for home appliances.
2. A rise in per capita GDP has pushed up disposable income levels.
3. The current low penetration levels across categories such as refrigerators (33%), WMs (13%), air conditioners (5%), microwave ovens (4%) provides further headroom for growth in the coming years.
4. Rural electrification through various government initiatives and improving infrastructure would drive demand for home appliances.
5. As per industry reports, majority households will enter the middle income group, boosting demand for home appliances.
6. Industry growth would be driven by factors such as an increase in the number of households, rising working population, easy financing alternatives, rising awareness due to globalization, aspirations of a modern lifestyle and lack of time.

Exhibit 1:India's home appliances industry (Rs bn)



Source: Industry, Equirus Securities

Exhibit 2: GDP per capita India



Source: Industry, Equirus Securities

Segment-wise growth/estimates

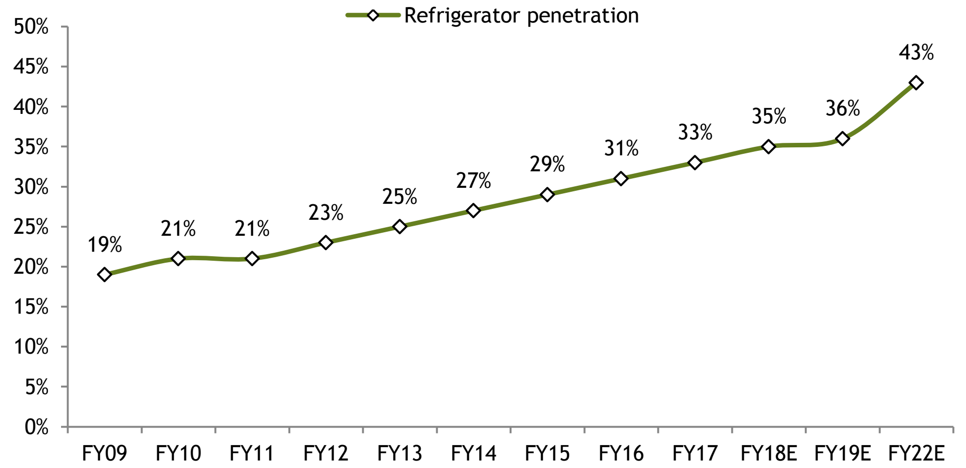
Refrigerator segment - penetration levels to increase to ~43% by FY22E

India's refrigerator segment has grown from 8.5mn units/Rs 114bn in FY14 to 11.7mn units/Rs 197bn in FY17. Volumes are pegged to grow at a ~10.0% CAGR over FY17-FY19E with direct cool (DC)/frost-free segment growing at 9.5%/10.7% CAGR over this period.

The DC segment should largely maintain its contribution at around 73% to overall refrigerator volumes. We expect continued DC segment growth on the back of purchases from first-time users supported by GoI's drive of '24*7 Quality Power' in rural markets. However, frost-free models are likely to see marginally faster growth due to upgrades from DC and ease of maintenance.

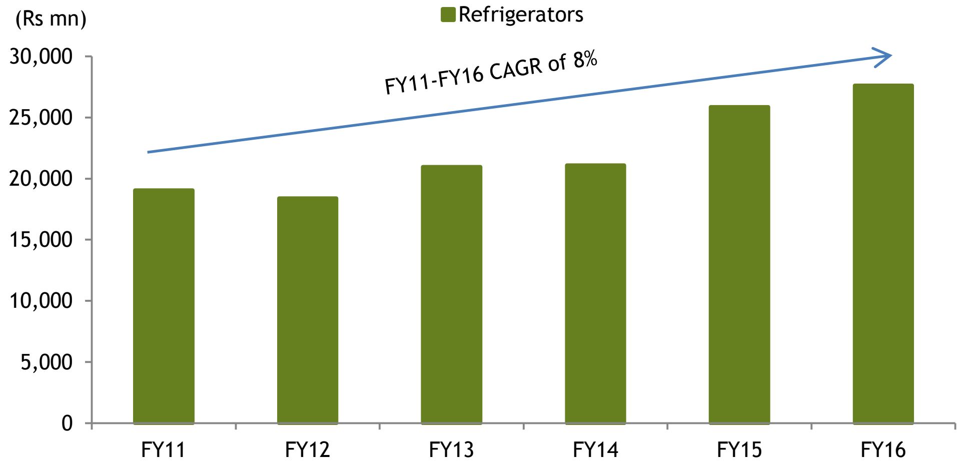
Penetration levels in the refrigerator segment remain low at 33% (FY17), though it has increased considerably from the level of ~23% in FY12. Importantly however, penetration levels in rural markets are at 11% - significantly below urban penetration levels of 74%. As per some industry reports, penetration levels should increase to ~43% by FY22E, which reflects the potential growth opportunities in the space.

Exhibit 3: Refrigerator penetration levels to touch 43% by FY22E



Source: Industry, Equirus Securities

Exhibit 4:WHIRL's refrigerator category sees decent 8% CAGR over FY11-FY16, largely capturing tough market conditions during FY11-FY14



Source: Company, Equirus Securities

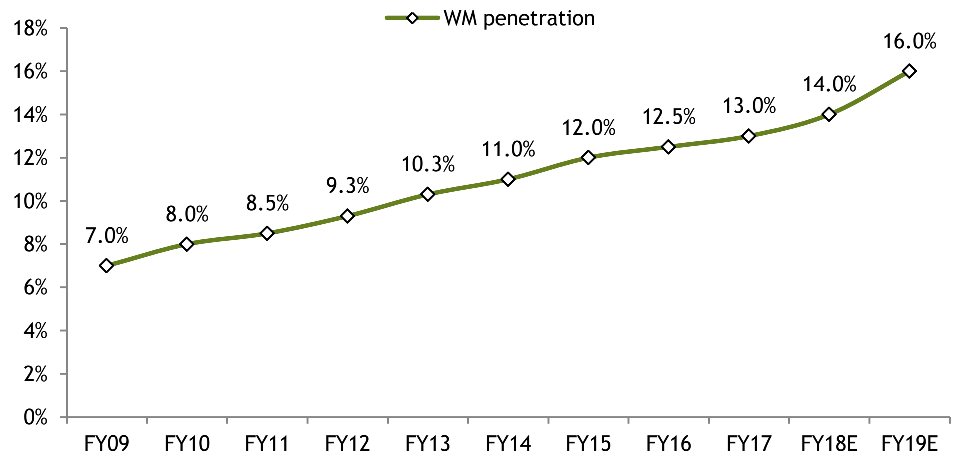
Washing machines - Growth to be driven by fully-automatic machines

India's washing machine segment is currently estimated to be 5.2mn units/Rs 74bn in size, vs. 3.9mn units/Rs 46bn in FY12. The segment is likely to grow at a CAGR of 10.9%/ 12.5% over FY17-FY19E in volume/value terms led by sales of Fully Automatic (FA) segment which would see a 14.0% CAGR vs. 9.0% for Semi-Automatic (SA) machines.

Share of the FA segment in the WM category has increased from 37.8% in FY15 to 38.5% in FY17. With increasing preference for premium products, we expect the FA volume share in total WM sales to increase to 40.6%/~43% by FY19E/FY22E.

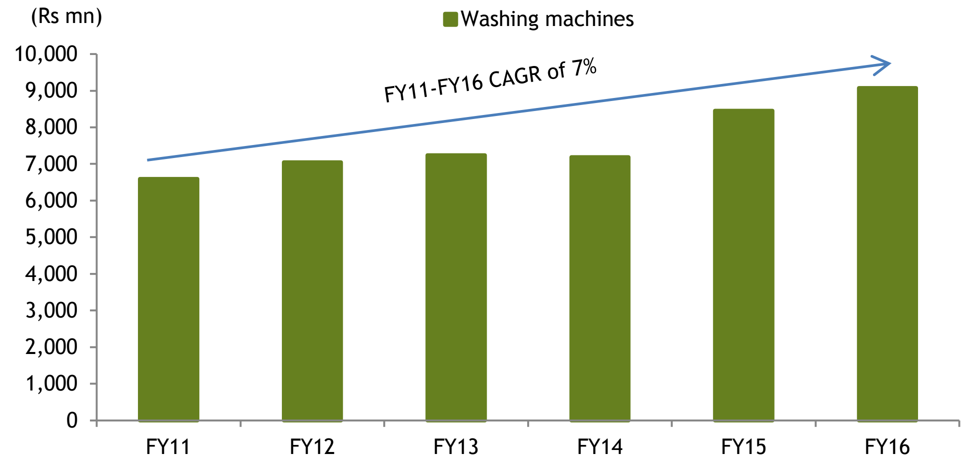
WM penetration levels have improved from ~9% in FY12 to ~13% in FY17 but still lag that of other home appliances such as TV and refrigerators. Current penetration levels continue to be far lower than developed markets like the US and Europe, as well as emerging markets such as China. Penetration levels are likely to increase to ~16% by FY19E and ~21% by FY22E. Industry realizations are also likely to inch higher in the coming years led by higher revenue contribution from the FA segment.

Exhibit 5:WM penetration levels have increased gradually; trend to continue ahead



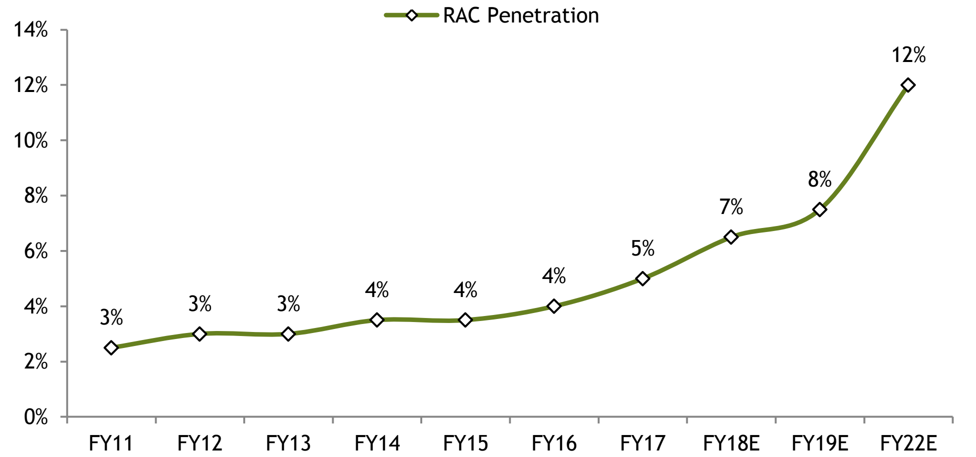
Source: Industry, Equirus Securities

Exhibit 6: WHIRL's Washing machines category sees decent 7% CAGR over FY11-FY16, largely capturing tough market conditions during FY11-FY14



Source: Company, Equirus Securities

Exhibit 7:AC penetration the lowest among other major home appliance categories



Source: Industry, Equirus Securities

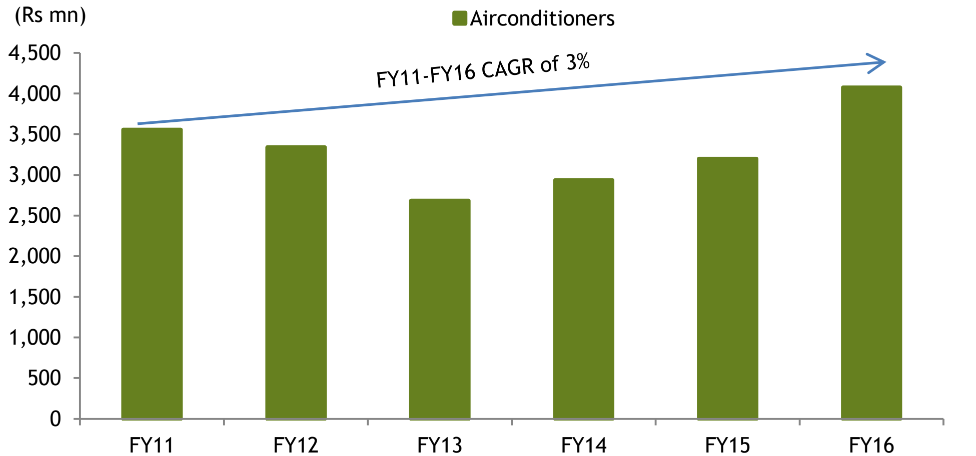
Air conditioning segment - Split ACs to lead the way

India's room AC market currently stands at ~5mn units/Rs 140bn led by split/inverter ACs. The market has registered decent growth of 11.5% during FY11-FY17 largely due to low penetration levels. Value growth stood at 11.5% CAGR (to Rs 140bn) during the period, which we think is healthy considering sluggish demand conditions during FY11-FY14 when the industry grew by a mere 4.8%.

Post FY14, penetration levels started to improve and the category witnessed a strong 18.6% CAGR during FY14-FY17. Penetration levels have risen from 2.5% in FY11 to 5.0% in FY17 and are likely to touch 8.5% in FY20E.We believe rising temperature levels across the country are likely to drive strong volume growth in the coming years, which would be supported by quality power supply and higher disposable incomes. The category is well poised and should grow at an 18% CAGR over FY17-FY20E to Rs 229bn.

The volume share of split ACs (against window ACs) has been increasing from FY12 onwards, from ~80% in FY12 to ~84% in FY17, and is estimated to touch 88% by FY20E. Further, in split ACs, the share of inverter ACs will continue to increase in the coming years.

Exhibit 8:Pick-up in WHIRL's AC sales post FY11 only gradual vs. sharper growth earlier



Source: Company, Equirus Securities

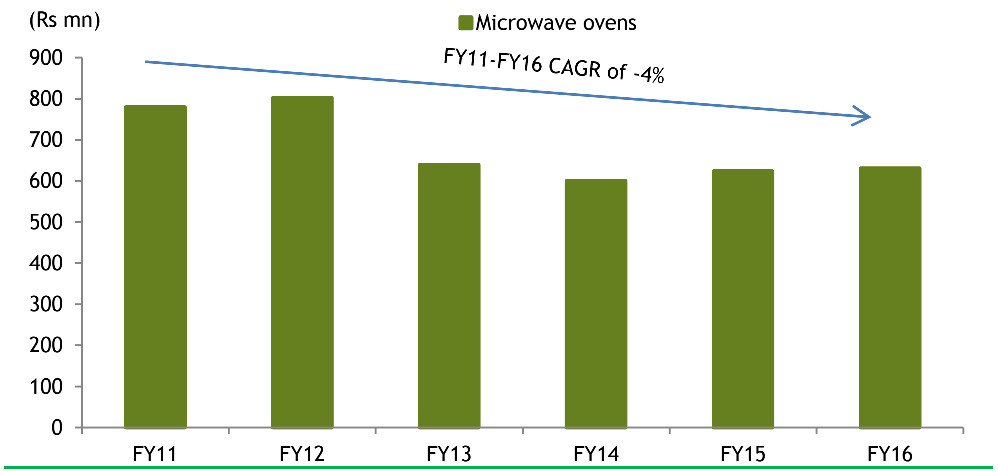
Microwave segment – a necessity, not a luxury any more

Microwave oven (MW) is likely to become a high-growth market in India's home appliances industry. The domestic MW segment is currently ~1.5mn units, and is expected to grow at a fast pace in the coming years led by growing consumer awareness (related to usage), changing lifestyles and a favorable base (low penetration levels).

The MW market is largely dominated by convection microwave ovens which contribute ~70% of total volumes, followed by grill oven with 20% and solo oven with 10%. Of the total volumes, lower-end units (21 litre or less) drive majority of the contribution. The current penetration level in India is ~4%.

According to industry estimates, MW segment declined ~10-15% over FY11-FY14 to 1mn units at FY14-end. We believe MW, once perceived to be a luxury appliance, is increasingly finding preference among the youth and those living away from home. Entry-level ovens have started to become an integral part of modern kitchens across various income levels in tier I/II cities. We believe the segment is well-poised to deliver strong double-digit volume growth over the next few years.

Exhibit 9:Trend in WHIRL's MW sales



Source: Company, Equirus Securities

WHIRL well-poised for growth

Competition in the home appliances industry remains intense among prominent players such as LG, Samsung, WHIRL, Godrej, IFB industries, Voltas and Bluestar. These majors are well-placed to capture growing demand in the home appliances industry led by their expanding distribution reach, strong brand recall, service center network, in-house manufacturing, increasing product range and improving infrastructure.

WHIRL has a presence across India as well as major home appliance categories such as refrigerator, WM and ACs, which should help it leverage on buoyant demand conditions. Growth would be well-supported by its superior brand image, strong parent support, new product launches and a healthy market share (~16%/12% in Refrigerators/WM).

Constant product innovation, portfolio upgrades - key enablers

Product innovation and constant portfolio upgrades are vital elements of the consumer durable industry; these two attributes enable players to meet changing demand trends of new-age consumers and grow at above-industry rates.

Over the years, with a strong proven track record of constant innovation and technology upgrades, WHIRL has been able to address the changing needs of consumers. The company continued to invest in its product portfolio even amid marginal-to-negative growth for the home appliances industry during FY11-FY14.

We have analyzed WHIRL's innovation/upgrade strategy across categories for a period of eight years, and understand that the company's core focus remains the refrigerator category (62% of FY16 gross revenue contribution), followed by WM, AC and MW. Apart from this, WHIRL has also forayed into new categories of built-in kitchen appliances during FY12, with a range of launches during FY14. This reflects that the company is well-equipped to meet the rising demand and changing consumer needs.

Exhibit 10: Constant product innovation and technology upgrades have been key to WIL's success story in India

Year	Category	New launches / Technology upgrades
FY10	Refrigerator	Protton - India's First 3-Door Top Mount Refrigerator
	Fully-automatic WM	WhiteMagic - 3-step-process
	Fully-automatic FL WM	PROFESSIONAL SPORT
	Split AC	CHROME & AVIATOR AC - First AC with sliding panel
	Microwave	MagiCook - MW with Microtawa - Multi-Stage Cooking
	Others	New Range of Accessories launched
FY11	Refrigerator	3-Door Frost Free Refrigerator (Protton) in 300 & 300 L capacities
	Semi-automatic WM	ACE Wash Station – SA WM
	Microwave	2 new models
FY12	Refrigerator	3-Door 440 L Frost Free Refrigerator under the "Protton World Series" range
	Fully-automatic WM	8 kg TL WM with 3600 variator plate technology (VARI)
	Others	"Built-in Kitchen Appliances" targeted towards the mass and premium segments
FY13	Refrigerator	1) Neo I-Chill Frost Free Refrigerators with a unique Deep Freeze Technology. 2) IceMagic Direct Cool Refrigerators
	Fully-automatic WM	WhiteMagic 1-2-3 Nxt with new and advanced 6th Sense technology
	Microwave	MagiCook 1-2-3 Microwave Oven - highest in the 20 L segment.
	Water Purifiers	Purafresh range of wall mounted RO Water Purifiers with MES (Mineral Enhancement System)
FY14	Refrigerator	Protton - 6th Sense ActiveFresh Technology
	Fully-automatic WM	1) 360 BloomWash - 6th Sense TumbleCare Technology. 2) ACE Wash - 5-Wash Program and Agitator
	Microwave	Gusto - 6th Sense Crisp&Bake Technology
FY15	Refrigerator	1) Mass-premium segment of Frost Free refrigerators. 2) Upgrading to C-Pentane technology across the entire refrigerators range
	Semi-automatic WM	Superb Atom series
	Fully-automatic WM	WhiteMagic with Express Wash
FY16	Fully-automatic WM	1) Stainwash Ultra with 6th sense technology. 2) Stainwash Deep Clean with 6th sense technology
	Semi-automatic WM	1) Ace Supersoak. 2) Ace Turbodry
	Split AC	3D Cool Xtreme range
	Microwave	Jet chef microwave oven
FY17	Refrigerator	1) 6th Sense® IntellifreshTM Technology. 2) 6th Sense® Fresh Control Technology
	Semi-automatic WM	Ace Stainfree
	Inverter AC	3D Cool Inverter (6th Sense® IntelliComfort Technology)
	Microwave	1) Convention microwave new features. 2) Tandoor Series. 3) Feature that can cook dishes with 50% lesser oil in the JetC Range
	Water Purifier	1) Minerala Ultra with RO+UV+UF+MES technology. 2) Minerala Platinum Plus model
	Others	Small domestic appliances - launched Slow Juicers, Hand Blenders, Digital Kettle, Pop Up toaster

Source: Company, Equirus Securities

Plugging portfolio gaps to drive incremental volumes, improve brand image

WHIRL has a wide range of product offerings for the low-to-mid income group, but limited premium category offerings. Realizing the need to plug this gap, the company plans to launch many new products for the high-income group. WHIRL has already launched high-end refrigerators in the price range of Rs 50,000–Rs 150,000.

The company has re-entered the front-loading washing machine space by launching three models in South India, which it will roll out on pan-India basis soon. WHILR has a strong product pipeline for front-load washing machines, which validates it focus on the top end of the pyramid. Our channel checks indicate that the initial response for front-load washing machines in southern markets has been very encouraging, and that internally, WHIRL is very confident of driving strong sales from the category. Though the focus remains on launching premium products, WHIRL has introduced a new range of semi-automatic washing machines (starting from Rs 10,000) to target first-time buyers. Also, it has an entire range of products (AC category) ready to meet new BEE norms and changing consumer preferences (more towards inverter ACs).

Though WHIRL's focus remains on its three core product categories, it also plans to come up with product ranges in newer categories; these are likely to be long-term triggers for the company and also gradually increase their revenue contribution to total sales.

Distribution network expansion to drive revenues in mid-to-long term

Industry distribution network expansion at decent pace for refrigerators, WM

As per some industry reports, the total number of outlets for refrigerators stood at ~47,000 at FY17-end; the total number of outlets likely increased from ~43,000 in FY15, growing at a 4.5% CAGR over FY15-FY17. For WM, the total number of outlets increased from ~31,000 in FY15 to ~40,000 in FY17, at a 13.6% CAGR. The pace of distribution expansion indicates that categories with lower penetration levels are set to grow at a faster pace; not surprisingly, players are targeting tier 2/3 and rural markets for expansion.

WHIRL's distribution network offers massive growth opportunities

Based on industry reports, we estimate WHIRL's distribution network for refrigerators and WMs at 17,000 (2-year CAGR of ~13%) and 12,000 (2-year CAGR of ~32%) outlets, approximately 35.9% and 30.5% of the total distribution network, respectively. One can argue that despite WHIRL's efforts, its distribution network in both core categories is not as extensive as industry leaders like LG and Samsung. However, we believe that low distribution network offers strong growth potential for the company which could lead to sustainable growth in the medium-to-long term.

Exhibit 11:Distribution network far lower than leading players like LG and Samsung

WIL's Distribution Reach Comparison - Refrigerators			
vs. Samsung	vs. LG	vs. Godrej	vs. Total
64.2%	54.7%	93.5%	35.9%

WHIRL's Distribution Reach Comparison - Washing Machines			
vs. Samsung	vs. LG	vs. Godrej	vs. Total
71.2%	47.9%	105.1%	30.5%

Source: Industry, Equirus Securities

Increasing counter share a key target area amid distribution network expansion

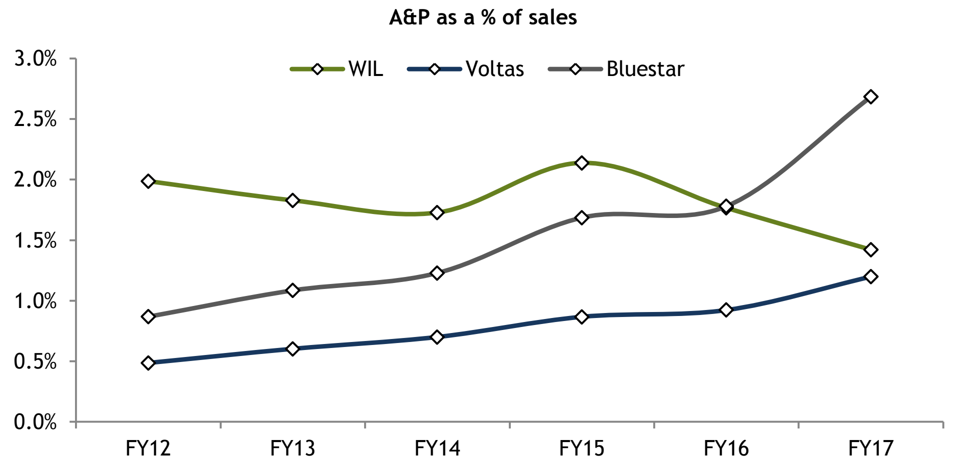
Our channel checks indicate that WHIRL's counter share in the existing distribution network for refrigerators and WVs is materially lower than market leaders such LG and Samsung. However, we believe the company's counter share has improved during FY17 over FY15 and FY16 levels, mainly led by (a) product innovation,(b) technology upgrades and (c) rising awareness among dealers & distributors due to the company's interactive sessions with them. We believe improving counter share in the existing channel remains equally important to WHIRL as increasing the number of outlets.

Apt balance between A&P spends & trade discounts aids sales conversion

A&P spends hinge on demand conditions

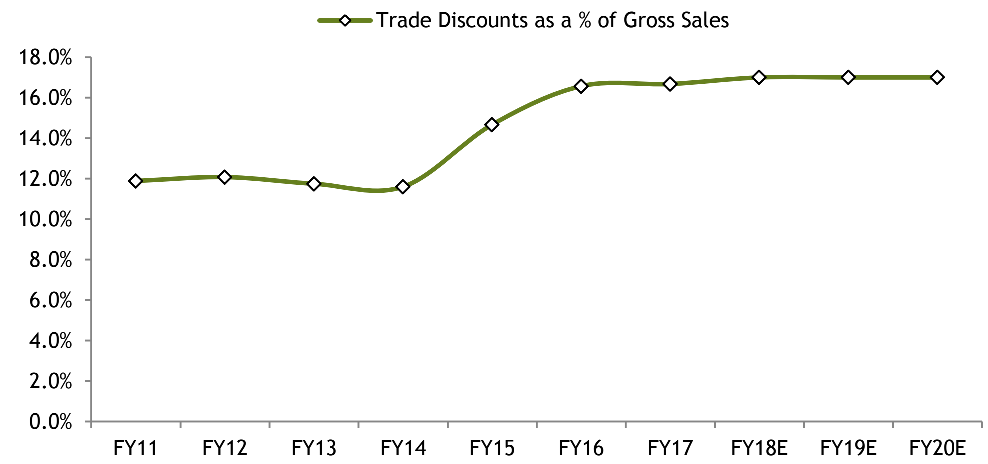
WHIRL's A&P spends stood at ~3.3% (as a percentage of sales) in FY10 and FY11.But with muted demand hurting volumes from FY11 onwards, it cut A&P spends to 2% in FY12 and to 1.7% in FY14. As demand improved, WHIRL increased its A&P spends to 2.1% in FY15. Similarly, when GST hit short-term demand, it slashed A&P spends to 1.4% in 2HFY17 realizing that higher A&P expenses would not have pushed up sales anyway. Despite frequent cuts, WHIRL's A&P spends have been significantly higher than Voltas and Bluestar.

Exhibit 12:WHIRL's A&P expenses largely determined by demand conditions



Source: Company, Equirus Securities

Exhibit 13: Increase in trade schemes + Effective A&P spend = Conversion to sales



Source: Company, Equirus Securities

Trade discounts upped from FY15 onwards

Industry trends validate that a 'Happy' consumer makes repeat purchases from the same store based on past experiences. Accordingly, a store pushes a brand with strong aftersales service, enabling stores to enjoy better trade discounts. Trade discounts have always been one of the most influencing factors for stores to recommend any brands. WHIRL, having realized this, has increased trade schemes from 11.9% of gross sales in FY11 to 14.7% in FY15 and further to 16.7% in FY17.

We believe trade discounts are likely to remain at 17% levels going forward. On the other hand, the company's A&P spends were higher than competitors such as Voltas and Bluestar, which WHIRL lowered gradually from FY11 onwards; from FY11-FY14, A&P spends were cut to push profits. However, from FY15 onwards, WHIRL has aimed to maintain a proper balance between A&P spends and trade discounts by increasing A&P spends to drive consumers to stores for 'Whirlpool' products, and then upping trade discounts so that this drive is converted into sales.

Strong parentage provides edge against rivals like LG, Samsung, Panasonic

For players to survive and grow in the industry, technology upgrades are imperative. Whirlpool Corporation, WHIRL's parent company and a global giant in home appliances, has strong R&D capabilities with a wide range of product offerings across categories. While WHIRL has its own R&D facility, it also gets strong support from Whirlpool Corporation in the form of latest cutting-edge technology and product innovation. WHIRL also plans to a launch new range of products from Indesit– acquired by Whirlpool Corporation in Oct'14 with 15 manufacturing facilities and technology research centers in 8 countries – which has a wide range of products for the Indian consumer.

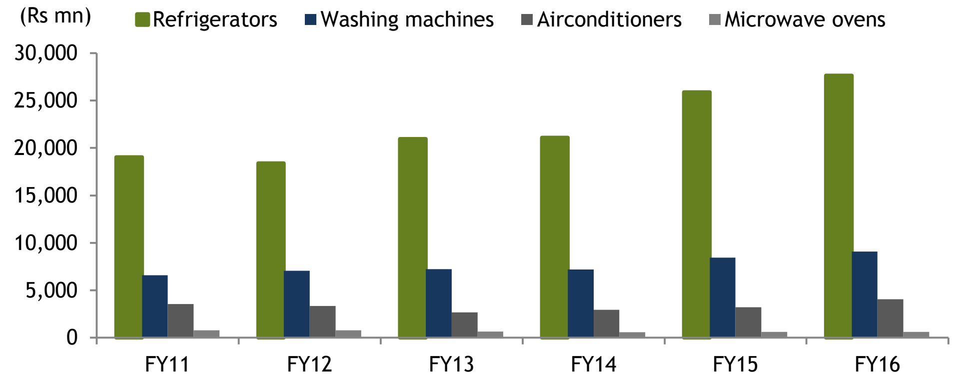
WHIRL currently pays ~1.3% of sales to the parent company as royalty, and we believe strong support from Whirlpool Corporation is likely to offer an edge vs. competitors in the domestic home appliances space.

Financial profile

Expect a robust revenue 19% CAGR over FY17-FY20E

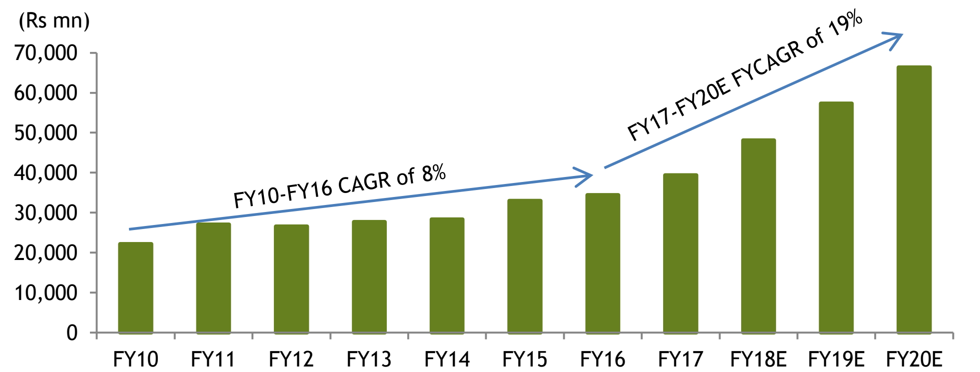
We believe the home appliance industry is at an inflection point and should see strong demand in the coming years, with WHIRL well-placed to capitalize on these opportunities. Favorable industry dynamics, a strong focus on product categories and distribution network expansion are likely to result in strong and sustainable growth for WHRIL in the mid-to-long term. We thus expect 19% sales CAGR for the company over FY17-FY20E.

Exhibit 14:Revenue split (Rs mn)



Source: Company, Equirus Securities

Exhibit 15:Trend in net sales (Rs mn)



Source:Company, Equirus Securities

Profitability to remain best-in-class

Margins contract during FY11-FY14 amid unfavorable macro conditions…

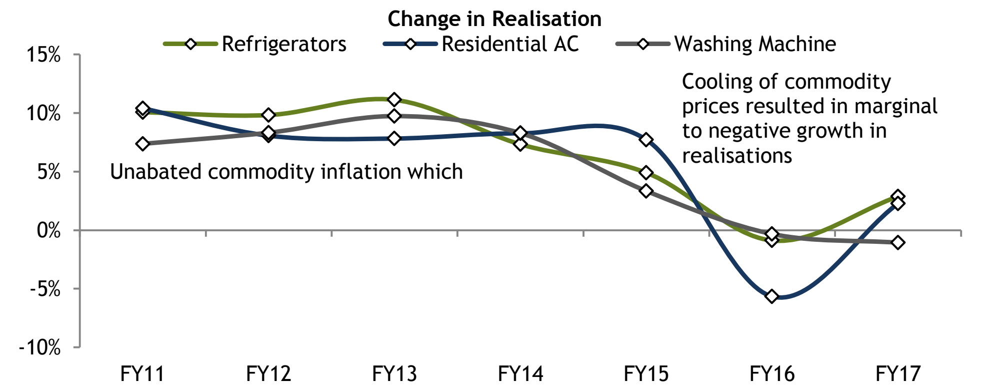
During FY11, higher food inflation impacted demand for home appliances, fuelling frequent price increases in product categories due to commodity inflation. Food inflation and commodity prices continued to trend higher in FY12 as well, which pushed up interest rates and hurt GDP growth. This unfavorable trend for the home appliances industry was exacerbated by INR depreciation in FY13 and FY14. Overall, this led to flat-to-negative volume growth for the industry during FY11-FY14 and sharp margin contraction; WHIRL's gross margins/EBIDTA contracted to 36.8%/7.5% in FY14 from 38.8%/11.1% in FY10.

…but see gradual expansion as headwinds turn to tailwinds from FY15

Things started to improve from FY15 onwards, as volumes improved with better peak-season sales (summer, Diwali).The demand uptick across categories however was largely fueled by the replacement market. The momentum in demand revival continued in FY16 as well, on the back of healthy urban demand driven by rising disposable incomes, easy finances and growing popularity of e-commerce platforms. As per WHIRL, the entire industry clocked a vibrant growth of 25% during the FY16 festive season.

During FY11-FY17, WHIRL continued to invest behind new product launches and technology upgrades, which started yielding results amid improving demand conditions. Gross/EBITDA margins improved from 36.8%/7.5% in FY14 to 41.4%/12.4% in FY17. WHIRL's FY17 margins were the highest ever recorded by the company.

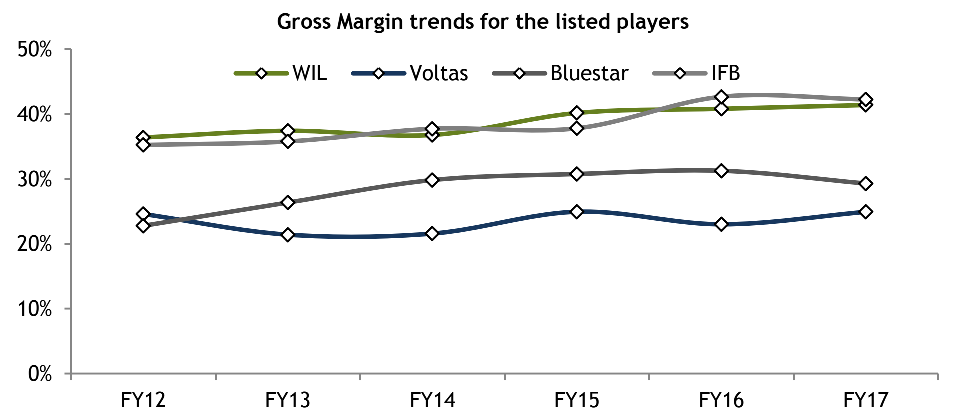
Exhibit 16:Higher commodity prices, INR depreciation lead to frequent price hikes amid muted demand; situation eases from FY15



Source: Company, Equirus Securities

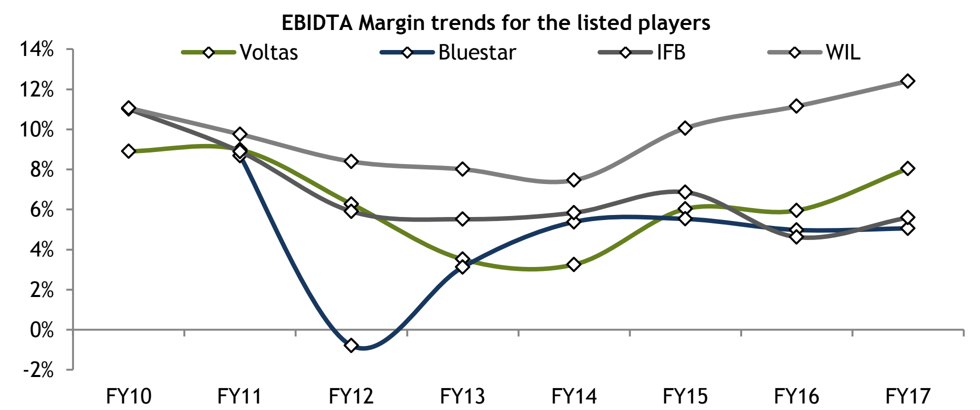
As depicted in Exhibit 16 and 17, an increase in RM prices and INR depreciation forced price hikes by all industry players, which helped largely maintain gross margins during FY11-FY14. However, severe pressure on volumes led to operating inefficiencies, in turn hurting margins of all players. Post FY14, when prices of key raw materials turned favorable, gross margins expanded marginally due to zero-to-minimal price hikes whereas EBIDTA margins improved significantly.

Exhibit 17:Gross margin trends for industry players



Source: Company, Equirus Securities

Exhibit 18:Margins contract for players in FY11-FY14,but impact limited for WHIRL



Source: Company, Bloomberg, Equirus Securities

Thrust remains on profitable growth

While all players took a margin hit during FY11-FY14, the quantum of decline for WHIRL was far lower than its listed peers. The margin resilience was driven by the company's strategy to focus on volume growth amid upbeat demand conditions, which leads to higher profitability as growth moderates. During challenging demand conditions, the company targets to improve its sales mix, control discretionary expenditure, and cut down recruitments. This has enabled WHIRL to maintain best-in-class margins. We believe WHIRL will tab continue to tap rising opportunities, but not at the cost of profitability.

Medium-to-long term outlook on margins/profitability remains intact

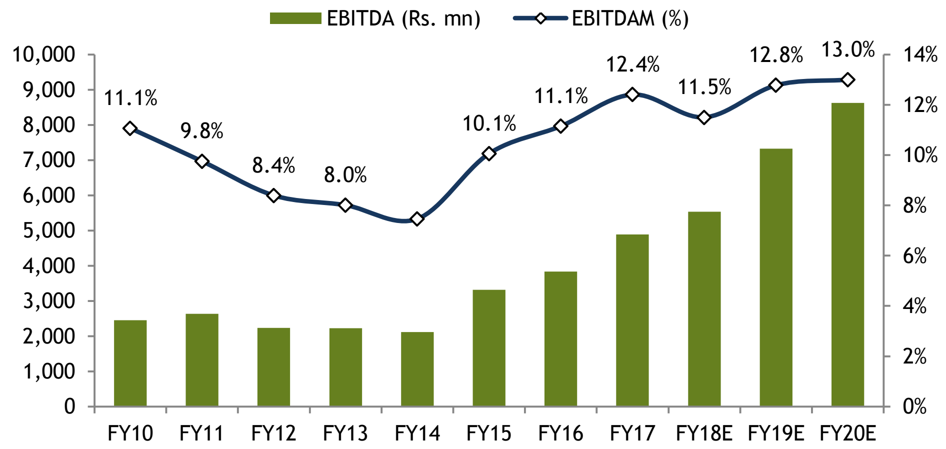
Margins to decline in FY18E but improve gradually in FY19E and FY20E

During 1HFY18E, WHIRL reported strong sales growth of 24% but a ~87bps drop in EBIDTA margins. This was largely owing to GST rollout as the company had to bare some incremental costs due to transition to the new taxation regime. Further, an uptrend in key RM prices could weigh on FY18E margins (likely at 11.5%, down ~90bps yoy). However, with a strong demand outlook, players would pass on rising costs to consumers. Hence, we expect EBIDTA margins to improve gradually, to 12.8% in FY19E and 13% in FY20E.

EBITDA/PAT to grow at 21%/20% CAGR during FY17-FY20E

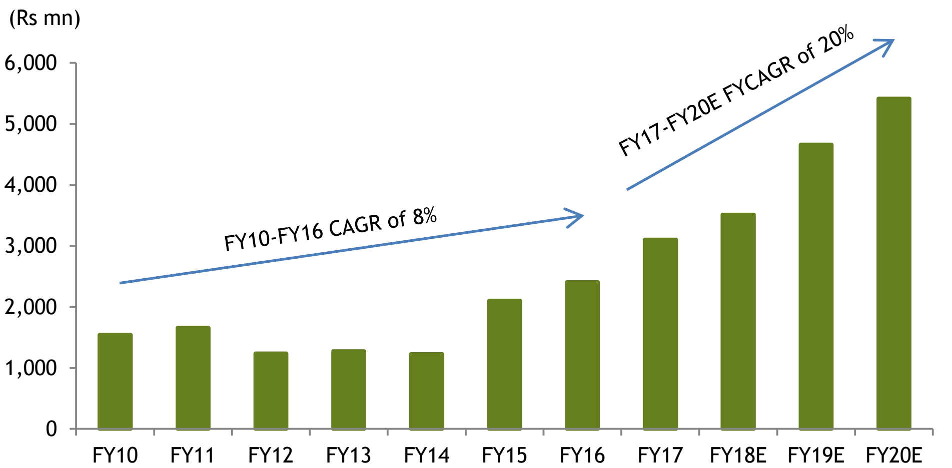
During FY10-FY17, WHIRL's EBIDTA/net profit grew at 10.3%/10.5% CAGR, largely capturing the difficult FY11-FY14 period. EBIDTA/net profit saw a strong 32.2%/36.2% CAGR during FY14-FY17 when macro conditions started improving and demand revived. WHIRL does not intend to build in-house AC manufacturing capacities as the category commands relatively lower margins. We expect an EBIDTA/net profit CAGR of 21%/20% over FY17-FY20E, with EBIDTA/PAT to grow from Rs 4.9bn/Rs 3.1bn to Rs 8.6bn/Rs 5.4bn by FY20E. This profit growth would be driven robust sales CAGR of 19% over this period.

Exhibit 19: 21% EBITDA CAGR over FY17-FY20E, with EBIDTAM touching ~13% in FY20E



Source: Company, Equirus Securities

Exhibit 20:Recurring PAT expected to grow at a 20% CAGR over FY17-FY20E

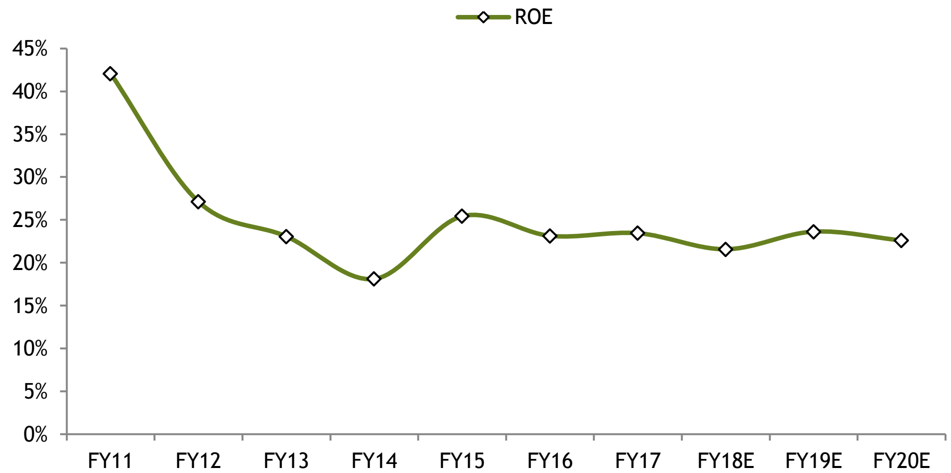


Source: Company, Equirus Securities

ROE/ROIC to remain stable

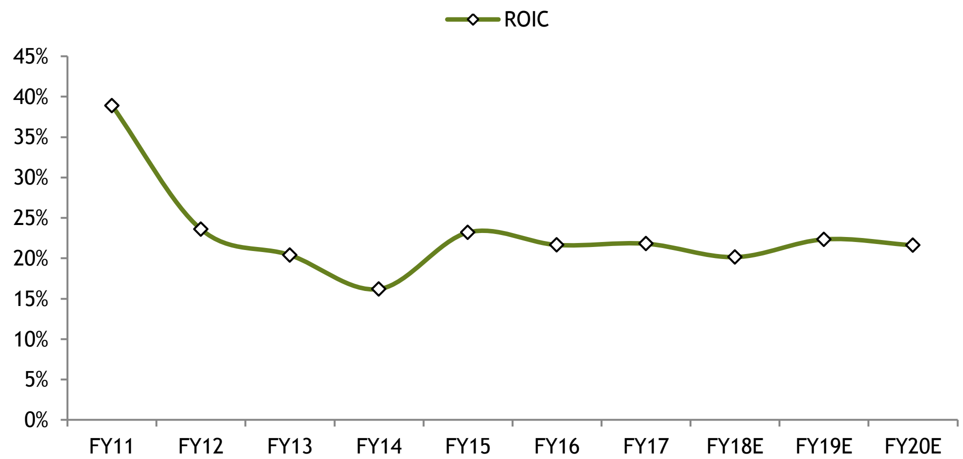
With improving profitability and regular capex required in FY19E we expect a RoE/RoIC to remain largely stable at 22.6%/21.6% in FY20E from 23.4%/21.8% in FY17.

Exhibit 21:ROE trends



Source: Company, Equirus Securities

Exhibit 22: ROIC trends



Source: Company, Equirus Securities

Competitive/Peer Analysis

Exhibit 23: Availability of products across brands

Washing Machine			LG	Samsung	Whirlpool	IFB	Panasonic
FA	**TL**	<6.5	Rs. 16,190-Rs. 27,590	Rs. 16,300-Rs. 33,890	Rs. 14,750-Rs. 23,725	Rs. 18,490-Rs. 21,490	Rs. 17,240-Rs. 23,690
		6.5-7.5	Rs. 25,090-Rs. 29,790	Rs. 24,290-Rs. 30,090	Rs. 22,575-Rs. 36,000	Rs. 23,490-Rs. 28,990	Rs. 24,990
		>7.5	Rs. 48,290-Rs. 70,090	Rs. 32,190-Rs. 42,590	Rs. 21,490-Rs. 46,000	Rs. 30,990-Rs. 31,990	-
	FL	<6.5	Rs. 29,790-Rs. 36,790	Rs. 25,990-Rs. 32,290	-	Rs. 22,990-Rs. 35,490	Rs. 28,900
		6.5-7.5	Rs. 36,990-Rs. 44,990	-	-	Rs. 34,990-Rs. 48,980	Rs. 31,500
		>7.5	Rs. 49,330-Rs. 53,990	-	Rs. 36,000-Rs. 46,000	Rs. 32,990-Rs. 58,980	-
SA		<6.5	Rs. 10,790-Rs. 11,490	Rs. 11,980-Rs. 12,497	Rs. 9,450-Rs. 11,775	-	Rs. 10,690
		6.5-7.5	Rs. 11,540-Rs. 14,640	Rs. 12,700-Rs. 13,150	Rs. 10,100-Rs. 13,225	-	Rs. 11,650
		>7.5	Rs. 15,040-Rs. 18,790	Rs. 14,900-Rs. 16,200	Rs. 12,600-Rs. 14,700	-	Rs. 25,450

Refrigerator			LG	Samsung	Whirlpool	Godrej
FF		251-300L	Rs. 24,990-Rs. 57,490	Rs. 22,300-Rs. 38,500	Rs. 20,475-Rs. 26,700	Rs. 20,200-Rs. 28,850
		301-350L	Rs. 35,890-Rs. 43,090	Rs. 20,950-Rs. 46,500	Rs. 24,950-Rs. 35,650	Rs. 26,300-Rs. 44,000
		>351L	Rs. 41,500-Rs. 123,990	Rs. 49,100-Rs. 123,500	Rs. 35,375-Rs. 150,000	Rs. 50,500-Rs. 70,500
DC		170-200L	Rs. 13,250-Rs. 18,440	Rs. 14,550-Rs. 18,400	Rs. 12,875-Rs. 18,400	Rs. 12,450-Rs. 19,190
		200-250L	Rs. 17,740-Rs. 22,440	Rs. 17,190-Rs. 22,500	Rs. 10,175-Rs. 25,800	Rs. 19,290-Rs. 22,390

Room Air conditioners			LG	Voltas	Whirlpool	Bluestar	Panasonic
Split	**3 star**	<1 tn	Rs. 29,990-Rs. 41,990	Rs. 33,090-Rs. 45,990	Rs. 30,300-Rs. 35,400	Rs. 27,900-Rs. 31,700	Rs. 34,100-Rs. 43,600
		1-1.5tn	Rs. 35,990-Rs. 41,990	Rs. 28,190-Rs. 40,990	Rs. 36,800-Rs. 40,200	Rs. 36,800-Rs. 40,000	Rs. 35,700-Rs. 42,700
		>1.5tn	Rs. 52,990-Rs. 54,990	Rs. 50,790-Rs. 65,990	-	-	Rs. 48,900-Rs. 52,100

Source: E-Commerce websites, Store Visits - Equirus Securities

Exhibit 24:Washing Machine products across companies

Company	SKU	Comments
LG	101	No 1 player in the category
		Strong and well-diversified portfolio
		Available in all sizes
		A complete player in the WM space
Samsung	99	No 2 player in the category
		Strong and well diversified portfolio
		Available across sizes
		Complete player in the WM space
Whirlpool	36	
Brands		
Fresh Care	*5*	Largely present in FA TL and SA category
Supreme care	*3*	Limited presence above 8kg
Bloomwash	*6*	Limited presence in Front Load category
Whitemagic	*5*	
Stainwash	*5*	
Ace	*10*	
Superb atom	*2*	
IFB	32	Majorly focused on FL with 21 SKUs
		Has 11 SKUS in TL FA
		Not present in SA category
		Has product range in 8.5kg
		Focusing on new launches above 8.5
Godrej	23	Only Top Load
		Portfolio well diversified in SA and FA
		Availability largely till 8kg
BOSCH	15	Not Available above 8 kg capacity
		Only available in Fully Automatic Front Load
Electrolux	6	Very limited presence and not a major player
		Available till 7.3kg
		Price conscious customers
Haier	16	Largely SA TL player
		Trying to enter into FL category, currently only 1 model of 6kg
		Focus more towards lower sized products
Mitashi	11	Focus on value customers
		limited presence and reach
		Largely a TL Player
ONIDA	13	Ltd products but available in FA and SA as well as TL and FL categories
		Focus remains on distribution network expansion
		Product portfolio concentrated on small sized
Panasonic	10	Largely a TL player in SA and FA
		8 of 10 products in the range of 5.5 to 6.5 kg

Exhibit 25:Refrigerator product mix across brands

Brands	SKU	Comments
Samsung	132	Leading player in the refrigerator category
		Extremely strong product portfolio
		Available across price points, across capacities and covers all variants in the category
		Channel checks indicate more than 40% of products displayed are of Samsung
		Strong distribution remains the strength
LG	97	Among the top 3 players
		entire range of products available with prime focus on Middle income group
		Strong distribution remains the strength
Whirlpool	108	Among the top 3 players
		entire range of products available with prime focus on Middle income group
		Focus remains on increasing its distribution reach
Godrej	40	Largely present till 400L capacity
		low prices compared to samsung, whirlpool and LG
		Focus remains on expanding product portfolio and distribution network
Haier	35	Product portfolio concentration towards 250 L and below capacities
		Price points far lower than other leading competitors in the category
BOSCH	11	Limited presence in the category
		Limited Product choice available for customers as the products available across capacities
Electrolux	5	Targets value conscious consumers

Source: E-Commerce websites, Store Visits - Equirus Securities

Exhibit 26:Competitive analysis

	IFB Industries		Whirlpool		Voltas		Bluestar	
	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17
Revenue	15009	17407	34,399	39408	51488	54104	35301	41121
Growth (%)	19%	16%	4%	15%	0%	5%	4%	16%
Gross margin (%)	43%	42%	41%	41%	23%	25%	31%	29%
EBITDA	694	974	3835	4888	3048	4300	1903	1995
Margin (%)	5%	6%	11%	12%	6%	8%	5%	5%
PAT	314	510	2369	3081	3250	5727	1120	1269
Margin (%)	2%	3%	7%	8%	6%	11%	3%	3%
CFO	487	926	3438	3836	2729	2903	1290	2707
Receivable days	28	27	20	19	75	80	71	72
Payable days	136	150	215	236	293	380	156	136
Inventory days	52	60	73	82	39	52	53	52
Cash conversion cycle	15	11	-5	-7	13	13	11	19
Fixed asset turnover	5	5	9	9	29	34	15	21
Working capital turnover	24	33	-68	-49	29	27	33	39
Net Debt/Equity	-0.1	-0.1	-0.7	-0.7	-0.3	-0.1	-0.3	-0.1
ROE (%)	8%	12%	23%	23%	26%	18%	8%	13%
RoIC (%)	7%	10%	22%	22%	24%	17%	21%	16%

Source: Company, Bloomberg, Equirus Securities

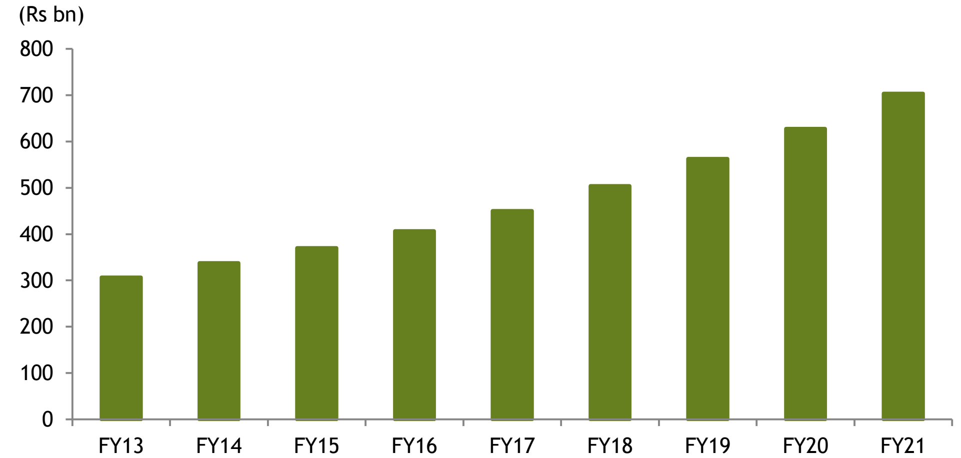
Industry overview

Set to grow at 12% CAGR over FY17-FY20

India's home appliances industry, estimated at Rs 4.5trn as of FY17, has been witnessing robust double-digit growth over FY13-FY17 despite weak monsoons, and the dual impact of demonetization and GST. Innovative retail marketing initiatives such as attractive discounts, exchange offers, freebies and extended warranty services have pushed up demand and placed more buying power with consumers. The advent of e-commerce/ e-tail channels has increased penetration levels in tier-I cities. Lower penetration of white goods would provide further headroom for growth. Urban markets account for 67% of total home appliances revenues. Rural electrification and improving power infrastructure would increase demand for home appliances in years ahead.

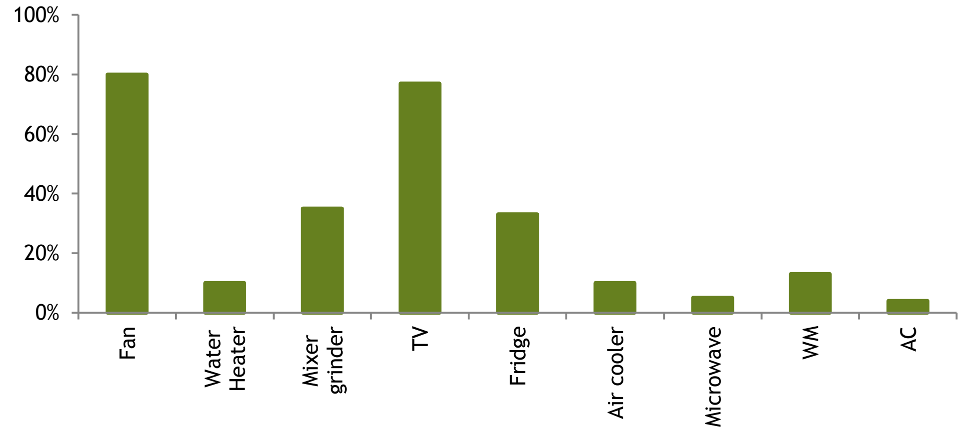
The industry is set to grow at a 12% CAGR over FY17-FY20E driven by rising disposable incomes, improved penetration levels, financing alternatives, a growing working population, emergence of e-commerce/e-tail channels and product availability across price points. Rising RM prices, a depreciating rupee, power outages, inadequate after sales service and challenges in the distribution system could hinder growth.

Exhibit 27: India's home appliances industry (Rs bn)



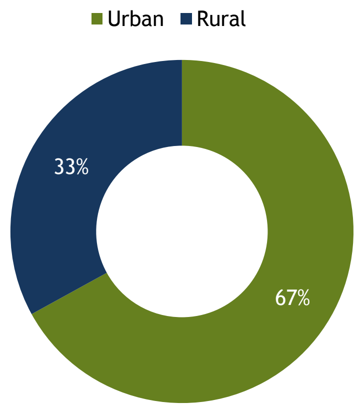
Source: Industry, Equirus Securities

Exhibit 28:Penetration level across various categories



Source: Industry, Equirus Securities

Exhibit 29:Home appliances - Urban-rural mix



Source: Industry, Equirus Securities

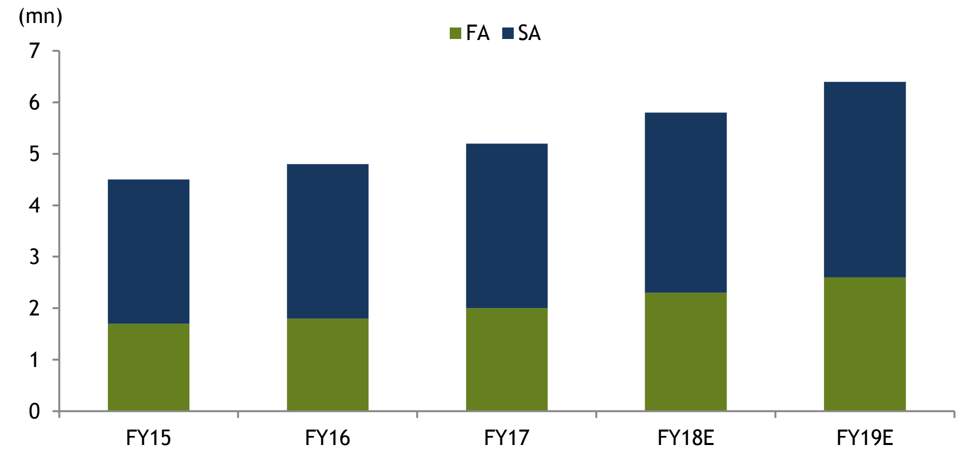
Washing machine industry to grow at 9% CAGR over FY17-FY19E

India's WM industry is estimated at ~5.2mn units/Rs74.3bn in FY17 and has grown at a ~7%/8% CAGR in volume/value terms during FY14-FY17. WM penetration levels have improved from ~9% in FY12 to ~13% in FY17 but lag those of other home appliances such as TV and refrigerators. Within the WM segment, semi-automatic (SA) WMs contribute ~62% of total sales. However, the fully automatic (FA) segment has been growing at a faster rate than the SA segment over the past five years, and is expected to reach ~41% of total WM sales by FY19E (FY17: ~38%) Favorable macro conditions, more nuclear families, growing urbanization, change in consumer perceptions, and a higher number of working women would be key growth drivers for the WM industry.

Urban penetration to grow at a faster rate than rural penetration

The FY09-FY11 period saw a massive 30% volume CAGR fueled by higher GDP growth and household consumption expenditure. However, growth over FY11-FY14 crashed to 4.2% due to rising inflation, decelerating GDP growth (sub-5%), reducing household consumption expenditure and sharp INR rupee depreciation. Improving consumer sentiment and pent-up demand of previous years led to a volume CAGR of ~5.7% in FY14-FY16. With majority of WM sales in urban markets, urban penetration stands at 33% in FY17 and is likely to reach 42% in FY22E. Rural markets currently remains significantly underpenetrated at ~4%, which is likely to improve to 6% in FY22E.

Exhibit 30: Washing Machine volumes (mn units)



Source: Industry, Equirus Securities

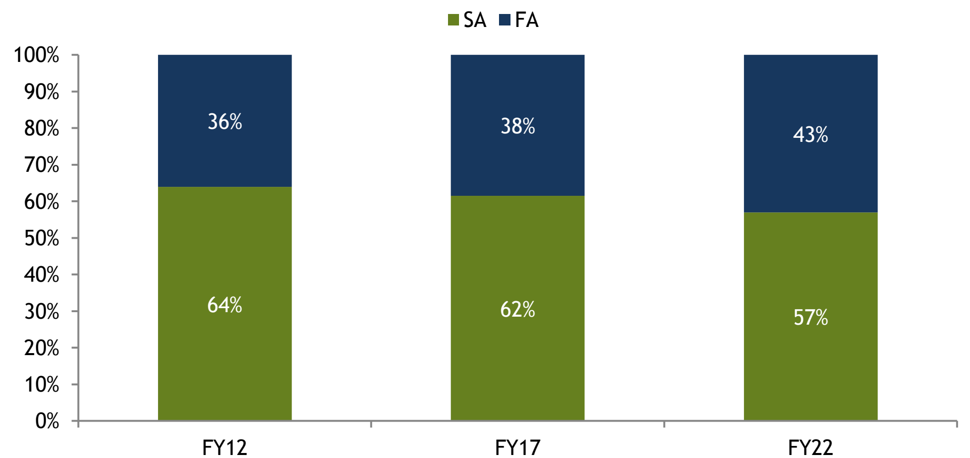
FA machines to grow at a faster rate that SA machines

Within WM, the FA segment is expected to grow at a 14% CAGR over FY17-FY19E and the SA segment at a 9% CAGR. Due to its faster growth, FA segment's share in overall WM sales would grow from 38% in FY16 to 41% in FY19E. Higher growth in the FA segment would be driven by higher operating efficiencies, zero manual intervention, lower space consumption, faster wash cycles and availability in multiple ranges. Top-load (TL) WMs are ~Rs 12,000 cheaper than the front-load (FL) WM, and due to this price differential, TLs are expected to grow at a faster rate than FLs. Demand for SA machines will be driven by semi-urban areas due to factors such as increased price differential and availability of running tap water. Accordingly, SA machine sales should grow from 3.2mn units in FY17 to 3.8mn units in FY19E, contributing ~59.4% of total WM sales in FY19E.

Market dominated by five major players

LG, Samsung, Whirlpool, IFB and Videocon are among the major players present in the WM industry across segments, together accounting for ~85% of the total market share. LG is the market leader with a ~33% market share (FY17). Competitive intensity has been increasing due to lower priced products and the entry of several players over the past two years. Players are increasingly focusing on various factors such as product innovation, electricity and water conservation, and increasing presence across the e-commerce channel.

Exhibit 31:Volume share FA vs. SA

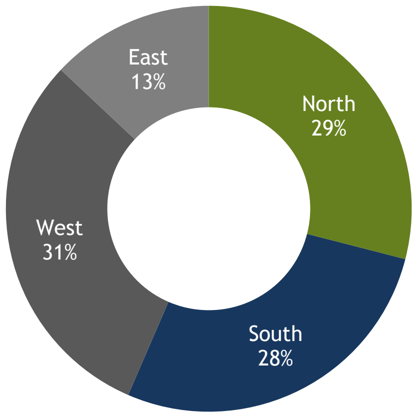


Source: Industry, Equirus Securities

Preference towards higher capacity models

There has been a shift towards higher capacity models as consumers prefer lower number of wash cycles. The share of WM with <6.2kg capacity has declined from ~3.5% in FY14 to 1.5% in FY17.

Exhibit 32:Region-wise sales

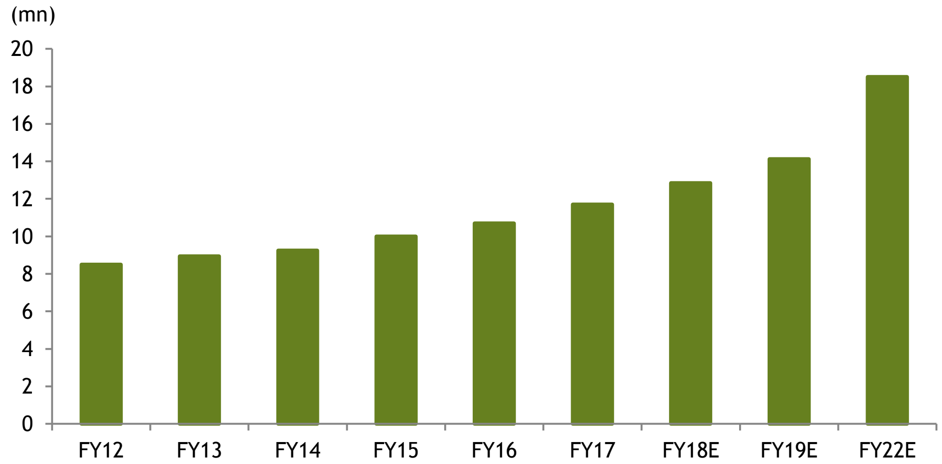


Source: Industry, Equirus Securities

Refrigerator industry to grow at a 9% CAGR over FY17-FY19E

The Indian refrigerator segment was valued at Rs 196.7bn (or ~11.7mn units) during FY17, having recorded a CAGR of 10% during FY14-FY17. Refrigerator household penetration has grown from 23% in FY12 to 33% in FY17, with penetration levels in rural India being 11% and urban India 74%. In FY17, the refrigerator industry grew by 11%/9% in value/volume terms, and constitutes ~40% of the overall Rs 4.5trn household appliances industry. While 1HFY17 witnessed strong sales growth due to festive season sales, growth in 2HFY17 was muted owing to demonetization and GST uncertainties. Export volumes constituted ~6% of overall sales with Nepal, Sri Lanka and Middle East being the major destinations. The segment is expected to grow at a 9.6% CAGR over FY17-FY22E to reach 18.5mn units with overall penetration levels improving to 36% by FY19E.

Exhibit 33:Refrigerator volumes (mn units)



Source: Industry, Equirus Securities

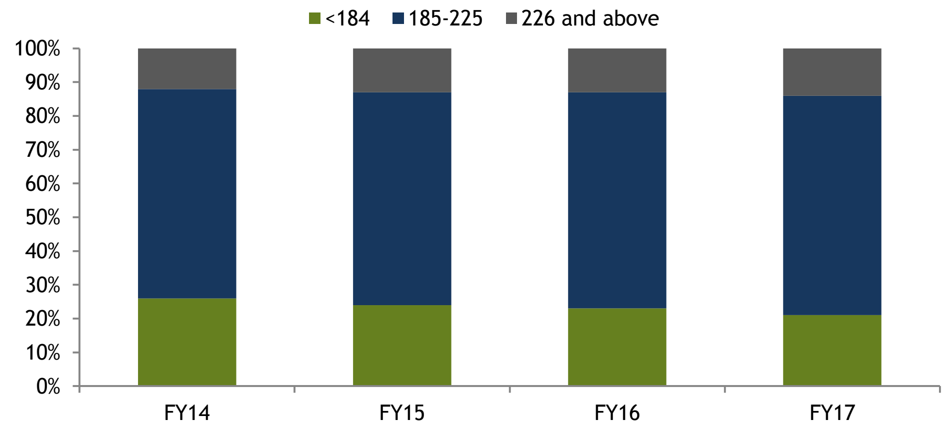
The refrigerator segment has grown at a steady volume CAGR of 7% over FY12-FY17. During FY12-FY14, volume growth at ~4% was dampened due to various macro factors. However, FY15 saw a sales pickup (~8%) as buyer sentiment improved, even as growth slowed down in FY16 (7%) due to unfavorable monsoons. Rising incomes, lower rural penetration levels, improved realizations, continued increase in rural electricity supply, and change in consumer perception (refrigerator as a necessity rather than a luxury) provides headroom for growth in the mid-to-long term. Continuous revision of BEE standards and stricter energy norms will lead to an increase in prices of direct cool refrigerators in the range of 6%, thereby improving realizations. Companies will have to introduce more efficient and costlier 4/5-star refrigerators as BEE norms are revised.

DC segment to dominate overall refrigerator sales

The refrigerator product mix is skewed in favor of the Direct Cool (DC) segment as it contributes ~73%/59% to overall refrigerator volume/value sales in India. The DC segment is targeted towards price-sensitive customers mainly in semi-urban and rural areas due to its economical nature and lower electricity consumption vis-à-vis frost free (FF) models; the FF segment is targeted towards urban-centric customers. DC/FF segments are expected to grow at a 10%/11% CAGR over FY17-FY19E. The product mix is unlikely to undergo significant changes in the near future and remain in favor of the DC segment at

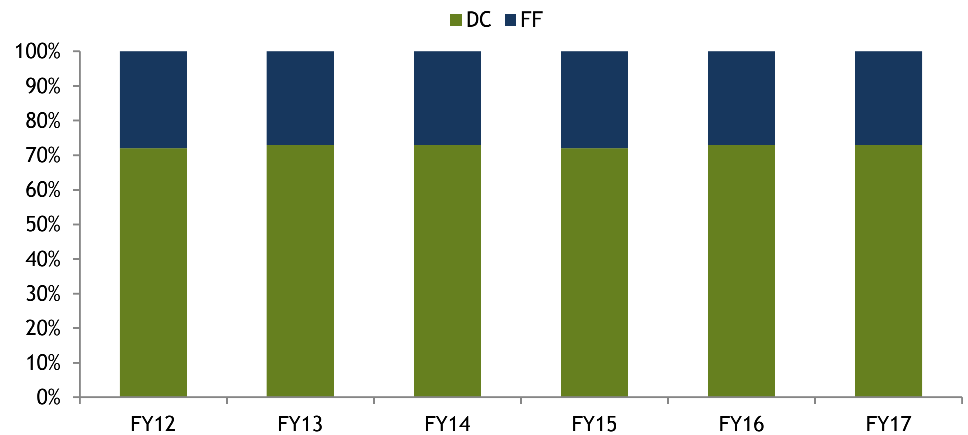
72% of overall sales in FY22E. Demand for FF refrigerators will remain largely urban-centric and be driven by first-time sales as well as replacement demand. Demand for DC models will come from semi-urban and rural areas as they are available at lower price points, need less space and consume less electricity (~20-30% less than FF segment). LG is the market leader in the DC segment with a market share of ~32%; Samsung leads the FF segment with a ~38% share. Top-5 players contribute 90% of overall refrigerator sales.

Exhibit 34: Direct Cool product mix



Source: Industry, Equirus Securities

Exhibit 35: Frost Free and Direct Cool product mix



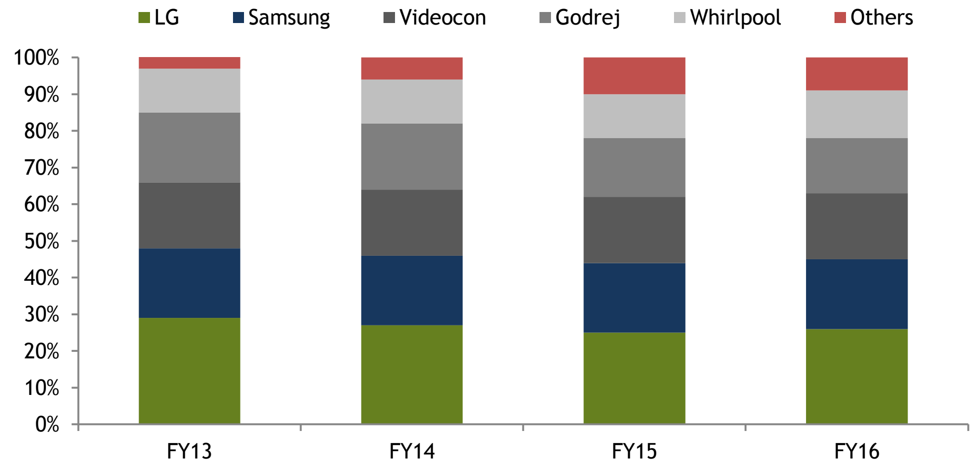
Source: Industry, Equirus Securities

Shift in preference towards higher capacity models

Consumers now increasingly prefer higher capacity models within the FF and DC segments. The share of 185L and less refrigerators within the DC segment has declined from 26% in FY14 to 21% in FY17, while that of 185L-225L has increased from 62% to 65%. Within the FF segment, the share of 270L and less refrigerators has dropped from 57% in FY14 to 53% in FY17 whereas that of 270L and above refrigerators has increased from 43% to 48%.

LG, Whirlpool, Videocon, Samsung and Godrej have been major players in the refrigerator industry for the past 4-5 years. North India at 31% accounts for majority of refrigerator sales followed by South (29%), West (26%) and East (14%). Most sales come through organized retailers followed by unorganized retail. Online refrigerator sales form a meager 1% of overall sales.

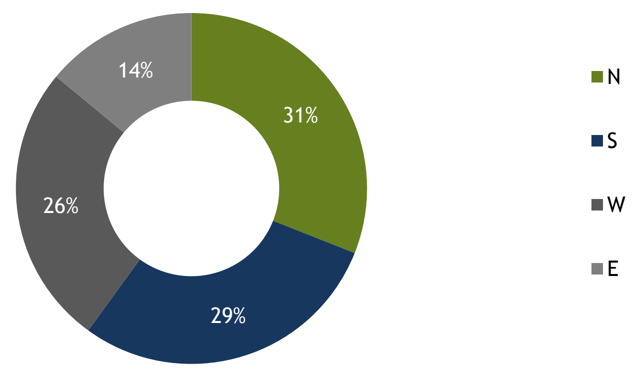
Exhibit 36:Market share of major brands



Source: Industry, Equirus Securities

Raw materials constitute ~75% of total operating costs. Compressors, condensers and evaporators are the major cost components which together constitute ~65%/50% of total raw material/operating costs.

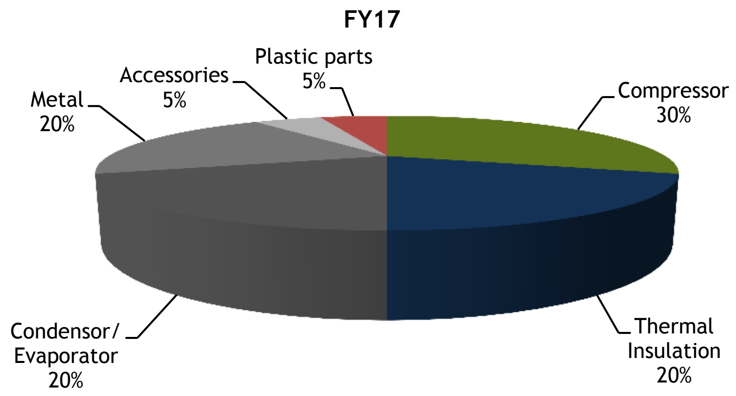
Exhibit 37:Region-wise sales



Source: Industry, Equirus Securities

Going forward, factors such as an increase in penetration of consumer finance companies, distribution network expansion, especially in tier 2/3 cities, increase in rural penetration and introduction of innovative products and technology would be key success factors for the refrigerator industry.

Exhibit 38:Raw materials used in making refrigerators

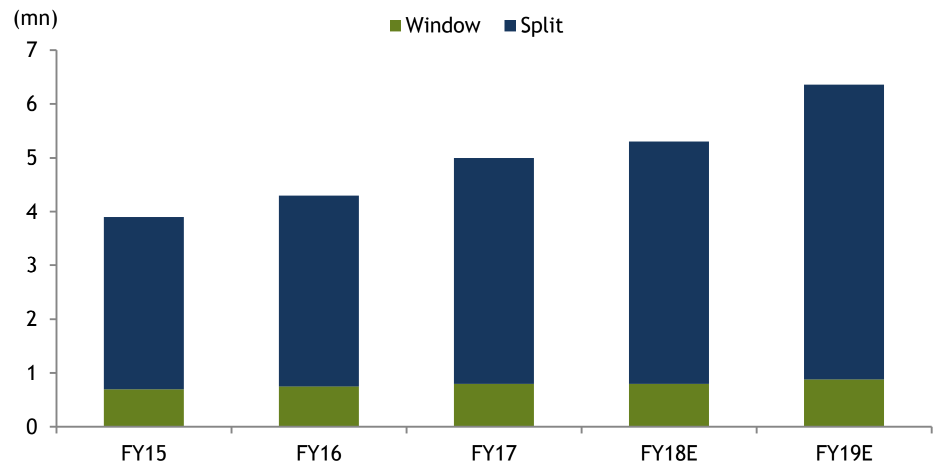


Source: Industry, Equirus Securities

Air conditioning industry to grow by 18% over FY17-20E

The Indian Room Air Conditioning (RAC) segment currently stands at 5mn units or Rs 140bn, with ~84% of volumes coming from split RACs. The RAC segment is relatively underpenetrated vis-à-vis other home appliances such as WM, refrigerators and color TVs as it is ranked low in priority. RAC sales are at an inflection point and pegged to grow at a 13% CAGR over FY17-FY19E to 6.4mn units in FY19E. Split ACs are likely to grow at a 14% CAGR over FY17-FY19E whereas window ACs only at 5% due to decreasing price differential and changing consumer preferences given ease of installation, consumption of less space, cooling efficiency, operating efficiency, reduced noise, and better aesthetics. Penetration levels are set to rise from 5% in FY17 to 8% in FY19E. Increased penetration, year-round AC usage trend and severe summers would be key growth factors.

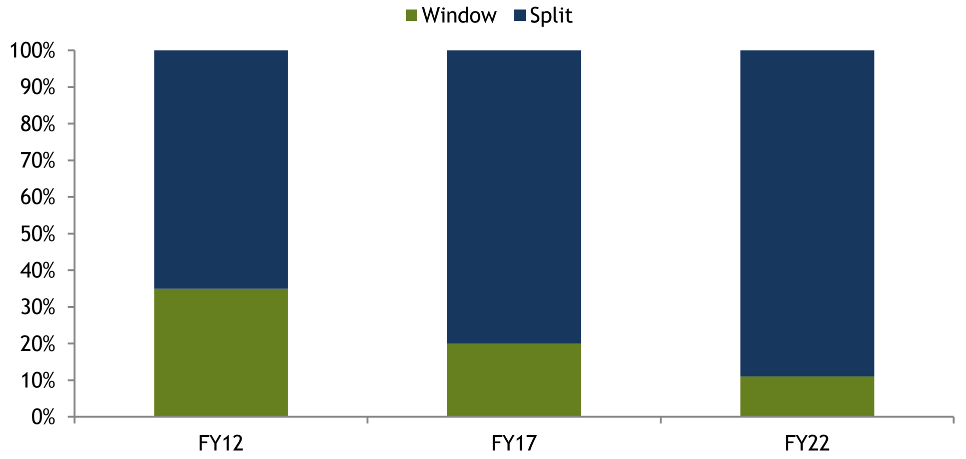
Exhibit 39:Window vs. split ACs volumes (mn units)



Source: Industry, Equirus Securities

The overall AC segment is likely to grow at a 13% CAGR in volume terms over FY17-FY19E, driven by urban sales. The share of split ACs to overall AC sales is expected to change from 84% in FY17 to 86% in FY19E. The contribution of inverter ACs is likely to increase from 15% in FY17 to 30%/50% in FY18/FY20. The new star-rating methodology proposed by BEE will benefit the inverter AC segment and AC prices are expected to rise due to an increase in manufacturing costs of star-labeled ACs.

Exhibit 40:Window and split AC product mix



Source: Industry, Equirus Securities

Constituting 63% of overall AC sales, three-stars ACs are the most widely used in India. However, owing to changing consumer preference towards more energy-efficient models, the share of five-star ACs to overall sales is likely to increase in the mid-to-long term. Most AC models are introduced in the months of February and March.

Intense competition

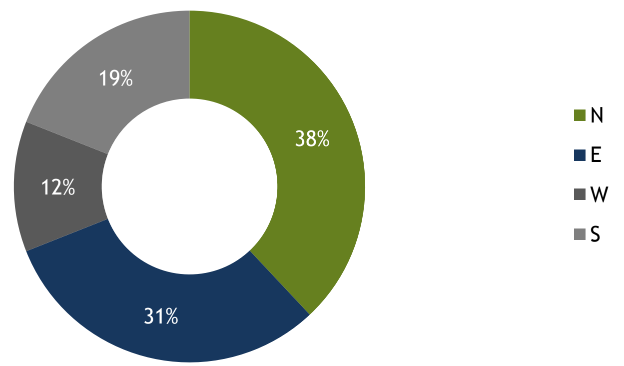
The Indian RAC segment is fragmented with multiple players across categories. In FY17, there were ~9 major brands present across the RAC segment, with the top-3 occupying ~50% of the market share. Players such as Bluestar, LG, Daikin, Hitachi, Panasonic, Lloyd and Voltas will eye a larger market share. Factors such as a superior brand image, dealer margins, and effective distribution and aftersales services will play a key role in getting a stronghold in the AC segment. North India at 38% accounts for the highest share of overall AC sales in India followed by the East at 31%, South at 19% and West at 12%. North India remains the largest market for window ACs in India.

Raw material costs form 75% of overall costs for RAC, while compressor and evaporating units constitute a major portion of total RM expenses as most players import these components. Most AC manufacturers in India import and source major components from local vendors and assemble ACs. Steel, copper, aluminum and plastic are the key raw materials used in AC manufacturing.

Change in BEE norms

BEE's ISEER star-rating methodology, voluntary till CY17-end, will be mandatory for inverter ACs effective 1 Jan'18. BEE has been consistently changing the energy efficiency standards since 2010. ISEER rating methodology for inverter ACs is likely to be merged with fixed-speed ACs, leading to two-star rating change across split ACs. For instance, a five-star rated fixed-speed split AC in 2010 would have become a three-star rated fixed-speed split AC in 2015, and with the introduction of ISEER, it would become one-star rated fixed speed split unit. Accordingly, there could be cannibalization of five-star fixed ACs as inverter ACs take over market share from fixed-speed ACs. This could lead to a price increase of ~10-12% across the industry. Demand for inverter ACs would be derived from metro cities mainly due to continuous supply of power. The share of inverter ACs would increase from 15% in FY17 to 30%/50% in FY18/FY20.

Exhibit 41:Region-wise AC sales across India



Source: Industry, Equirus Securities

Forecast: Key Assumptions & Sensitivity

Rs mn	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenues						
Refrigerators - Gross Revenues	25,871	27,622	31,282	38,789	46,547	53,529
YoY Growth	**22.6%**	**6.8%**	**13.3%**	**24.0%**	**20.0%**	**15.0%**
Washing Machines - Gross Revenues	8,456	9,071	10,273	12,739	15,287	18,344
YoY Growth	***17.7%***	***7.3%***	***13.3%***	***24.0%***	***20.0%***	***20.0%***
AC - Gross Revenues	3,201	4,075	5,013	6,266	7,519	8,835
YoY Growth	***9.0%***	***27.3%***	***23.0%***	***25.0%***	***20.0%***	***17.5%***
Total Net Revenues	32,938	34,399	39,408	48,087	57,316	66,330
YoY Growth	***16.2%***	***4.4%***	***14.6%***	***22.0%***	***19.2%***	***15.7%***
Profitability						
EBIDTA	3,313	3,835	4,888	5,530	7,322	8,621
EBIDTAM	***10.1%***	***11.1%***	***12.4%***	***11.5%***	***12.8%***	***13.0%***
Recurring PAT	1,544	1,660	1,237	1,278	1,229	2,105
PATM	***4.7%***	***4.8%***	***3.1%***	***2.7%***	***2.1%***	***3.2%***

Investment Risk & Concerns

- **Rising commodity prices**: Unfavorable commodity price movements could hurt margins and profitability if price increases are not passed on to consumers.
- **Slowdown in consumer spending**: Overall demand for home appliances would be impacted if there is a slowdown in consumer spending
- **Increase in competitive intensity**: An increase in competitive intensity across the home appliances industry could hamper WHIRL's margins.
- **Inability to bridge portfolio gaps**: Failure to launch new products, and lack of product innovation to keep up with industry standards may lead to market share losses.

Corporate Governance

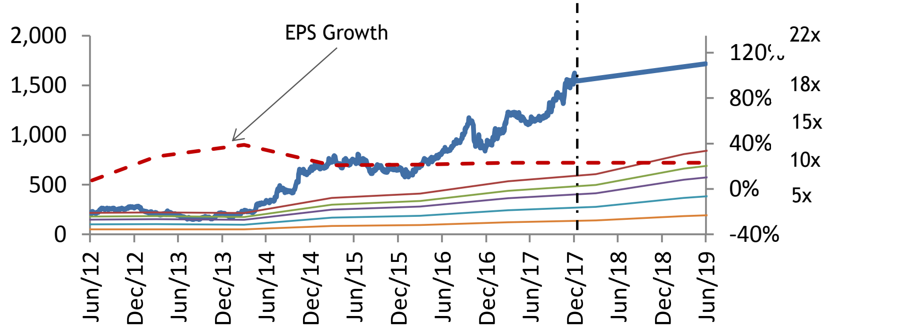
- WHIRL had declared a dividend of Rs 3/share for FY17.
- As of 31 Mar'17, WHIRL's Board had eight directors; of these, four are Independent Directors and the remaining non-independent.
- All independent directors have attended the four meetings held during FY17.
- M/s S. R. Batliboi & Co. LLP are the statutory auditors. There have been no adverse comments on the FY17 Annual report. SpiceJet Ltd, Suprajit Ltd and Tube investments Ltd. are some of the other companies audited.

Valuation

We believe WHIRL is likely to post strong sales in the coming years as it plugs product portfolio gaps, expands its distribution network, and constantly upgrades its existing product portfolio. Profitability is likely to remain strong even as margins dip in FY18E due to GST rollout in 1HFY18 and a consistent increase in RM prices during 2HFY18E. We expect 19%/21%/20% revenue/EBIDTA/PAT CAGR over FY17-FY20E.

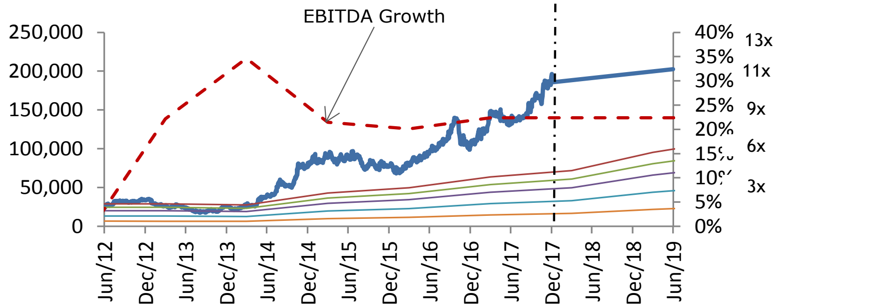
Our Jun'19 TP of Rs 1,717 is set at a P/E of 44x its TTM EPS of Rs 39. At our TP, the implied FY20E PE multiple stands at 40x. We think current valuations are fair, and initiate coverage on the stock with an ADD rating.

Exhibit 42:TTM P/E vs. 2 year forward EPS Growth



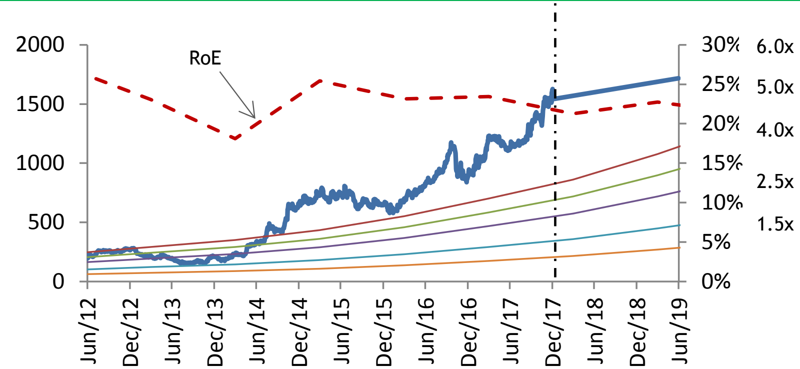
Source:Company, Equirus Securities

Exhibit 43:TTM EV/EBITDA vs. 2 year forward EBITDA Growth



Source: Company, Equirus Securities

Exhibit 44:TTM P/B vs. 2 year forward RoE



Source: Company, Equirus Securities

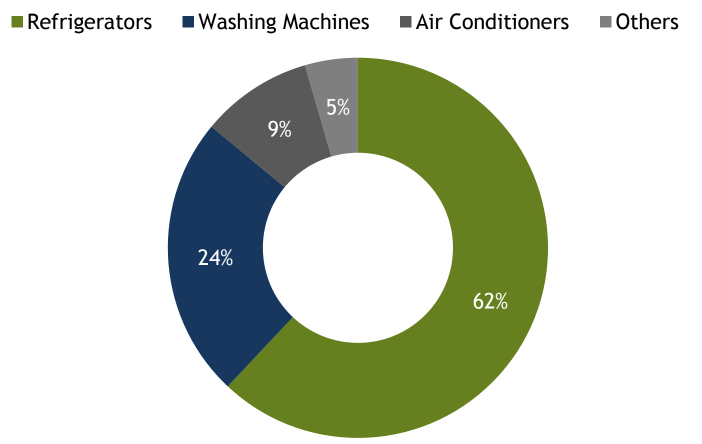
Company Overview

WHIRL forayed into Indian markets in the late 1980s as part of its global expansion strategy. Under a JV with the TVS Group, WHIRL established its first washing machine manufacturing facility in Puducherry. It acquired Kelvinator India 1995 to enter into the refrigerator market. In 1995, WHIRL acquired a majority stake in JV with TVS. In 1996, Kelvinator and TVS were merged to create a single entity, Whirlpool of India.

This expanded the company's portfolio in the Indian subcontinent to washing machines, refrigerators, microwave ovens and air-conditioners. Headquartered in Gurugram, WHIRL is one of the leading manufacturers and marketers of home appliances in India. The company owns three state-of-the-art manufacturing facilities at Faridabad (Haryana), Thirubhuvanai Village (Puducherry) and Rajangaon(Pune).

Currently, refrigerators form the largest part of WHIRL's product portfolio, accounting for 62% of its FY16 gross revenues. Washing machines and ACs are other large product categories accounting for 20%/9% of FY16 gross revenues. The balance 10% of revenues come from microwave ovens, built-in kitchen appliances, other appliances (air and water purifiers, small domestic appliances), spare parts and accessories, as well as income from services.

Exhibit 45: WHIRL - Segment breakup (FY16)



Source: Company, Equirus Securities

Key Management profile

Name	Designation
Mr. ArvindUppal	Chairman & Executive Director
Mr. Sunil D'Souza	Managing Director
Mr. Anil Berera	Executive Director & CFO
Mr. Vikas Singhal	Executive Director
Mr. Anand Narain Bhatia	Independent Director
Mr. SanjivVerma	Independent Director
Mr. Simon J. Scarff	Independent Director
Mrs. SonuHalanBhasin	Independent Director

Source: Company, Equirus Securities

Standalone Quarterly Earnings Forecast and Key Drivers

Rs in Mn	1Q17A	2Q17A	3Q17A	4Q17A	1Q18A	2Q18A	3Q18E	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E	FY17A	FY18E	FY19E	FY20E
Revenue	12,727	8,434	8,102	10,146	14,640	11,597	10,002	11,848	17,450	12,896	12,609	14,360	39,408	48,087	57,316	66,330
Cost of Materials, Stock-in-trade	6,914	4,971	4,912	8,265	7,937	6,461	5,701	6,753	9,903	7,318	7,156	8,149	25,061	26,852	32,527	37,642
Sub Contractor expense for turnkey projects	969	-275	-322	-2,333	1,446	568	400	474	698	484	473	503	-1,960	2,888	2,157	2,322
Employee Benefits Expenses	1,038	1,018	1,034	1,027	1,110	1,215	1,200	1,155	1,361	1,386	1,387	1,400	4,116	4,681	5,535	6,209
Excise Duty	1,903	1,824	1,635	1,941	2,040	2,218	1,775	2,103	2,879	2,244	2,175	2,477	7,302	8,136	9,775	11,536
Other expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
EBITDA	1,903	897	843	1,246	2,108	1,135	925	1,362	2,609	1,464	1,419	1,831	4,888	5,530	7,322	8,621
Depreciation	225	207	195	248	278	255	273	273	319	319	319	319	875	1,079	1,276	1,521
EBIT	1,678	690	648	997	1,830	880	652	1,090	2,290	1,145	1,099	1,512	4,014	4,452	6,046	7,100
Interest	15	16	22	6	17	17	20	20	22	22	22	22	59	74	88	96
Other Income	186	186	190	168	217	277	250	250	275	275	275	275	730	993	1,100	1,200
PBT	1,850	861	815	1,159	2,029	1,140	882	1,320	2,543	1,398	1,352	1,765	4,685	5,371	7,058	8,204
Tax	630	273	261	415	702	406	300	449	865	475	460	600	1,580	1,856	2,400	2,789
Recurring PAT	1,220	587	554	744	1,327	735	582	871	1,678	922	893	1,165	3,105	3,515	4,658	5,415
Extraordinary	5	-4	-8	30	1	17	0	0	0	0	0	0	24	18	0	0
Reported PAT	1,214	591	562	714	1,326	718	582	871	1,678	922	893	1,165	3,081	3,497	4,658	5,415
EPS (Rs)	9.61	4.63	4.37	5.86	10.46	5.79	4.59	6.87	13.23	7.27	7.04	9.18	24.47	27.71	36.71	42.68
Key Drivers																
Refrigerator gross revenues	-	-	-	-	-	-	-	-	-	-	-	-	31,282	38,789	46,547	53,529
Washing machines gross revenues	-	-	-	-	-	-	-	-	-	-	-	-	10,273	12,739	15,287	18,344
AC gross revenues	-	-	-	-	-	-	-	-	-	-	-	-	5,013	6,266	7,519	8,835
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sequential Growth (%)																
Revenue	50 %	-34 %	-4 %	25 %	44 %	-21 %	-14 %	18 %	47 %	-26 %	-2 %	14 %	-	-	-	-
Cost of Materials, Stock-in-trade	8 %	-28 %	-1 %	68 %	-4 %	-19 %	-12 %	18 %	47 %	-26 %	-2 %	14 %	-	-	-	-
EBITDA	78 %	-53 %	-6 %	48 %	69 %	-46 %	-18 %	47 %	91 %	-44 %	-3 %	29 %	-	-	-	-
EBIT	95 %	-59 %	-6 %	54 %	83 %	-52 %	-26 %	67 %	110 %	-50 %	-4 %	38 %	-	-	-	-
Recurring PAT	76 %	-52 %	-6 %	34 %	78 %	-45 %	-21 %	50 %	93 %	-45 %	-3 %	30 %	-	-	-	-
EPS	76 %	-52 %	-6 %	34 %	78 %	-45 %	-21 %	50 %	93 %	-45 %	-3 %	30 %	-	-	-	-
Yearly Growth (%)																
Revenue	17 %	20 %	1 %	20 %	15 %	37 %	23 %	17 %	19 %	11 %	26 %	21 %	15 %	22 %	19 %	16 %
EBITDA	25 %	51 %	29 %	17 %	11 %	27 %	10 %	9 %	24 %	29 %	53 %	34 %	27 %	13 %	32 %	18 %
EBIT	26 %	65 %	44 %	16 %	9 %	28 %	1 %	9 %	25 %	30 %	69 %	39 %	31 %	11 %	36 %	17 %
Recurring PAT	26 %	64 %	43 %	7 %	9 %	25 %	5 %	17 %	26 %	26 %	53 %	34 %	29 %	13 %	33 %	16 %
EPS	26 %	64 %	43 %	7 %	9 %	25 %	5 %	17 %	26 %	26 %	53 %	34 %	29 %	13 %	33 %	16 %
Margin (%)																
EBITDA	15 %	11 %	10 %	12 %	14 %	10 %	9 %	12 %	15 %	11 %	11 %	13 %	12 %	12 %	13 %	13 %
EBIT	13 %	8 %	8 %	10 %	12 %	8 %	7 %	9 %	13 %	9 %	9 %	11 %	10 %	9 %	11 %	11 %
PBT	15 %	10 %	10 %	11 %	14 %	10 %	9 %	11 %	15 %	11 %	11 %	12 %	12 %	11 %	12 %	12 %
PAT	10 %	7 %	7 %	7 %	9 %	6 %	6 %	7 %	10 %	7 %	7 %	8 %	8 %	7 %	8 %	8 %

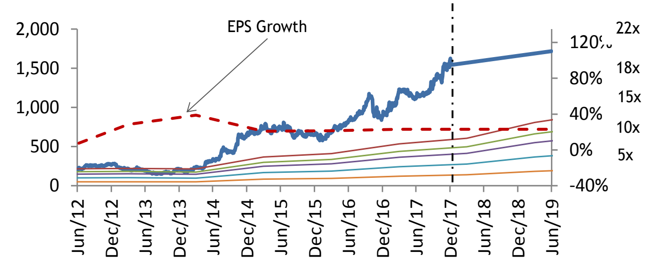
Consolidated Financials

P&L (Rs Mn)	FY17A	FY18E	FY19E	FY20E
Revenue	39,408	48,087	57,316	66,330
Op. Expenditure	34,519	42,557	49,994	57,709
EBITDA	4,888	5,530	7,322	8,621
Depreciation	875	1,079	1,276	1,521
EBIT	4,014	4,452	6,046	7,100
Interest Expense	59	74	88	96
Other Income	730	993	1,100	1,200
PBT	4,685	5,371	7,058	8,204
Tax	1,580	1,856	2,400	2,789
PAT bef. MI & Assoc.	3,105	3,515	4,658	5,415
Minority Interest	0	0	0	0
Profit from Assoc.	0	0	0	0
Recurring PAT	3,105	3,515	4,658	5,415
Extraordinaires	24	18	0	0
Reported PAT	3,081	3,497	4,658	5,415
FDEPS (Rs)	24.5	27.7	36.7	42.7
DPS (Rs)	3.0	3.8	4.9	5.5
CEPS (Rs)	31.4	36.2	46.8	54.7
FCFPS (Rs)	16.3	19.9	29.1	44.7
BVPS (Rs)	116.9	139.9	170.8	206.9
EBITDAM (%)	12 %	12 %	13 %	13 %
PATM (%)	8 %	7 %	8 %	8 %
Tax Rate (%)	34 %	35 %	34 %	34 %
Sales Growth (%)	15 %	22 %	19 %	16 %
FDEPS Growth (%)	29 %	13 %	33 %	16 %

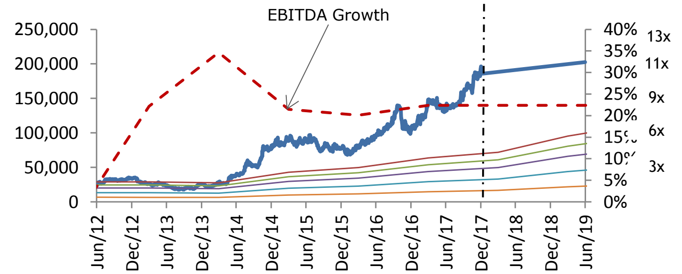
Balance Sheet (Rs Mn)	FY17A	FY18E	FY19E	FY20E
Equity Capital	1,269	1,269	1,269	1,269
Reserve	13,562	16,486	20,404	24,979
Networth	14,831	17,755	21,673	26,247
Long Term Debt	0	0	0	0
Def Tax Liability	1,392	1,392	1,392	1,392
Minority Interest	0	0	0	0
Account Payables	12,215	14,179	17,607	20,376
Other Curr Liabi	324	411	490	567
Total Liabilities & Equity	28,761	33,736	41,161	48,582
Net Fixed Assets	3,978	5,149	6,373	6,352
Capital WIP	295	0	0	0
Others	2,155	2,451	2,451	2,451
Inventory	8,888	10,540	12,562	14,538
Account Receivables	2,049	2,635	3,141	3,635
Other Current Assets	807	467	1,245	1,451
Cash	10,590	12,494	15,389	20,155
Total Assets	28,761	33,736	41,161	48,582
Non-cash Working Capital	-796	-948	-1,149	-1,319
Cash Conv Cycle	-7.4	-7.2	-7.3	-7.3
WC Turnover	-49.5	-50.7	-49.9	-50.3
FA Turnover	9.2	9.3	9.0	10.4
Net D/E	-0.7	-0.7	-0.7	-0.8
Revenue/Capital Employed	3.5	3.3	3.2	3.1
Capital Employed/Equity	1.1	1.1	1.1	1.1

Cash Flow (Rs Mn)	FY17A	FY18E	FY19E	FY20E
PBT	4,685	5,371	7,058	8,204
Depreciation	875	1,079	1,276	1,521
Others	-439	-18	0	0
Taxes Paid	1,805	1,856	2,400	2,789
Change in WC	520	152	201	170
Operating C/F	3,836	4,727	6,135	7,106
Capex	-1,118	-2,250	-2,500	-1,500
Change in Invest	-1,375	0	0	0
Others	692	0	0	0
Investing C/F	-1,801	-2,250	-2,500	-1,500
Change in Debt	0	0	0	0
Change in Equity	0	0	0	0
Others	-13	-573	-741	-840
Financing C/F	-13	-573	-741	-840
Net change in cash	2,022	1,905	2,895	4,766
RoE (%)	23 %	22 %	24 %	23 %
RoIC (%)	22 %	20 %	22 %	22 %
Core RoIC (%)	53 %	50 %	57 %	61 %
Div Payout (%)	15 %	16 %	16 %	16 %
P/E	63.6	56.1	42.4	36.4
P/B	13.3	11.1	9.1	7.5
P/FCFF	95.1	78.1	53.4	34.8
EV/EBITDA	38.5	33.7	25.0	20.7
EV/Sales	4.8	3.9	3.2	2.7
Dividend Yield (%)	0.2 %	0.2 %	0.3 %	0.4 %

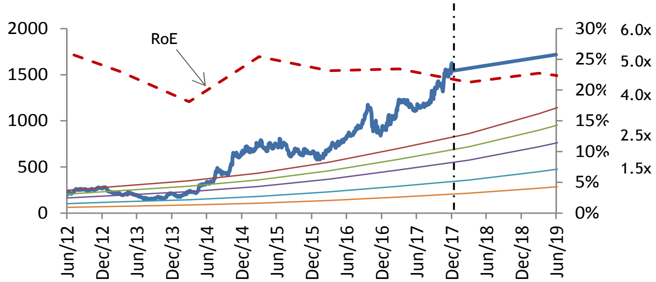
TTM P/E vs. 2 yr forward EPS growth



TTM EV/EBITDA vs. 2 yr forward EBITDA growth



TTM P/B vs. 2 yr forward RoE



Historical Consolidated Financials

P&L (Rs Mn)	FY14A	FY15A	FY16A	FY17A
Revenue	28,346	32,938	34,399	39,408
Op. Expenditure	26,231	29,625	30,564	34,519
EBITDA	2,115	3,313	3,835	4,888
Depreciation	638	681	769	875
EBIT	1,477	2,632	3,066	4,014
Interest Expense	14	6	52	59
Other Income	279	380	553	730
PBT	1,742	3,005	3,568	4,685
Tax	513	900	1,159	1,580
PAT bef. MI & Assoc.	1,229	2,105	2,408	3,105
Minority Interest	0	0	0	0
Profit from Assoc.	0	0	0	0
Recurring PAT	1,229	2,105	2,408	3,105
Extraordinaires	0	0	39	24
Reported PAT	1,229	2,105	2,369	3,081
EPS (Rs)	9.7	16.6	19.0	24.5
DPS (Rs)	0.0	0.0	0.0	3.0
CEPS (Rs)	14.7	22.0	25.0	31.4
FCFPS (Rs)	10.9	19.3	25.1	16.3
BVPS (Rs)	58.3	72.2	91.9	116.9
EBITDAM (%)	7 %	10 %	11 %	12 %
PATM (%)	4 %	6 %	7 %	8 %
Tax Rate (%)	29 %	30 %	32 %	34 %
Sales growth (%)	2 %	16 %	4 %	15 %
FDEPS growth (%)	-4 %	71 %	14 %	29 %

Balance Sheet (Rs Mn)	FY14A	FY15A	FY16A	FY17A
Equity Capital	1,269	1,269	1,269	1,269
Reserve	6,132	7,889	10,388	13,562
Networth	7,401	9,158	11,657	14,831
Long Term Debt	0	0	0	0
Def Tax Liability	836	793	954	1,392
Minority Interest	0	0	0	0
Account Payables	6,342	7,194	9,523	12,215
Other Curr Liabi	1,112	1,344	378	324
Total Liabilities & Equity	15,691	18,489	22,512	28,761
Net Fixed Assets	3,713	3,827	3,662	3,978
Capital WIP	532	132	367	295
Others	588	511	526	2,155
Inventory	5,767	6,590	6,835	8,888
Account Receivables	1,699	1,551	1,926	2,049
Other Current Assets	476	522	634	807
Cash	2,916	5,357	8,563	10,590
Total Assets	15,691	18,489	22,512	28,761
Non-cash Working Capital	487	124	-506	-796
Cash Conv Cycle	6.3	1.4	-5.4	-7.4
WC Turnover	58.2	264.7	-68.0	-49.5
FA Turnover	6.7	8.3	8.5	9.2
Net D/E	-0.4	-0.6	-0.7	-0.7
Revenue/Capital Employed	4.5	4.3	3.8	3.5
Capital Employed/Equity	1.1	1.1	1.1	1.1

Cash Flow (Rs Mn)	FY14A	FY15A	FY16A	FY17A
PBT	1,742	3,005	3,568	4,685
Depreciation	638	681	769	875
Others	-225	-399	-366	-439
Taxes Paid	387	847	1,168	1,805
Change in WC	267	559	636	520
Operating C/F	2,036	2,999	3,438	3,836
Capex	-826	-848	-787	-1,118
Change in Invest	0	0	-14	-1,375
Others	166	295	517	692
Investing C/F	-660	-553	-284	-1,801
Change in Debt	0	0	0	0
Change in Equity	0	0	0	0
Others	-10	-6	-9	-13
Financing C/F	-10	-6	-9	-13
Net change in cash	1,366	2,440	3,145	2,022
RoE (%)	18 %	25 %	23 %	23 %
RoIC (%)	16 %	23 %	22 %	22 %
Core RoIC (%)	19 %	35 %	43 %	53 %
Div Payout (%)	0 %	0 %	0 %	15 %
P/E	160.5	93.7	81.9	63.6
P/B	26.7	21.5	16.9	13.3
P/FCFF	142.4	80.5	61.9	95.1
EV/EBITDA	92.7	58.4	49.7	38.5
EV/Sales	6.9	5.9	5.5	4.8
Dividend Yield (%)	0.0 %	0.0 %	0.0 %	0.2 %

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- ADD: ATR >= 5% but less than Ke over investment horizon
- REDUCE: ATR >= negative 10% but <5% over investment horizon
- SHORT: ATR < negative 10% over investment horizon

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- OVERWEIGHT: Likely to outperform the benchmark by at least 5% over investment horizon
- BENCHMARK: likely to perform in line with the benchmark
- UNDERWEIGHT: likely to under-perform the benchmark by at least 5% over investment horizon

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Lite vs. Regular Coverage vs. Spot Coverage

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