

Whirlpool of India Limited

Target: INR 298

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Company Description: Whirlpool of India Ltd (WIL) is a leading manufacturer of home appliances and is primarily engaged in manufacturing and trading of refrigerators, washing machines, air conditioners, microwave ovens and small appliances. WIL caters to both domestic and international markets. They are also engaged in the area of product development, information technology, accounting and procurement services to Whirlpool Corporation, USA and other group companies.

Whirlpool of India Ltd was incorporated in the year 1960 as Kelvinator of India Ltd. In the year 1996, Whirlpool Washing Machines Ltd merged with the Kelvinator India Ltd and the company changed its name from Kelvinator of India Ltd to Whirlpool of India Ltd.

Today, Whirlpool is the most recognized brand in home appliances in India and holds a market share of over 25%.

The company operates in only one segment of White Goods.

The parent company Whirlpool Corporation was incorporated in 1911; is headquartered at Benton Harbor, Michigan, USA with a global presence in over 170 countries and manufacturing operation in 13 countries with 11 major brand names such as Whirlpool, KitchenAid, Roper, Estate, Bauknecht, Laden and Ignis.

Manufacturing units: The company owns three state-of-the-art manufacturing facilities at Faridabad, Pondicherry and Pune. Each of these manufacturing set-ups features an infrastructure that is witness of Whirlpool's commitment to consumer interests and advanced technology.

Initiating coverage with an FY10 earnings estimate of INR 10.49 - We are initiating coverage of Whirlpool of India Limited (WIL) with earning estimates of INR 10.49 per share in FY10 and INR 15.63 per share in FY11. In spite of adverse economic backdrop WIL net sales increased nearly 9% to INR 1,646.70 crore as compare to last fiscal defying the downturn in the FY09. We believe that favorable market conditions coupled with WIL's wide bouquet of products along with new product launches are strengthening the Whirlpool brand as home appliance specialist and working as growth catalyst. Additionally broadening the domestic and the international market will also add to the growth momentum. Going forward we believe these initiatives to reap benefits and drive growth.

At current market price the stock is trading at P/E of 16x of our estimated FY10E earnings. We believe the stock offers good investment opportunity for investors looking at medium to long-term investment.

Investment Thesis

Intensify product development initiatives - Whirlpool aims to increase its investment on product development, marketing, sales and service infrastructure; it plans to invest around INR 3 billion over the next three years.

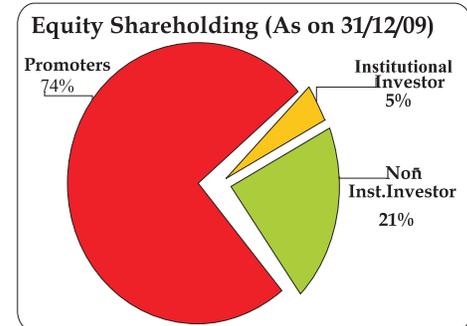
In the last fiscal the company made sizeable investment to refresh or launch new products. In 1QFY09 the entire range in Direct Cool was refreshed with the re-launch of Genius and Fusion brands. In 3QFY09, the Direct Cool range was augmented with the launch of Fusion 180 L, the first entry level product to have a frost control feature. A new line to make high-capacity washing machines was installed in the company's Pondicherry facility thereby enabling the launch of top load washers of 8 kg capacity. In January 2009, an entirely new range of fully

Stock Statistics

Bloomberg code	KELV.IN
BSE code	500238
NSE code	WHIRLPOOL

CMP (INR)	163.60
Face Value (INR)	10.00
BSE Sensex	17,711.35

Market Cap (Crore)	2,075
52 Wk Hi/Lo (INR)	178.30-24.80
Avg. Daily Vol. (3M)	104,552



Historical Prices

	1 M	3 M	12 M
Price INR	143.95	139.85	25.45
Gain/Loss	11.95%	15.23%	533.20%

New products to boost top line & strengthen the brand

automatic top load and front load washing machines was launched, under White Magic and Professional brands.

WIL's is now looking beyond its two core business of refrigerators and washing machines. From the last couple of years company is focusing more on AC's and microwaves which has resulted in exponential company growth. Two new businesses Water purifier and Built In appliances has been launched in the last two years. These diverse product bouquets are strengthening the Whirlpool brand as home appliance specialist.

Launch new AC models to accelerate growth pace

Tripling AC business by unveiling 35 new models- The AC segment will be the core growth business for WIL over the next four- five years. WIL plans to sell 3 lakh air conditioner units by the year-end, thereby increasing its existing AC business three fold and will enable the company to garner 15% share of the domestic AC market by 2012 from the current 5% share. The units would be sourced from WIL centralized AC manufacturing unit in China. The company plans to unveil 35 new models, including 30 in the split AC segment, taking the product range count from 12 to 47 by the end of March 2010. WIL has allocated INR 10 crore for marketing and doubling the number of retail outlets for AC's. Apart from this, it is also planning to increase its dealership network in India. We believe that these initiatives will enable the company in offering vast array of AC to wider consumer base at variant prices and thereby enhancing the brand image.

Stretching global horizons

Expanding international footprints to augment the top line – WIL export business achieved a turnover of INR 175 crore in FY09 (nearly 8% of the total turnover). In spite of the economic downturn the company's exports of domestic appliance registered a healthy 30% turnover growth. WIL gained record market share for its products in the challenging markets of Oceania (Australia, New Zealand). Going forward the company intends to continue focusing on Oceania coupled with South East Asian region which offers huge untapped market potential. In addition the company is intensifying its distribution strategies in SAARC markets and consolidating its position as a leading home appliance brand. On the product front the new premium “Professional” series of refrigerators and washers are expected to spearhead the export growth all across the globe. We believe that foraying into the newer markets and strengthening its hold in the existing markets will provide growth impetus to the company and also add on to shareholders value.

Expanding into Tier 2 & Tier 3 markets

Spreading out into Tier 2 and Tier 3 markets - Whirlpool is all set to tap the rising demand for more affordable white goods, from the urban as well as the tier-II centres. The company plans to raise marketing spends on product development and advertising and promotions, while enhancing penetration in the smaller urban markets. The company plans to enter small towns with an investment of INR 100 crore a year over the next few years. Expansion into the Tier 2 and Tier 3 markets at a time when consumer spending is rising will enable the company in adding on to the top-line.

Tapping rural markets

Eyeing rural markets - Rural India, which accounts for more than 70% of the country's one billion population, is not just witnessing an increase in its income but also in consumption and production. The rural market is growing faster than the urban market, although the penetration level is much lower. Whirlpool is looking at rural markets for its next phase of growth. It is set to tap markets with a population between one lakh and five lakh in the first phase, and in the next phase, will look at expanding the base in villages with a population of 50,000. Although Whirlpool is already present across price points, the company that it could look at launching cheaper products to gain traction in the large rural India market. The companies foray into smaller markets would mainly be driven through refrigerators.

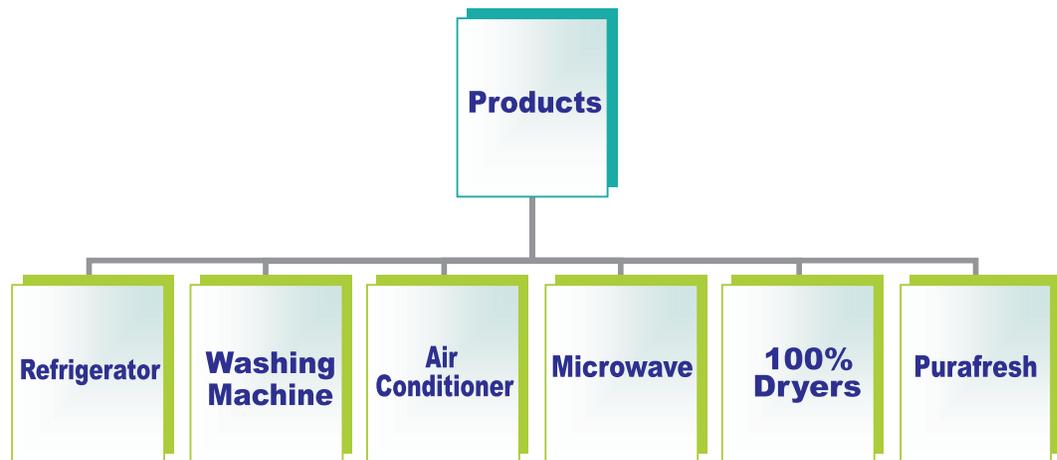
Hike in prices

Product prices hike expected - WIL is eyeing a fresh round of up to 5% price hike across all product categories (refrigerators, washing machines, air conditioners and flat panel displays) by March to make up for increasing input costs and tax outgo. The INR 300 billion consumer-durable industry is severely impacted by continuous rise in prices of raw materials such as steel, plastic and copper. WIL, which cut prices by over 5% in phases in 2009, now plans a 2-5% price hike due to rising input costs. However we believe that though the price rise is inevitable WIL will maintain a price line in order to uphold its market share.

Product Offering

Whirlpool offers wide array of products:

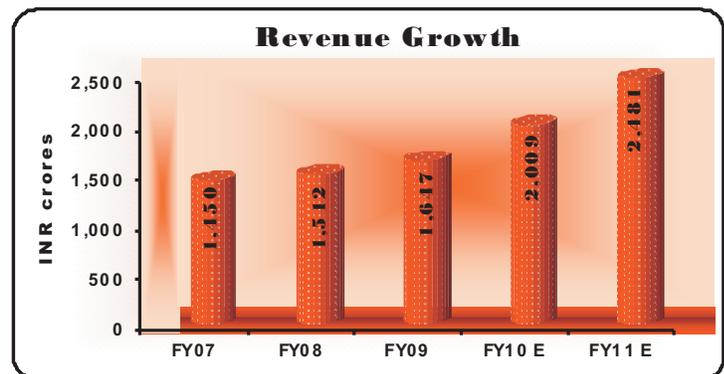
Product range of Whirlpool



Financial Highlights

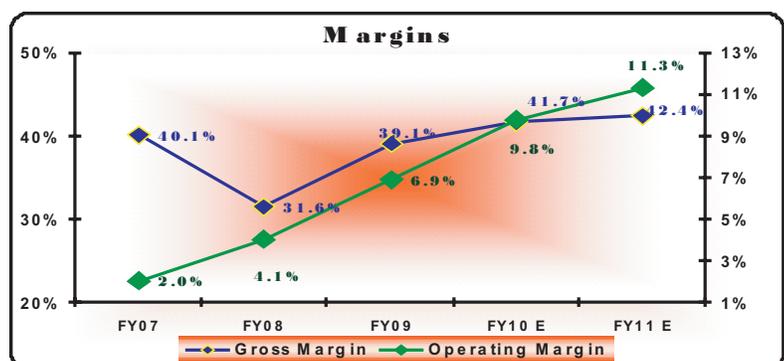
Revenue expected to rise in future

Despite dismal economic environment the company has shown strong business performance in all business matrices. In FY09, the company net sales increased 8.9% year-over-year from INR 1,512.42 crore to INR 1,646.70 crore backed by new product launches and product mix management. The volume growth in refrigerator and washer category was 6% and 7% respectively. The two smaller categories of Home Appliances, viz. Air Conditioner and Microwave, also grew. However, growth in AC was a modest 5% (approximate) as consumer off take was severely impacted due to mild summer. However we believe that, the AC segment will be the core growth business for WIL over the next four- five years, with the launch of 35 new AC models. Microwave grew by approximately 15%. The Water Purifier market, in which WIL forayed with Whirlpool Purafresh in March quarter 2008, also grew by 15%.



Margins to expand

Cost of goods sold declined from INR 1096.41 crore in FY08 to INR 1086.52 in FY09, thereby resulting in gross margin expansion by 7.6% from 31.56% in FY08 to 39.10% in FY09. The operating expenses increased by nearly 30% from INR 378.66 in FY08 to INR 491.89 in FY09. However the operating margins widened by nearly 3% to 6.86%. Profit after tax increased more than two fold year-over-year from INR 32.32 crore in FY08 to INR 70.52 in FY09. EPS increased from INR 1.14 in FY08 to INR 4.15 in FY09.



Healthy Balance Sheet

WIL has sound balance sheet with its cash and bank balance enlarging year-over-year from INR 32.76 crore to INR 72.78 crore. The company reduced its debt by nearly INR 98 crore in FY09 to INR 110.24 crore by repaying its short term borrowings. Cash from operations increased more than 2x year-over-years from INR 80.8 crore in FY08 to INR 183.83 crore in FY09 owing to significant rise in net income and working capital changes. Capital expenditure for FY09 halved as compare to previous fiscal.

3QFY10 update

For quarter ended December 2009 WIL reported net revenue growth of 24.31% year-over-year to INR 504.12 crore as compare to INR 405.55 in same quarter previous year. Overall cost increased 22% from INR 401.45 crore in 3QFY09 to INR 491.09 crore in 3QFY10. The company reported colossal rise of 133.86% in net profit to INR 16.16 crore in 3QFY10 versus INR 6.91 crore in 3QFY09.

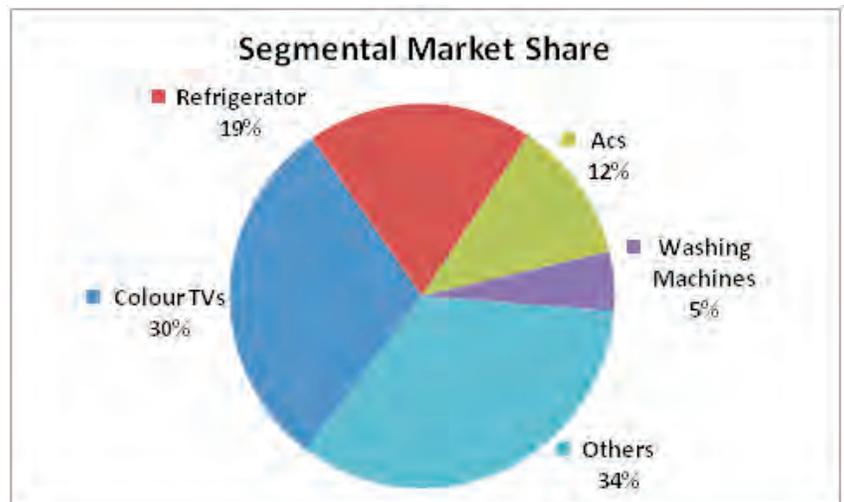
Quarterly Results- Standalone (INR crore)			
	3QFY10	3QFY09	% Change
Net Sales	504.12	405.55	24.31%
Total Cost	401.45	491.09	-18.25%
Net Profit	16.16	6.91	133.86%
EPS	0.92	0.19	384.21%
Gross Margin	37.47%	32.68%	14.66%
Operating Margin	5.50%	3.42%	61.13%

Source: Company Filings

Industry Outlook

India, being the second largest growing economy with huge consumer class has resulted in consumer durables as one of the fastest growing industries. The INR 300 billion consumer-durable industry in the country has scripted a success story even after the economic slowdown threatened to sabotage its growth rate.

This industry consists of durable goods used for domestic purposes such as televisions, washing machines, refrigerators, microwave ovens, mobile phones etc. The growth in the consumer durables sector has been driven primarily by factors such as the boom in the real estate & housing industry, higher disposable income, and emergence of the retail industry in a big way coupled with rising affluence levels of a considerable section of the population.



Indian consumer durables market used to be dominated by a few domestic players but post-liberalization many foreign companies have entered into India, dethroning the Indian players and dominating the market.

In recent years, consumer goods and services, including white goods companies, have increasingly focused on the rural markets, which have witnessed faster expansion compared to urban markets. Rural and lower tier town population constitutes nearly three-fourths of India total population. This segment has also been experiencing increase in its income levels that have translated into higher consumption levels. However, in spite of increase in income and consumption levels, penetration level still remains low. The rising income levels double-income families and consumer awareness were the main growth drivers of the industries. According to CII-Technopak, the rural consumer market, which grew 25 % in 2008 when demand in urban areas slowed due to the global recession, is expected to reach US\$ 425 billion in 2010-11 with 720-790 million customers.

Rural market offer a sea of an opportunity for the sector

Growth Drivers

Increase in disposable income: The demand for consumer electronics has been rising with the increase in disposable income coupled with more and more consumers falling under the double income families. The growing Indian middle class is an attraction for companies who are out there to woo them.

Easy availability of finance: Availability of credit and the structure of the loan determine the affordability of the product. Sale of a particular product is determined by the cost of credit as much as the flexibility of the scheme.

New Product variants: Consumers are spoilt for choice when it comes to choosing products. Newer variants of a product will help a company in getting the attention of consumers who look for innovation in products.

Entry of heavyweight retail players increasing competition: Competitive evolution of organized retail with entry of heavyweights such as Croma, e-zone, Next and Reliance Digital, which is stimulating demand through exposure.

Product pricing: The consumer durables industry is highly price sensitive, making price the determining factor in increasing volumes, at least for lower range consumers. For middle and upper range consumers, it is the brand name, technology and product features that are important.

Increasing share of the organized sector: Rise in organized retail will set the growth pace of the Indian consumer durables industry. Urban markets are growing at between 7% and 10% annually, and rural markets at 25%, with organized retail expected to garner about 15% share by 2015 from the current 5%. The share will grow with bigger players entering the market.

Innovative advertising and brand promotion: Sales promotion measures such as discounts, free gifts and exchange offers help a company in distinguishing itself from others.

Challenges & Threats

Increased affordability of products: Advanced technology and increasing competition is narrowing the price gap and the once-expensive appliances are becoming cheaper

- With stiff competition, the consumer durables industry faces a persistent pressure on margins due to its inability to pass on input cost rises to consumers. Hence, the company's future profitability may come under pressure.
- **Exchange schemes and pricing** could have a negative industry impact.
- The **entry of cheap Chinese products** through organized retail continues to be a threat to the domestic players like Whirlpool. Amid hyped media reports on the invasion of Chinese goods, the consumer is likely to get confused thereby resulting in temporary loss of market share and revenues. However, brand building continues to be the competitive edge in which the Chinese products seem to lag behind. They don't have much experience in brand building, specially in the international context.
- **Cyclicity** has triggered an industry recession.
- Whirlpool faces competition from South Korean companies like LG and Samsung. In last few years, they have been increasing their market share in India. Going forward, they are expected to give tough competition to Indian manufacturers with newer high-end technologies.

Sector Outlook

The consumer durables industry is set to grow at 15% plus in FY 2009-10 even though the consumer durable segment had a bumpy ride in the last financial year. The sector is witnessing increased demand due to changing life styles and affordability of the consumers. A combination of changing lifestyles, higher disposable income, greater product awareness and affordable pricing have been instrumental in changing the pattern and amount of consumer expenditure leading to robust growth of consumer durables industry. A healthy rise in demand have spurred consumer durables firms such as LG, Samsung, Whirlpool, Godrej & Boyce to line up investments amounting to about US\$208 million over the next few months for product launches, research and development (R&D) and for upgrading capacity at their existing manufacturing plants.

Peer Comparison and Valuation

Despite economic slow down we believe that the long term prospects of WIL are promising backed by new product launches, expanding geographical horizons and increasing focus on AC's and microwaves which has resulted in exponential company growth. Tapping the opportunities in the rural and Tier 2 and Tier 3 markets along with the launch of new AC variants should augment the top line. In addition WIL's recognition as renowned brand offering technologically advanced consumer durable products should add to its growth momentum. We are initiating coverage with a "BUY" rating on WIL with a price target of INR 298. We believe the stock offers good investment opportunity for investors looking at medium to long-term investment.

Our target price of INR 298 is derived by using a discounted cash flow model, estimating the company's growth and the sectors growth for the long term. Assuming a growth rate of 1.8% till perpetuity and a discounting rate (cost of equity K_e) at 10.4%, our calculations show that the stock is trading at nearly 45% discount from its calculated fair market value or about INR 135 lower than its calculated fair market value of INR 298.

WIL PEER GROUP COMPARISON

Company	BSE Symbol	Price	Market Cap.	Book Value*	EPS (TTM)*	P/B*	P/E*	P/C*
Whirlpool of India Ltd	500238	163.6	2075.62	10.77	8.24	15.19	19.85	14.45
Bajaj Electrical Ltd	500031	223.1	2176.22	24.36	13.03	9.16	17.12	16.04
Symphony Comfort Systems Ltd	517385	326.85	228.65	73.34	64.63	4.46	5.16	4.93
Value Industries Ltd.	500945	21.25	83.27	114.22	1.81	0.19	11.74	0.95
Gandhimathis Appliances Ltd	517421	85.8	82.66	22.83	10.46	3.76	8.20	7.51
IFB Industries Ltd	505726	87.65	311.33	28.25	24.58	3.1	3.57	3.28

* As per latest standalone adj. profit after extra ordinary items

Source: Moneycontrol

Income Statement

<i>Annual Income Statement</i> <i>All figures in INR crore except share data</i> <i>FY ending -March</i>	March FY 07	March FY 08	March FY 09	March FY 10E	March FY 11E
Net sales	1,450.23	1,512.42	1,646.70	2,008.97	2,481.08
Other Income	46.55	61.26	83.66	83.66	83.66
Total Income	1,496.78	1,573.68	1,730.36	2,092.64	2,564.75
Cost of goods sold	914.66	1,096.41	1,086.52	1,255.58	1,513.20
<i>Gross Profit</i>	<i>582.12</i>	<i>477.27</i>	<i>643.84</i>	<i>837.06</i>	<i>1,051.55</i>
Operating Expenses					
Employees Remuneration and Benefits	100.87	121.96	135.94	156.70	193.52
Operational expenses	417.80	256.70	355.95	441.97	533.43
Total operating expenses	518.67	378.66	491.89	598.67	726.96
Total cost	1,433.33	1,475.06	1,578.41	1,854.26	2,240.16
EBITDA	63.45	98.61	151.95	238.38	324.59
Interest expense, net	16.34	17.24	17.32	16.54	16.54
PBDT	47.10	81.37	134.63	221.85	308.05
Depreciation & amortization (net)	34.42	37.35	39.01	46.65	56.72
PBT and exceptional items	12.68	44.02	95.63	175.19	251.33
Miscellaneous Expenditure written off	18.32	15.21	9.43	9.43	9.43
PBT	(5.64)	28.81	86.19	165.76	241.90
Provision for tax					
Current tax	0.00	0.00	0.00	36.47	53.22
Deferred tax charged	3.00	(6.27)	12.78	0.00	0.00
Fringe Benefit tax	(2.67)	2.75	2.90	0.00	0.00
Wealth tax	(0.01)	0.01	0.00	0.00	0.00
Total Tax	0.32	(3.51)	15.68	36.47	53.22
PAT	(5.32)	32.32	70.52	129.30	188.68
Less: Dividend on 10% non-convertible pref. shares	(15.23)	(15.23)	(15.23)	0.00	0.00
Corporate dividend tax	(2.59)	(2.59)	(2.59)	0.00	0.00
PAT for EPS calculation	(23.14)	14.49	52.69	129.30	188.68
Weighted average no. of shares	126,871,830	126,871,830	126,871,830	126,871,830	126,871,830
EPS (Diluted)	(INR 1.82)	INR 1.14	INR 4.15	INR 10.19	INR 14.87

Balance Sheet

<i>Annual Balance Sheet</i> <i>All figures in INR crore</i> <i>FY ending -March</i>	March FY 07	March FY 08	March FY 09	March FY 10E	March FY 11E
Gross Block	630.25	666.00	699.48	775.95	876.65
Depreciation	335.48	355.08	393.64	440.29	497.01
Net Block	294.77	310.92	305.85	335.66	379.64
Intangible Assets		0.86	0.59	0.59	0.59
Deferred Tax Assets (net)	79.76	86.03	73.25	73.25	73.25
Capital work in progress	13.27	13.15	2.02	2.02	2.02
Current assets:					
Inventories	251.57	345.00	299.87	309.60	352.39
Debtors	77.02	100.04	82.07	110.08	135.95
Cash & Bank	44.42	32.76	72.78	233.07	422.05
Loans & Advances	73.26	91.82	79.49	79.49	79.49
Profit and Loss account	103.65	71.34	0.82	0.82	0.82
Total Current Assets	549.92	640.96	535.03	733.06	990.69
Miscellaneous Expenditure	34.05	18.83	9.40	9.40	9.40
Total Assets	971.78	1,070.75	926.14	1,153.99	1,455.60
Shareholders' Funds					
Equity Share Capital	279.21	279.21	279.21	279.21	279.21
Reserves & Surplus	29.00	28.60	25.69	154.99	343.67
Total Shareholders Funds	308.21	307.81	304.91	434.20	622.89
Secured Loans	151.49	19.00	0.00	0.00	0.00
Unsecured Loans	76.34	189.55	110.24	110.24	110.24
Total Debt	227.83	208.55	110.24	110.24	110.24
Current liabilities & Provisions:					
Current Liabilities	379.73	499.34	451.85	550.39	663.32
Provision	56.00	55.05	59.16	59.16	59.16
Total Current Liabilities	435.74	554.39	511.00	609.55	722.48
Total Liabilities and SE	971.78	1,070.75	926.14	1,153.99	1,455.60

Key Ratios

Particulars	March FY 07	March FY 08	March FY 09
Key Ratios			
Debt-Equity Ratio	1.23	1.07	0.63
Long Term Debt-Equity Ratio	0.34	0.59	0.45
Current Ratio	0.87	1.00	1.09
Turnover Ratios			
Fixed Assets	2.67	3.1	3.13
Inventory	7.22	6.58	6.49
Debtors	17.43	22.17	23
Interest Cover Ratio	1.78	3.59	6.53
ROCE (%)	-	14.3	25.91
RONW (%)	-	54.55	56.25
Valuation Ratios			
Price Earning (P/E)	-	17.51	5.02
Price to Book Value (P/BV)	8.29	8.25	2.59
Price/Cash EPS (P/CEPS)	10.38	8.13	3.23
EV/EBIDTA	10.76	8.9	2.75
Market Cap/Sales	0.19	0.29	0.17

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Branches & Associates

Delhi	Haryana	Uttar Pradesh	Uttaranchal
Barakhamba Road	Paschim Vihar	Faridabad	Agra
Chander Vihar	Pitampura (CD Plaza)	Hissar	Aligarh
East Patel Nagar	Pitampura (KD Market)	Mahender Garh	Baghpat
Hauz Kazi	Pushp Vihar	Panipat	Meerut (Samrat Palace)
Inder Puri - I	Rohini	Rohtak	Meerut (Delhi Road)
Inder Puri - II	Rohtak Road	Sonepat	Varanasi
Janak Puri	Shahadra		
Kalkaji	Shastri Nagar		
Karol Bagh	Sheikh Sarai	Punjab	Bihar
Najafgarh	Siddharth Extension	Amritsar	Balia
Naya Bazar	Vikasपुरi	Barnala	Darbhanga
Netaji Subhash Place		Jalandhar	

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