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White Goods

Q3FY21 result review
and TP change

Target price: Rs1,849

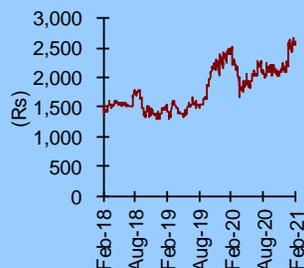
Target price revision

Rs1,849 from Rs1,502

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	75.0	75.0	75.0
Institutional investors	14.8	14.7	14.6
MFs and others	8.3	8.1	8.2
FIs and Bk/Insu	1.6	1.8	2.1
FII	4.9	4.8	4.3
Others	10.2	10.3	10.4

Price chart



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INDIA

Whirlpool of India

SELL

Maintained

Rs2,440

Performance lagging peers

We maintain our **SELL** rating on Whirlpool of India (Whirlpool) considering: (1) increasing competition expected in refrigerator segment, main growth driver for the company; (2) relatively low growth in washing machine (washer), room AC and service revenues; and (3) high valuation (FY22E/23E PE stands 48x/40x) considering the EBITDA growth of 11.3/15% in last 3/5 years. Please see our annual report analysis on Whirlpool for more details ([Link](#)).

Significantly weak 9MFY21 compared to peers. Whirlpool has reported -11/-34% change in 9MFY21 sales/EBITDA compared to -6/8% of Crompton, -2/34% of Havells and -5/-6% of V-Guard. **Gross margin has declined substantially to 37% in Q3/9MFY21 compared to 40%/39% in Q3/9MFY20.** Could market share gain (mentioned by the company) come at the cost of margins? Maintain **SELL** with a revised target price of Rs1,849, based on 30x FY23E earnings.

- ▶ **Revenue growth continues to be driven by refrigerators, but is difficult to sustain due to increasing competition.** Refrigerator revenue growth has been 13%/15% in FY19/FY20, higher than washers (12.6%/11.7% in FY19/20) and room AC (-28%/11.7% in FY19/FY20). Services revenue grew 10%/8% in FY19/FY20. Trade discounts remain at 18% of gross product revenue (~11.6% in FY14). Refrigerator/Washer constitute 62/22% of the product mix with RAC/others making the remaining 6/10% as at FY20. Overall revenue growth remained around ~12/11% in FY19/FY20. Consensus growth expectations have been typically 12-13% for refrigerators/washers. We continue to highlight that steady-state revenue growth will be lower than 15% for Whirlpool without market share growth. While market share growth has happened in the past, it is difficult now due to increasing competition (Voltbek/Lloyds).
- ▶ **Standalone EBITDA grew by a modest 5% in FY20 and at 11% CAGR in last three years despite market share gains.** FY20 EBITDA margin remains at 11% despite improvement in gross margin, which reached a 3-year high of 39% in FY20 (in line with higher share of refrigerators, the highest-margin product for Whirlpool). Combination of lower discretionary spend, higher base and increasing competition has set up a challenging outlook for FY21/FY22.
- ▶ **Strong cash balance should ideally lead to higher dividends in the absence of any inorganic growth.** Whirlpool has a strong cash balance of Rs19.5bn as of H1FY21. Considering the company has maintained dividend at Rs5 per share for FY20, return ratios will start declining in the absence of inorganic growth.

Market Cap	Rs310bn/US\$4.3bn
Reuters/Bloomberg	WHIR.BO/WHIRL IN
Shares Outstanding (mn)	126.9
52-week Range (Rs)	2681/1667
Free Float (%)	25.0
FII (%)	4.3
Daily Volume (US\$'000)	3,033
Absolute Return 3m (%)	18.5
Absolute Return 12m (%)	1.3
Sensex Return 3m (%)	24.7
Sensex Return 12m (%)	25.6

Year to March	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)	59,925	55,111	70,108	79,275
Net Income (Rs mn)	4,763	3,713	6,419	7,818
Recurring EPS (Rs)	37.5	29.3	50.6	61.6
% Chg. YoY	17.0	(22.0)	72.9	21.8
P/E (x)	69.7	89.4	51.7	42.5
CEPS (Rs)	47.7	41.9	64.0	75.0
EV/E (x)	46.8	56.8	34.7	29.7
Dividend Yield (%)	0.2	0.2	0.3	0.3
RoCE (%)	24.3	16.6	23.9	24.3
RoE (%)	18.6	12.9	18.6	18.7

Table 1: Quarterly result review (standalone)*(Rs mn)*

	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Chg.% (YoY)	Chg.% (QoQ)
Net Sales	12,115	13,552	19,742	13,935	12,712	13,536	10,271	15,995	14,940	17.5	(6.6)
	26%	-18%									
RM cost	7,654	8,463	12,336	8,096	7,682	8,385	6,578	9,937	9,464	23.2	(4.8)
Employee cost	1,262	1,311	1,463	1,535	1,473	1,426	1,487	1,502	1,684	14.3	12.1
Other expenses	2,225	2,064	2,919	2,886	2,661	2,356	1,740	2,744	2,786	4.7	1.5
Total Cost	11,140	11,838	16,718	12,517	11,816	12,166	9,804	14,183	13,934	17.9	(1.8)
EBITDA	976	1,714	3,025	1,417	897	1,370	466	1,812	1,006	12.2	(44.5)
Margin (%)	8.1	12.6	15.3	10.2	7.1	10.1	4.5	11.3	6.7		
	(1)	1									
Depreciation	252	320	305	337	294	357	284	424	351	19.6	(17.2)
Other Income	269	253	274	387	395	257	142	348	284	(28.1)	(18.6)
EBIT	992	1,648	2,994	1,467	998	1,269	325	1,736	938		
Interest Cost	53	33	45	43	31	80	74	10	68		
Exceptional	26%	8%									
PBT	939	1,614	2,949	1,424	967	1,189	251	1,726	870	(10.0)	(49.6)
Tax	333	573	1,041	176	235	315	87	440	227	(3.3)	(48.5)
PAT	606	1,041	1,908	1,248	732	874	164.7	1,286	644	(12.1)	(50.0)
PAT Margin (%)	5.0	7.7	9.7	9.0	5.8	6.5	1.6	8.0	4.3		
OCI	2	(20)	14	1	6	(44)	19	(10)	15		
TCI	609	1,021	1,922	1,249	738	830	184	1,276	658		
Tax Rate	35.5	35.5	35.3	12.3	24.3	26.5	34.4	25.5	26.1		
Gross Margin (%)	36.8	37.6	37.5	41.9	39.6	38.1	36.0	37.9	36.7		

Source: Company data, I-Sec research

Note: Q3FY21 EBITDA, PBT, PAT includes special items and timing impact of Rs264mn, on a like to like basis, EBITDA / PBT / PAT was up 42% / 17% / 15%.

Financial summary

Table 2: Profit and Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Income	59,925	55,111	70,108	79,275
Operating Expenses	53,192	49,600	61,274	69,286
EBITDA	6,734	5,511	8,834	9,989
% margins	11.2	10.0	12.6	12.6
Depreciation & Amortization	1,293	1,600	1,700	1,700
Gross Interest	199	100	102	104
Other Income	1,287	1,204	1,624	2,340
PBT	6,529	5,015	8,656	10,525
Share of profit of joint venture	-	-	-	-
Less: Taxes	1,766	1,303	2,237	2,707
Reported Net Income	4,763	3,713	6,419	7,818
Recurring Net Income	4,763	3,713	6,419	7,818

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	32,818	34,084	44,221	54,336
Cash/Current Investments	16,831	19,136	25,206	35,095
Total Current Liabilities	15,894	13,438	17,095	19,330
Net Current Assets	16,924	20,646	27,126	35,006
Other Non-Current Assets	556	556	556	556
Deferred Tax Assets	810	810	810	810
Net Fixed Assets	7,530	6,930	6,230	5,530
Investments	1,888	1,888	1,888	1,888
Total Assets	27,709	30,830	36,611	43,791
Liabilities				
Borrowings	-	-	-	-
Provisions	2,074	2,074	2,074	2,074
Equity Share Capital	1,269	1,269	1,269	1,269
Face Value per share (Rs)	10.0	10.0	10.0	10.0
Reserves & Surplus*	24,366	27,488	33,268	40,448
Net Worth	25,635	28,756	34,537	41,717
Total Liabilities	27,709	30,830	36,611	43,791

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow ex WC	4,924	4,378	6,846	7,532
Working Capital Changes	(1,122)	(1,416)	(411)	2,009
Capital Commitments	3,073	1,000	1,000	1,000
Free Cashflow	730	1,962	5,436	8,541
Cashflow from Investing Activities	(720)	204	624	1,340
Inc. (Dec) in Borrowings	-	-	-	-
Dividend including taxes	765	761	888	888
Cashflow from Financing Activities	(872)	(861)	(990)	(992)
Chg. in Cash & Bank balance	2,211	2,305	6,070	9,889

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (in Rs.)				
EPS(Basic Recurring)	37.5	29.3	50.6	61.6
Diluted Recurring EPS	37.5	29.3	50.6	61.6
Recurring Cash EPS	47.7	41.9	64.0	75.0
Dividend per share (DPS)	5.0	6.0	7.0	7.0
Book Value per share	202.1	226.7	272.2	328.8
FCF per share	5.8	15.5	42.8	67.3
Growth Ratios (%)				
Revenue	11.0	(8.0)	27.2	13.1
EBITDA	4.9	(18.2)	60.3	13.1
Recurring Net Income	17.0	(22.0)	72.9	21.8
Valuation Ratios (x)				
P/E	65.1	83.5	48.3	39.7
P/CEPS	51.2	58.4	38.2	32.6
P/BV	12.1	10.8	9.0	7.4
EV / EBITDA	43.6	52.8	32.3	27.5
EV / FCF	402.0	148.3	52.4	32.2
FCF Yield (%)	0.2	0.6	1.8	2.8

Operating Ratios (%)

Inventory Days	73.0	70.0	70.0	70.0
Receivables (days)	17.2	20.0	20.0	20.0
Other Current Liabilities Days	9.6	9.0	9.0	9.0
Payables (days)	87.2	80.0	80.0	80.0
Other Current Asset Days	7.2	9.0	9.0	9.0
WC Days	1	10	10	10
Net D/E Ratio (x)	(0.7)	(0.7)	(0.7)	(0.8)
Net D/EBITDA Ratio (x)	(2.5)	(3.5)	(2.9)	(3.5)
Asset Turnover(x)	2.2	1.8	1.9	1.8

Profitability Ratios (%)

Rec. Net Income Margins	7.9	6.7	9.2	9.9
RoCE	24.3	16.6	23.9	24.3
RoNW	18.6	12.9	18.6	18.7
Dividend Payout Ratio	0.13	0.21	0.14	0.11
EBITDA Margins	11.2	10.0	12.6	12.6

Source: Company data, I-Sec research

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