VISIT NOTE

WHIRLPOOL OF INDIA

Sustaining industry-leading growth

BANYAN series — Growth Without Maintenance

Edelweiss — Ideas create, values protect

India Equity Research| Consumer Durables

We recently interacted with Whirlpool of India's (WHIRL) top brass during the AGM and plant visit. Three highlights: 1) WHIRL continues to focus on plugging gaps in portfolio both organically (by launching a product every two months) and inorganically (Elica PB acquisition). 2) Focus on expanding presence in semi-urban/rural regions, which are outgrowing urban areas (50% of revenue). 3) Cost control via rationalisation of warehouses and commencement of direct dispatch. Management aims to improve competitive positioning through aggressive branding & marketing, expansion of distribution network (targeting 33% jump) and cost control. All of this would improve market share in our view. Maintain 'BUY' with TP of INR1,915.

Competitive edge lifting market share; diversification aiding sales

WHIRL has been successful in expanding its product portfolio by launching products that appeal to consumers leveraging its parent's technology base. The company has expanded presence in the kitchen and cooking space (industry growing 2x versus white goods) and plans to widen its distribution footprint (from 18k to 24k) mainly in semi-urban/rural areas given higher growth potential. Moreover, management focus on diversifying revenue via the after-market business (confident of achieving 40% growth in FY19) and exports would aid revenue CAGR of 20% over FY18–20E in our view.

Capacity expansion on track; cost efficiency likely to boost profit

WHIRL is the market leader in single-door refrigerators. In order to cater to growing demand, the company is expanding capacity by 0.6mn units (to 2.7mn units) at an investment of INR1.81bn; the new capacity is expected to be operational by mid- CY19. The decision to shut warehouses (over and above 15% already closed) and deliver directly from manufacturing plants is expected to cut working capital while controlling freight & forwarding costs (6% of the revenue in FY18). These measures would drive free cash flow CAGR of 37% over FY18–20E.

Outlook and valuations: Growth profile intact; maintain 'BUY'

We believe WHIRL would sustain its industry-leading performance with focus on technology, SKU ramp-up and deeper geographic penetration. We maintain **'BUY/SO'** with a TP of INR1,915 at 43x FY20E EPS.

Financials **(INR mn)**

Year to March	FY17	FY18E	FY19E	FY20E
Revenues	39,408	48,319	58,368	69,367
Rev. growth (%)	*14.6*	*22.6*	*20.8*	*18.8*
EBITDA	4,888	5,600	6,938	8,612
Adjusted Profit	3,105	3,507	4,460	5,589
Adjusted diluted EPS (INR)	24.5	27.6	35.1	44.0
Diluted P/E (x)	64.0	56.6	44.5	35.5
ROAE (%)	23.4	21.4	22.5	23.4

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

MARKET DATA *(R: WHIR.BO, B: WHIRL IN)*

CMP	: INR 1,565
Target Price	: INR 1,915
52-week range (INR)	: 1,955 / 1,194
Share in issue (mn)	: 126.9
M cap (INR bn/USD mn)	: 199 / 2,723
Avg. Daily Vol.BSE/NSE('000)	: 56.5

SHARE HOLDING PATTERN (%)

	Current	Q4FY18	Q3FY18
Promoters *	75.0	75.0	75.0
MF's, FI's & BK's	9.9	9.9	9.7
FII's	4.6	4.6	5.0
Others	10.5	10.5	10.2

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Cap Goods Index
1 month	(9.7)	(1.7)	1.8
3 months	2.2	4.4	0.0
12 months	21.6	11.1	(1.3)

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September 18, 2018

Management meeting — Key highlights

Organic/inorganic growth – In the backdrop of very favourable socioeconomic prospects for the country, the company plans to grow both organically and inorganically.

- **Organic growth –** Single door refrigerators grew 23% in FY18 and hence the company is making an INR1.81bn investment for expanding the single door refrigerator capacity by 6,00,000 units.
- **Inorganic growth –** Acquisition of a 49% stake in Elica PB (Elica) for INR1.6bn is in line with its strategy of expanding the presence in the cooking and built-in appliances by leveraging Elica's strong distribution network.

Elica PB

- Whirlpool formed a strategic JV with Elica, whose revenue is six times Whirlpool's (INR1.8bn for Elica versus Whirlpool's INR0.3bn) in the cooking and built-in appliances segment and distribution network four times Whirlpool's.
- The primary motive for entering the kitchen and cooking spaces is the expected 2x growth in white goods.
- Elica's strength lies in hobs and tops, but it also has a portfolio of microwaves and dishwashers. Elica will also be an OEM for the Whirlpool brand.
- Elica has a combination of multi-brand stores and conventional dealers, and is expected to launch exclusive stores in India. Thus, Whirlpool has appointed Elica as the distributor for the Whirlpool brand.

Whirlpool – Whirlpool boasts a strong brand and distribution network, and has grown ahead of industry; in the process, it has gained market share and is now looking to expand presence.

The company caters to three areas:

- air treatment;
- water treatment; and
- kitchen and cooking appliances

The company is primarily focused on manufacture of refrigerators and washing machines. Air conditioners are currently outsourced, but can be manufactured in-house in the near term. For the kitchen portfolio, Whirlpool has formed a JV with Elica.

Launches – With one product launch planned in every two months, Whirlpool intends to fill up gaps in its product portfolio by launching products with features and at right pricing.

- The company recently launched 7–8 products in the semi-automatic washing machines range, which is 15% of the washers' portfolio.
- *Bloomwash pro* – Premium washing machines will be launched around Diwali
- Refrigerators – Recently launched a full range of premium refrigerators; plans afoot to come up with five more models soon
- ACs – Launched IoT air conditioners, which will be ramped up

Innovation as a percentage of sales is in high double-digits for Whirlpool and is expected to be so as long as the consumer is willing to pay for it. The company intends to focus on providing features that appeals to consumers.

Exports – The company has started exporting kits for semi-automatic washing machines to South Africa and Sri Lanka as the duty rates are very high for finished products. Management targets to ramp up exports gradually. Whirlpool continues to export to Australia, Singapore and the Philippines.

Services business – The services business has grown by leaps and bounds driven by expansion of the after-market spare parts business and servicing contracts entered into with companies, over and above growth in the conventional servicing business. Management expects the business to grow 40% in FY19 after having grown 20% in FY18.

Reason for investment in bonds issued by fellow subsidiary – Interest rates in India have reduced to 6% and as since investments in bonds currently yields 8–8.5%, the company invested in bonds.

Freight & forwarding – *Freight & forwarding accounted for 6% of revenue in FY18, and the company is taking steps to rationalize this. About 15% of the warehouses have been shut down and direct dispatches have already begun.*

Distribution

- Whirlpool has a very strong presence in e-commerce (4x jump in sales from last year) via tie-ups with Amazon and Flipkart. However, it is also in the process of launching its own website called 'W Store'. This is the main reason for a 6x increase in online spends.
- Whirlpool's strength lies in mass premium, but there are gaps in the premium and mass segments. *Distribution in the mass segment will be focused on rural areas while premium products will be target at urban areas, mainly metros.*
- *The company has a strong presence in Madhya Pradesh, Tamil Nadu and Maharashtra.* Urban and others make up 50:50.

Advertisement & promotion strategy – A balance of 4–5 matrices

- Promotions
- Discounts
- Channel financing
- Trade discounts
- Actual pricing of products – *Have taken significant price increases over the last year due to offset the adverse effects of currency volatility and rising commodity prices*

Industry

- *Growth in semi-urban and rural areas is outpacing urban growth largely due to a good monsoons and favourable rural policies.* Use of consumer financing is higher in southern and western parts of India and lower in other parts of the country.

- *A subdued Onam in the wake of floods in Kerala did not impact Whirlpool as much and the company expects to have a good festive season ahead due to the GST rate cut; that said, management expects currency and commodity headwinds to sustain.*
- The industry is divided into 50% mass, 40% mass premium and 10% premium.

Response to increasing competition – Mounting competition is a reality; however, the company focuses on its strengths. Arcelik is a global competitor and Whirlpool thus has a fair idea of its strategies in India. Whirlpool plans to up the ante in strengthening its positioning with respect to branding, distribution, price competitiveness and product differentiation.

- Voltas has the lowest cost, and still has the highest margin because of economies of scale.
- Hitachi's pricing was lower than Whirlpool during the last quarter due to higher inventory.
- Daikin too had the scale-benefit, which underpins its lower pricing.
- Whirlpool ranks among top three each in refrigerators and washing machines.
- Videocon shut down in August 2017, and its assets are up for sale. Whirlpool has captured a significant portion of Videocon's market share post its shut down.

Effect of GST rate cut – The demand for products is expected to increase with the GST rate cut as India is an underpenetrated market (washing machines have 10–12% penetration and refrigerators have 27–31% penetration). Besides, *the government is looking at appliances as a necessity and not as a luxury, which will expedite demand and penetration with existing users upgrading to higher capacities.* The company has already passed on the benefit of GST rate cut.

Changes in energy efficiency norms

- Refrigeratorss - 1st January 2020
- Washers and microwaves – mandatory in 2020 and voluntary in next year

Air conditioners – The market was a bit stressed due to the impact of revised energy efficiency norms in the highly seasonal and consumer sentiment-driven business. The company witnessed encouraging growth till March, but unseasonal rains played havoc thereafter.

Plant visit — Key highlights

Manufacturing versus outsourcing –

- Refrigerators are 100% manufactured in-house at the Pune and Faridabad facilities.
- Top-load washing machines are manufactured in-house at the Pondicherry facility while the front-load ones are imported.
- ACs are fully outsourced—earlier IDU was sourced from China and ODUs were sourced domestically. But now even IDU is being sourced domestically. However, critical components are manufactured in-house.
- One-third of a refrigerator's cost is brought out (of which compressor is worth INR3,000 and the balance is plastic-moulding and glass).

Capacity by facility and product

- Pondicherry: washing machines – 1.5L per month
- Faridabad: single-door refrigerators – 7,000 a day
- Pune
  - Line 1 – Makes 1,000 units of double-door refrigerators per shift. Operates for one shift currently and will start operating for two shifts soon.
  - Line 2 – Makes 1,400 units of direct cool, double-door and triple-door refrigerators per shift. Operates for two shifts currently and will start operating for three shifts soon. Capable of manufacturing three capacity variants of refrigerators and six–seven colours in a single shift.
  - Expansion – Line 3 is being set up—it has capacity to produce 1,000 direct cool refrigerators per shift. This line, expected to be ready by mid-CY19, will run two shifts.
  - Until last year, 900 units were manufactured on Line 1 per shift and 1,000 units were made on Line 2. The use of processes such as kitting and workplace organization that does not hamper process due to lack of material availability raises efficiency, which helped increase the production from 1,000 units to 1,400 units on Line 2.
- All products are tested for 20 minutes through an automated process; the rejection rate is 0.5%.

Company Description

WHIRL, right since inception in 1911 as the first commercial manufacturer of motorised washers to its current market position of being the world's No.1 manufacturer and marketer of major home appliances, has always set industry milestones and benchmarks. The parent company is headquartered at Benton Harbor, Michigan, US, with global presence in over 170 countries and manufacturing operations in 13 countries with 11 major brand names such as Whirlpool, KitchenAid, Roper, Estate, Bauknecht, Laden and Ignis. The company came to India in the late 1980s under a JV with the TVS Group and established its first manufacturing facility in Pondicherry. Today, WHIRL headquartered in Gurugram is the most recognised brand in home appliances in India and enjoys 25% plus market share with a product portfolio comprising washing machines, refrigerators, microwave ovens and ACs.

Investment Theme

Shift in parent's strategy, a key growth driver: There is a clear shift in the parent's focus to double WHIRL's top line over the next four years, implying 20% revenue CAGR over FY18-20E. Earlier, the company laid emphasis on margin expansion and cash generation at the expense of market share, which eventually failed to materialise. Over the past two years, the company shifted focus with a comprehensive plan to boost its product portfolio—addressing key gaps—thereby expanding its offerings in refrigerators, washing machines and ACs, which helped it recoup margin and cash flow.

Sharpened dealer focus: Also, Whirlpool has embarked on an aggressive programme to expand its touch points from current 18-19K to more than 24K over FY17-20, which will help achieve third-highest touch points. Dealer focus is clearly visible from the sharp rise in trade discounts offered in the past two years—up from 13% to 18%. Despite the sharp rise in trade discounts and sustained focus on ad spends, Whirlpool managed to increase profitability, which we believe was led by better cost management and focus on average realisation.

Key Risks

Competition: Rising competitive intensity, especially from expanding local peers, we believe, could be a risk to our growth and profitability estimates.

Consumer discretionary slow down: Rise in disposable incomes is key driver of consumer discretionary. Hence, any slowdown in disposable incomes could pose down side risk to Whirlpool's earnings.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	7.1	6.7	7.3	7.6
Inflation (Avg)	4.5	3.6	4.5	4.5
Repo rate (exit rate)	6.3	6.0	6.8	6.8
USD/INR (Avg)	67.1	64.5	70.0	72.0
Company				
Refrigerators market growth rate(%)	10.2	12.0	12.5	12.5
Refrigerators Market Share	16.0	16.8	17.8	19.0
Qty of WM Sold by WHIRL ('000 units)	721	757	825	899
Avg realisaion/unit of WM (INR)	15,853	16,804	17,980	19,418
Qty of AC Sold by WHIRL ('000 units)	178.8	186.0	196.7	209.9
Avg realisaion/unit of AC (INR)	29,037	31,069	32,934	34,910
Depreciation	7.3	7.7	7.5	7.4
Tax rate (%)	33.7	35.2	35.0	35.0
Capex (INR mn)	1,118	1,496	1,970	1,970

Income statement (INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Income from operations	39,408	48,319	58,368	69,367
Materials costs	23,101	29,988	36,188	42,938
Employee costs	4,116	4,553	5,261	6,163
Other mfg expenses	7,302	8,179	9,981	11,654
Total operating expenses	34,519	42,719	51,430	60,755
EBITDA	4,888	5,600	6,938	8,612
Depreciation	875	1,015	1,125	1,255
EBIT	4,014	4,585	5,814	7,357
Less: Interest Expense	59	44	46	48
Add: Other income	730	867	1,093	1,289
Profit Before Tax	4,685	5,408	6,861	8,598
Less: Provision for Tax	1,580	1,902	2,401	3,009
Reported Profit	3,105	3,507	4,460	5,589
Adjusted Profit	3,105	3,507	4,460	5,589
Shares o /s (mn)	127	127	127	127
Diluted shares o/s (mn)	127	127	127	127
Adjusted Diluted EPS	24.5	27.6	35.1	44.0
Adjusted Cash EPS	31.4	35.6	44.0	53.9
Dividend per share (DPS)	3.0	4.0	5.3	6.6
Dividend Payout Ratio(%)	12.3	14.5	15.0	15.0

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating expenses	87.6	88.4	88.1	87.6
EBITDA margins	12.4	11.6	11.9	12.4
Net Profit margins	7.9	7.3	7.6	8.1

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	14.6	22.6	20.8	18.8
EBITDA	27.5	14.6	23.9	24.1
Adjusted Profit	28.9	12.9	27.2	25.3

Balance sheet				(INR mn)
As on 31st March	**FY17**	**FY18**	**FY19E**	**FY20E**
Share capital	1,269	1,269	1,269	1,269
Shareholders' funds	14,831	17,963	21,621	26,205
Long Term Liabilities	1,322	1,572	1,572	1,572
Sources of funds	**15,994**	**19,256**	**22,914**	**27,498**
Gross Block	12,513	14,009	15,979	17,949
Net Block	3,978	4,459	5,305	6,019
Capital work in progress	295	331	331	331
Non current investments	1,297	4,563	5,943	5,943
Cash and Equivalents	10,590	9,819	11,261	15,166
Inventories	8,888	8,101	9,915	11,764
Sundry Debtors	2,049	2,403	3,198	3,801
Loans & Advances	163	191	200	210
Other Current Assets	1,343	2,113	2,324	2,557
Current Assets (ex cash)	12,442	12,808	15,637	18,331
Sundry creditors	12,353	12,429	15,269	17,999
Provisions	256	294	294	294
Total Current Liab	12,609	12,723	15,562	18,292
Net Curr Assets-ex cash	(166)	85	75	39
Net Deferred tax	(159)	(279)	(279)	(279)
Uses of funds	**15,994**	**19,256**	**22,914**	**27,498**
BVPS (INR)	116.9	141.6	170.4	206.5

Free cash flow				(INR mn)
Year to March	**FY17**	**FY18**	**FY19E**	**FY20E**
Reported Profit	3,105	3,507	4,460	5,589
Add: Depreciation	875	1,015	1,125	1,255
Interest (Net of Tax)	39	28	30	31
Others	(703)	(852)	(1,077)	(1,272)
Less: Changes in WC	(520)	251	(10)	(36)
Operating cash flow	3,836	3,447	4,547	5,639
Less: Capex	1,118	1,496	1,970	1,970
Free Cash Flow	**2,717**	**1,951**	**2,577**	**3,669**

Cash flow metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	3,836	3,447	4,547	5,639
Financing cash flow	(469)	(656)	(848)	(1,053)
Investing cash flow	(1,801)	2,673	(2,257)	(681)
Net cash Flow	1,566	5,464	1,443	3,905
Capex	(1,118)	(1,496)	(1,970)	(1,970)
Dividend paid	456	612	802	1,005

Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
ROAE (%)	23.4	21.4	22.5	23.4
ROACE (%)	29.5	31.2	36.7	38.2
Inventory Days	124	103	91	92
Debtors Days	18	17	18	18
Payable Days	174	151	140	141
Cash Conversion Cycle	(31)	(31)	(31)	(31)
Current Ratio	1.0	1.0	1.0	1.0

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	2.8	2.7	2.8	2.8
Fixed Asset Turnover	10.3	11.5	12.0	12.3
Equity Turnover	3.0	2.7	2.9	2.6

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	24.5	27.6	35.1	44.0
Y-o-Y growth (%)	*28.9*	*12.9*	*27.2*	*25.3*
Adjusted Cash EPS (INR)	31.4	35.6	44.0	53.9
Diluted P/E (x)	64.0	56.6	44.5	35.5
P/B (x)	13.4	11.1	9.2	7.6
EV / Sales (x)	4.7	3.8	3.1	2.6
EV / EBITDA (x)	38.5	33.7	27.0	21.3

Additional Data

Directors Data

Mr. Arvind Uppal	Chairman & Executive Director	Mr. Sunil D'Souza	Managing Director
Mr. Anil Berera	Executive Director	Mr. Vikas Singhal	Executive Director
Mr. Anand Bhatia	Non –Executive & Independent Director	Mr. Sanjiv Verma	Non-Executive & Independent Director
Mr. Simon J.Scarff	Non-Executive, Independent Director	Mrs. Sonu Bhasin	Non-Executive, Independent Director
Mr. Yatin Malhotra	Chief Financial Officer		

Auditors - MSKA & Associates

as per last annual report

Holding – Top10

	Perc. Holding		Perc. Holding
Whirlpool financial	75	Aditya birla sun lif	2.05
Hdfc asset managemen	1.46	Franklin templeton i	1.11
Jupiter inv mgmt gro	0.78	Vanguard group	0.74
Sundaram asset manag	0.66	Kotak mahindra	0.59
Canara robeco asset	0.5	Sbi funds management	0.47

in last one year

Bulk Deals

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

in last one year

Insider Trades

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

in last one year

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Amber Enterprises	BUY	SO	M	Bajaj Electricals	HOLD	SP	M
Crompton Greaves Consumer Electrical	HOLD	SP	L	Finolex Cables	HOLD	SP	M
Havells India	BUY	SO	L	KEI Industries	BUY	SO	M
Symphony	HOLD	SP	M	V Guard Industries	HOLD	SP	L
Voltas	BUY	SO	L	Whirlpool of India	BUY	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Consumer Durables

Amber Enterprises, Bajaj Electricals, Crompton Greaves Consumer Electrical, Finolex Cables, Havells India, KEI Industries, Symphony, V Guard Industries, Voltas, Whirlpool of India

Recent Research

Date	Company	Title	Price (INR)	Recos
06-Sep-18	**Consumer Durables**	Honing the home stretch; *Sector Update*		
03-Sep-18	**Crompton Greaves Consumer Electricals**	Focus on bottom line intact; top line visibility key; *Visit Note*	250	Buy
14-Aug-18	**Finolex Cables**	Revenue glows; higher tax rate dents profit; *Result Update*	595	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

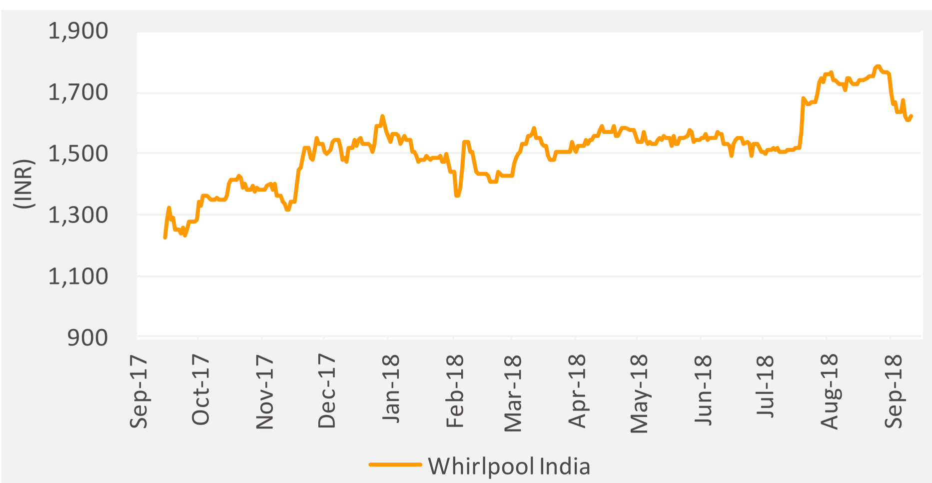
	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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