

Strong free cash flow generation, impressive return ratios and ample cash on its books makes us bullish on Whirlpool; Recommend Buy with a target price of Rs 1976

CMP: Rs 1649

Rating: Buy

Target: Rs 1976

(NR-Not Rated)

Stock Info

INDEX	
BSE	500238
NSE	WHIRLPOOL
Bloomberg	WHIRL IN
Reuters	WHIR.BO
Sector	Consumer Durable
Face Value (Rs)	10
Equity Capital (Rs Mn)	1269
Market Cap (Rs Mn)	209,258
52w H/L (Rs)	1859 /1263
Avg Weekly Vol (BSE+NSE)	912,740

Shareholding Pattern

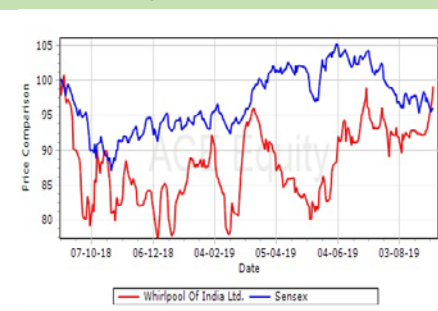
	%
(As on June, 2019)	
Promoters	75.0
Public & Others	25.0

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
WHIRLPOOL	7.9	6.8	-1.0
SENSEX	-8.6	0.6	-3.6

Source: ACE Equity, Arihant Research

WHIRLPOOL v/s SENSEX



Source: ACE Equity, Arihant Research

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Whirlpool (WIL) has shown strong growth traction in last 3-years, with steady revenue growth, sustainable EBITDA margins and improving bottomline. We like Whirlpool due to its impressive return ratios, robust free cash flow, negative working capital cycle and ample cash in its books. With the Home Appliances industry expected to post a healthy CAGR of 13%-15% over the next 5-years, a strong franchisee like Whirlpool will be a key beneficiary and will outperform the industry growth. We recommend a Buy on Whirlpool with a target price of Rs 1976 per share.

Investment Rationale

■ **Whirlpool to surpass industry growth over next 5-years**

The Home Appliances Industry is set to grow at a CAGR of 13-15% over next 5-years, on the back of low home penetration, growing disposable income of the masses and rising consumer durable finance. With strong brand name, Whirlpool will surpass industry growth and we expect WIL to clock a revenue CAGR of 16.9% over FY19-21E, while PAT will grow at a CAGR of 22.4% over the same period.

■ **EBITDA margin to sustain at 12-13% level with gross margin at 38%**

Over the last few years WIL has been able to maintain its EBITDA margin around 12-13% level and reported its highest ever quarterly gross margin at 37.5% in Q1FY20. With better control on input costs, premium product portfolio and benefits of price hikes, we expect WIL's gross margin and EBITDA margin to sustain around 38% and 12.5% levels respectively.

■ **Strong FCF, ample cash on books & healthy return ratios make us bullish**

For last 5-years WIL is operating at an ex-cash negative working capital cycle, which has enabled the company to generate strong free cash flow (FCF). With ample cash on its books (Rs 10,610 mn at FY19 end) and healthy return ratios (ROCE >28%), WIL has all the ingredients to make us bullish on the stock.

Valuations

At CMP of Rs 1649 Whirlpool is trading at a P/E of 41.6x and 34.1x its FY20E and FY21E earnings respectively. Though the valuation looks expensive, however with its strong brand name, impressive return ratios and free cash flow generation, the premium valuation is likely to sustain. We have valued the stock at a target P/E of 40x its FY21E earnings, which yields a target price of Rs 1976 per share, giving an upside potential of 19.8%. **We recommend a BUY on Whirlpool from longer term perspective.**

Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY18	48319	5600	3507	27.6	11.6	20.0	59.7
FY19	53976	6422	4097	32.3	11.9	21.1	51.0
FY20E	63250	7780	5060	39.9	12.3	21.5	41.3
FY21E	73750	9219	6269	49.4	12.5	22.3	33.4

Source: Company, Arihant Research

Techno – Funda Stock Stock with Price Momentum and Growth

Technical Chart



Technical Outlook:

The stock after a nine week consolidation has seen good buying which clearly suggests that the stock is showing good accumulation pattern. Further, the volumes bar also shows some institutional buying interest in this stock. We are of the opinion that stock is likely to test 1800 – 1954 (the all-time high) or even extent its gains up to 2100 – 2200 levels in 12 to 15months.

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Stock Rating Scale**Absolute Return**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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