

IFB Industries

24 January 2018

Reuters: IFBI.NS; Bloomberg: IFBI IN

Scalability Attained, Profitability To Follow

The home appliance industry in India offers highly promising growth prospects driven by its low penetration level as well as rising demand owing to improved affordability and easy availability of consumer durable finance. IFB Industries (IFB) is favourably placed to reap the benefits of this upturn owing to its marquee brand proposition, distribution network expansion, undisputed leadership in front-load washing machines, scaling up of other categories (top-load washing machines, microwave ovens, air-conditioners) as well as the impending launch of its refrigerators. While we expect IFB to post industry-leading 23.7% revenue CAGR over FY17-FY20E, the benefits of attaining scale (better absorption of fixed-cost overheads), operating leverage and achieving cost efficiency through import substitution in front-load washing machines will lead to substantial improvement in profitability. We expect IFB to post 500bps EBITDA margin expansion over FY17-FY20E, leading to 53.2% EBITDA CAGR and 65.4% earnings CAGR over FY17-FY20E. We initiate coverage on IFB with a target price of Rs1,900 and assign Buy rating to the stock.

A marquee brand and a superior growth franchise: With a strong track record of high-quality product performance, IFB has developed strong reputation of a premium brand, product superiority and timely after-sales service which has helped it to develop a loyal consumer base. In addition, IFB has outpaced its peers with industry-leading revenue CAGR of 18.2% over FY10-FY17. We expect the strong growth momentum to sustain, driven by expansion of distribution reach (added 9,000 retailers in the past few quarters), industry leadership in front-load washing machines (market share of 42%-44%), enhancing top-load washing machine portfolio (with the impending launch of a mass market 6kg variant), foray into refrigerator category in 1HFY19 (which has a much larger industry size at Rs195bn), outpacing peers in microwave ovens (gained 20% market share) as well as possibility of scale-up in the air-conditioner segment.

Operating margin poised to leapfrog: While IFB was always a strong gross margin franchisee (upwards of 41%), it had a much lower EBITDA margin compared to peers. However, with the home appliance business of IFB attaining the necessary scale (leading to better absorption of fixed-cost overheads such as distribution costs, advertising and sales promotion as well as trade discounts) and import substitution in front-load washing machines (from 27% to 12%-13% by 4QFY18 via domestic sourcing of electronic components), the operating margin profile of IFB is likely to substantially improve. We expect a healthy rise in the EBITDA margin of IFB from 5.6% in FY17 (and 7.5% in 1HFY18) to 10.6% in FY20E.

Outlook and valuation: We expect IFB to post 23.7% revenue CAGR over FY17-FY20E. A 500bps EBITDA margin expansion over FY17-FY20E will translate into 53.2% EBITDA CAGR and 65.4% earnings CAGR over FY17-FY20E. This will lead to a significant improvement in IFB's financial profile with stronger return ratios (RoE/RoCE rising from 11.5%/11% in FY17 to 26.5%/32.5% in FY20E, respectively) and higher free cash flow (Rs3bn over FY17-FY20E compared to Rs296mn over FY14-FY17). In addition, the working capital cycle remains lean (at 5%-6% of sales) while fixed-asset turnover will rise from 2.9x in FY17 to 3.8x in FY20E). The stock has traded at an average P/E of 36x over the past three years. We have valued IFB using the SOTP method by assigning a P/E of 36x FY20E earnings to its home appliance business (Rs1,810) and 15x FY20E earnings to its fine blanking business (Rs90). We initiate coverage on the stock with a Buy rating and a target price of Rs1,900, up 36% from the CMP.

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Net revenues	15,009	17,407	22,523	27,075	32,929
EBITDA	694	974	1,961	2,768	3,503
PAT	314	510	1,131	1,733	2,307
EPS (Rs)	7.6	12.3	27.4	42.0	55.9
EPS growth (%)	(36.9)	62.5	121.9	53.2	33.1
EBITDA margin (%)	4.6	5.6	8.7	10.2	10.6
P/E (x)	184.3	113.4	51.1	33.3	25.1
P/BV (x)	13.8	12.4	10.0	7.7	5.9
EV/EBITDA (x)	82.8	59.1	29.2	20.3	15.6
RoCE (%)	5.3	11.0	25.6	31.4	32.5
RoE (%)	7.8	11.5	21.6	26.0	26.5

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: White Goods

CMP: Rs1,400

Target Price: Rs1,900

Upside: 36%

 Chirag Muchhala
 Research Analyst

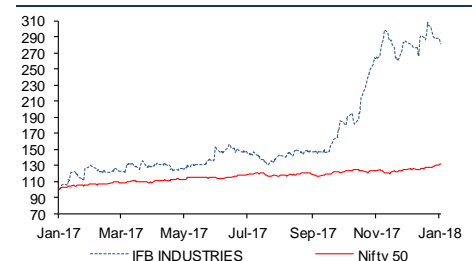
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Key Data

Current Shares O/S (mn)	40.5
Mkt Cap (Rsbn/US\$m)	57.4/901.1
52 Wk H / L (Rs)	1,547/492
Daily Vol. (3M NSE Avg.)	61,105

Shareholding (%)	1QFY18	2QFY18	3QFY18
Promoter	75.0	75.0	75.0
DII	9.3	6.7	2.9
FII	2.4	5.5	8.3
Public	13.3	12.8	13.8

One -Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
IFB Industries	1.4	100.3	180.5
Nifty Index	5.6	11.2	30.8

Source: Bloomberg

Home appliance industry – current status and future outlook

The home appliance industry in India offers highly promising growth prospects driven by its low penetration level as well as rising demand owing to improved affordability as well as easy availability of consumer financing options. The collective industry size of three core categories of home appliances comprising refrigerators, washing machines and air-conditioners (ACs) is very small at only Rs387bn as of FY17-end considering the high population level in India. The penetration level across product categories remains low with refrigerators at 23%-25%, washing machines at 11% and ACs at only 5%, as per industry estimates. As per Crisil's estimates, refrigerator, washing machine and AC industry posted 14%/12.4%/13.1% CAGR in value terms over FY10-FY17, respectively.

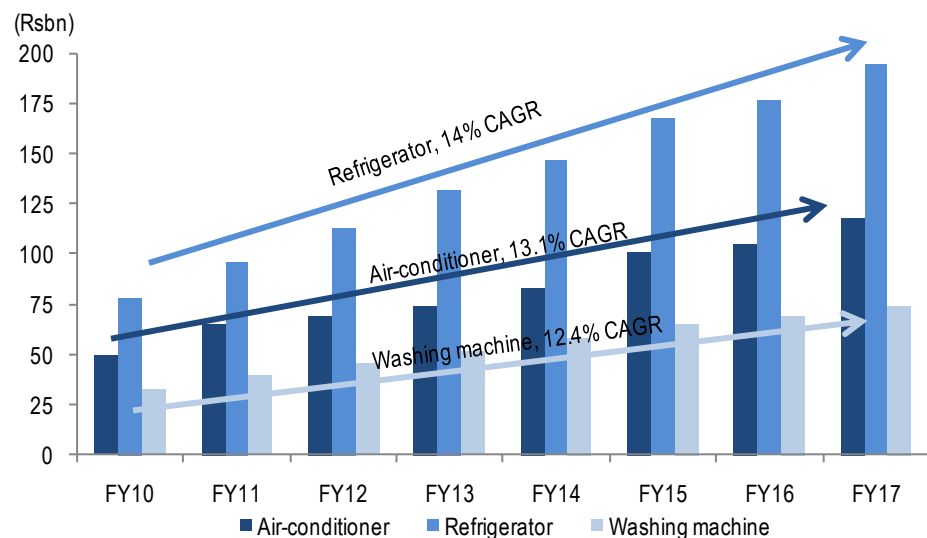
Exhibit 1: Home appliance industry synopsis

Home appliance	Size - FY17 (Rsbn)	CAGR (FY10-FY17)	Size in units (mn)	Penetration	Top players
Refrigerator	194.9	14.0%	11.1	23%-25%	LG, Samsung, Whirlpool
Washing machine	74.4	12.4%	5.4	11%	LG, Samsung, Whirlpool, IFB
Air-conditioner	118	13.1%	4.3	5%	Voltas, LG, Daikin, Hitachi

Source: Industry, Nirmal Bang Institutional Equities Research

The affordability of home appliances is on the rise as the extent of increase in per capita GDP has far outpaced the rise in average selling price (ASP) of white goods products over the past seven years. Per capita GDP increased from Rs55,366 in FY10 to Rs1,16,888 in FY17, translating to 11.3% CAGR over the past seven years. During the same period, the average selling price of refrigerators, washing machines and ACs increased by only 6.4%, 5.0% and 3.9%, respectively. Thus, the affordability of white goods is much higher today compared to earlier years and is likely to improve further going forward. Rising affordability along with growing necessity of home appliances is likely to be a key trigger which will spur consumer demand and improve the penetration level of white goods.

Exhibit 2: Home appliance industry growth trend over FY10-FY17



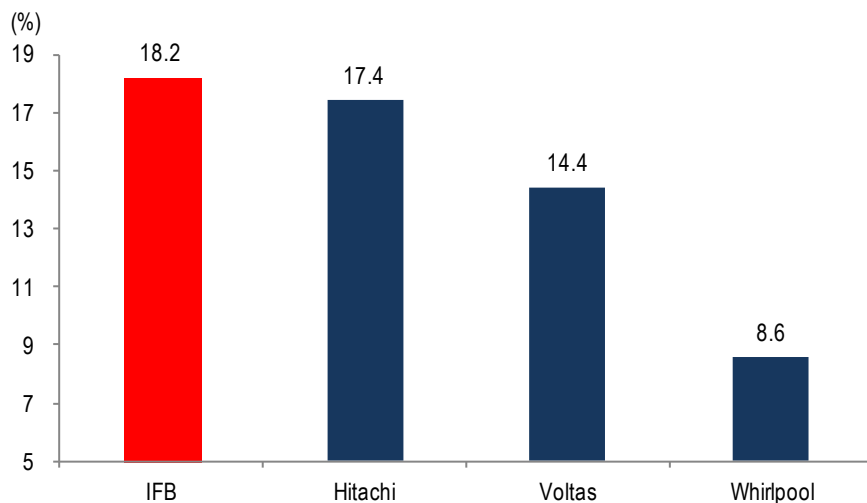
Source: Crisil, Nirmal Bang Institutional Equities Research

We believe the home appliance industry is on the cusp of a strong and sustainable long-term growth trajectory driven by factors such as higher GDP growth, rising disposable income, increasing urbanisation, improving rural electrification, rising affordability, increasing number of nuclear families, easy availability of consumer finance, quicker replacement cycles and growing necessity of consumer durables. We expect the home appliance industry to post 15% CAGR in value terms over the next five to seven years. Even in the near term, over the next two to four quarters, consumer spending is likely to rise as the negative sentiment caused by demonetisation and GST implementation fades away while positive drivers such as payout of Seventh Central Pay Commission, moderate inflation and a low interest rate regime stimulate consumer demand.

IFB – A superior growth franchise...

IFB is a strong growth franchise with a proven track record of outpacing industry growth as well as its peers. Over the past seven years over FY10-FY17, IFB posted industry-leading revenue CAGR of 18.2% in its home appliance portfolio. While we expect the home appliance industry to post 15% CAGR over the next five to seven years, IFB is likely to continue growing above the industry growth rate driven by additional growth levers it has. The key drivers of growth will be expansion of distribution reach from 14,000 retail touch-points currently (added 9,000 retailers in the past few quarters), industry leadership in front-load washing machines (market share of 42%-44%), enhancing top-load washing machine portfolio (with the impending launch of a mass market 6kg variant), entry in refrigerator category in 1HFY19 (much larger in size at Rs195bn), outpacing peers in microwave ovens (gained 20% market share) as well as possibility of scale-up in the AC segment. We expect IFB to register 25.6% revenue CAGR in its home appliance segment over FY17-FY20E.

Exhibit 3: Revenue CAGR (FY10–FY17) – peer comparison

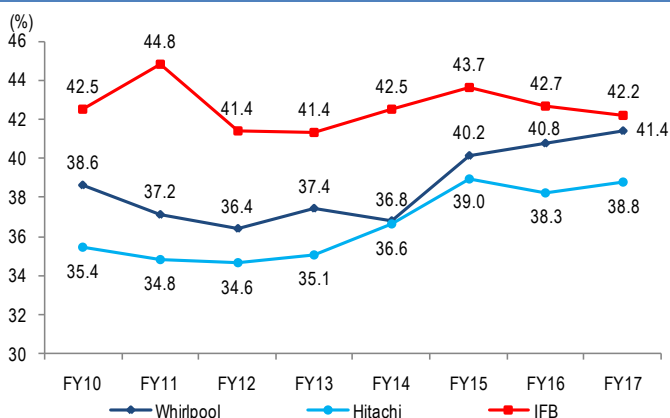


Source: Ace equity, Company, Nirmal Bang Institutional Equities Research

...attains necessary scale to drive operating margin

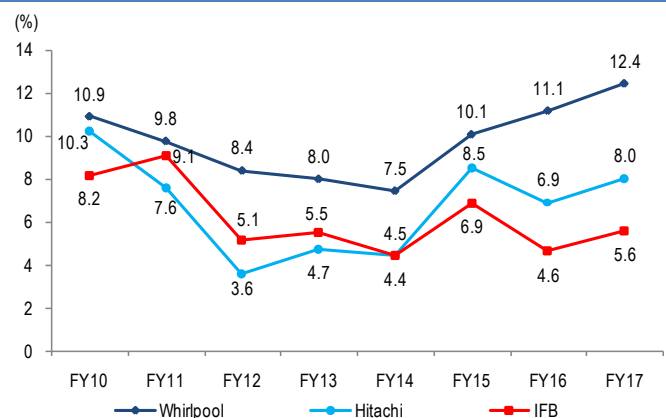
While IFB was always a strong gross margin franchise (upwards of 41%), it had a much lower EBITDA margin compared to peers. However, two key levers are likely to significantly improve operating margin of IFB henceforth. Firstly, the home appliance business of IFB has now attained the necessary scale to drive margins with better absorption of fixed-cost overheads such as distribution costs, advertising and sales promotion as well as trade discounts. Secondly, IFB plans to reduce import content in front-load washing machines from 27% to 12%-13% by 4QFY18, primarily via domestic sourcing of electronic components. Consequently, we expect a healthy rise in the EBITDA margin profile of IFB from 5.6% in FY17 (and 7.5% in 1HFY18) to 10.6% in FY20E.

Exhibit 4: Gross margin trend - peer comparison



Source: Ace equity, Company, Nirmal Bang Institutional Equities Research

Exhibit 5: EBITDA margin trend - peer comparison



Source: Ace Equity, Company, Nirmal Bang Institutional Equities Research

Brand IFB – A marquee brand proposition...

With a strong track record of high-quality product performance, IFB has developed a strong reputation of a premium brand, product superiority and timely after-sales service including consumer-education initiatives which helped it to develop a loyal consumer base. This marquee brand proposition has helped it to built its market leadership position in front-load washing machines and dish-washers and will benefit from its rub-off effect on other product categories as well. The findings of our ground research carried across multi-brand stores as well as IFB Points (in total 16 stores across Mumbai) validate the same.

.....as validated by our ground research findings

Front-load versus top-load washing machine dynamics comparison

- Front-load washing machines provide a better wash quality similar to a laundry wash because of tumble motion, higher revolutions per minute (which increases cleaning efficiency) and the in-built water heater which facilitates better stain removal. Front-load has a higher wash cycle time of 90 minutes versus 45 minutes for top-load. Front-load has higher drying capacity at 75%-80% versus top-load which offers drying capacity of 50%-60%. Hence, the product premiumisation trend favours front-load washing machines.
- Front-load washing machines use less water (~50-60 litres per wash cycle versus ~120 litres for top-load) and have lower power consumption and better voltage management system.

IFB's front-load washing machine

- Across all multi-brand stores, IFB was the most admired and most marketed brand.
- IFB models have positive customer reviews in terms of product quality and durability, good quality of wash, premium brand recall, good after-sales service and easy availability of spare parts. IFB provides 100% comprehensive warranty for four years (versus two years in other brands) and 10-year spare-part support.
- In terms of pricing, there is not much difference in the prices of IFB models versus other premium brands such as Bosch and Siemens. LG and Samsung are not large players in front-load category.

IFB's top-load washing machine

- While the leaders continued to be LG, Samsung and Whirlpool, IFB's products were equally good and emerged as a credible alternative to them.
- IFB does not have an entry-level mass market model of 6kg, which is the maximum selling category at many multi-brand outlets. IFB offers a comprehensive warranty of two years.

IFB's microwave ovens and air-conditioners

- IFB has the widest product portfolio in microwave ovens (20/23/25/28 litre options versus only 20/28 litre of LG and Samsung). IFB is aesthetically more appealing with a mirror-type reflective glass door and a touch-based electronic display panel which gives it a premium feel.
- In multi-brand retail outlets, IFB had very limited to no presence in the AC segment. At IFB Points, a complete range of IFB ACs was displayed offering best-in-class features.

Other parameters

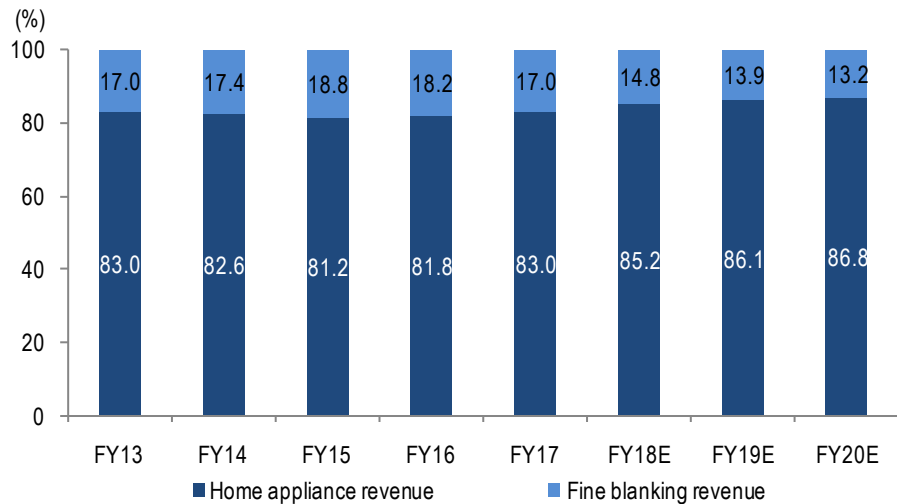
- IFB Point stores are very well designed in terms of layout, aesthetics, decor and accessories. They have well-mannered staff with very good product knowledge (compared with untrained staff at some multi-brand retail outlets).
- No processing fees or upfront charges on finance schemes at IFB Point outlets (it is borne by the company) versus some charges levied at multi-brand stores.
- Casual discussion with some existing customers of IFB revealed that they are highly satisfied and are keen to upgrade with the same brand. They are also willing to try out new categories that IFB forays into (such as refrigerators) because of the trust factor.

(Hitesh Joshi, our ground research analyst, contributed significantly to the ground research findings of IFB and other brands)

IFB - business overview

IFB operates in two main business segments – the home appliance division and the fine blanking division. The home appliance division contributed 83% to total revenues in FY17 while the fine blanking division contributed 17%. In 1HFY18, home appliance segment accounted for 83.7% of total revenues and fine blanking segment contributed 16.3%. The trend has broadly remained similar over the past five years.

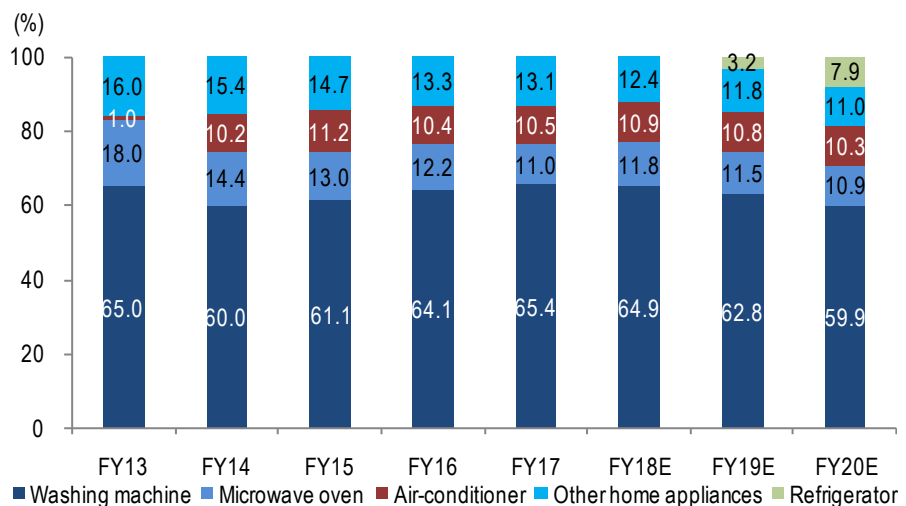
Exhibit 6: IFB's segment-wise revenue mix



Source: Company, Nirmal Bang Institutional Equities Research

Under the home appliance division IFB sells washing machines, air-conditioners, microwave ovens, dishwashers, clothes dryers and modular kitchen products. In FY17, washing machines contributed 65.4% to home appliance segment's revenues followed by microwave ovens and air-conditioners which contributed 11% and 10.5%, respectively. Other appliances including dishwashers, clothes dryers, industrial products, modular kitchens and accessories accounted for 13.1% of home appliance segment's revenues. In terms of product portfolio addition, IFB is planning to launch refrigerators in 1HFY19.

Exhibit 7: Product-wise revenue mix of home appliance segment



Source: Company, Nirmal Bang Institutional Equities Research

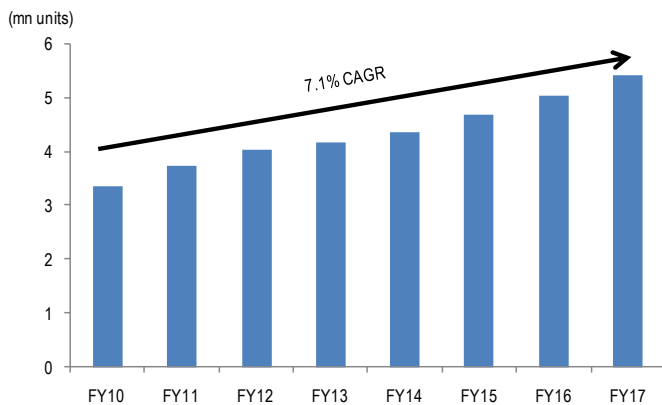
The fine blanking division mainly caters to the automobile sector and specialises in manufacturing and engineering of transmission, clutch, switchgear, braking, seat belt and compressor components. The fine blanking division also includes the after-market business, 'Ultramiles', which operates in the two-wheeler market and specialises in motorcycle chains and sprocket kits. For future growth, IFB is aiming to penetrate the automobile market of South East Asia as well as to achieve diversification, IFB aims to increase its exposure to non-automobile sectors such as electrical, railways, cycle industry and defence in the domestic market.

Washing machine – the core product of IFB

Washing machine is the largest product category of IFB, contributing 65% to total home appliances’ revenues in FY17. The washing machine market size in India is estimated at 5.4mn units with the second-lowest penetration among household appliances at 11%. Unlike the AC segment, which is highly fragmented, in washing machines the top 6 players account for 80% market share. At the mass-market and premium-end, brands such as IFB, LG, Samsung and Whirlpool are key players, while in the low-price segment, Videocon and Godrej have a good market share.

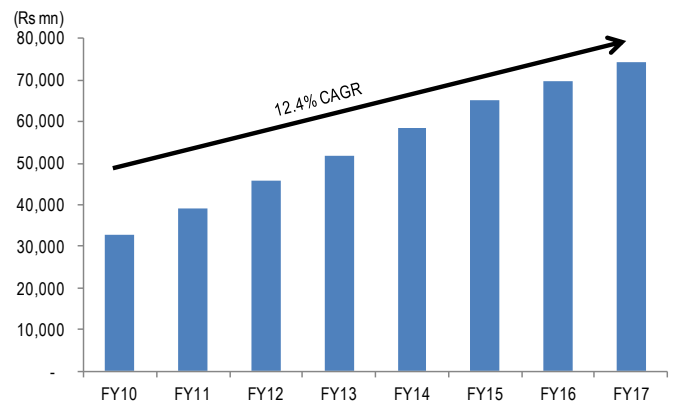
Washing machine category is poised for strong long-term growth and its penetration is likely to rise rapidly. When compared with 11.3% CAGR in per capita GDP over FY10-FY17, the average selling price of washing machine increased by only 5% over the same period. Thus, the affordability of washing machines has improved considerably over the past 7 to 10 years while its future growth outlook is bright as washing machine is becoming a necessity in a modern lifestyle. Driven by the rise in household income, rising urbanisation, increased number of nuclear families, rising manpower costs (domestic help) in urban areas, rising trend of working women and availability of consumer finance are all likely to aid strong growth in the washing machine category over the next few years. Further, replacement demand also provides incremental avenues to tap existing customers as the average life of a washing machine is seven to eight years.

Exhibit 8: Washing machine industry - volume trend



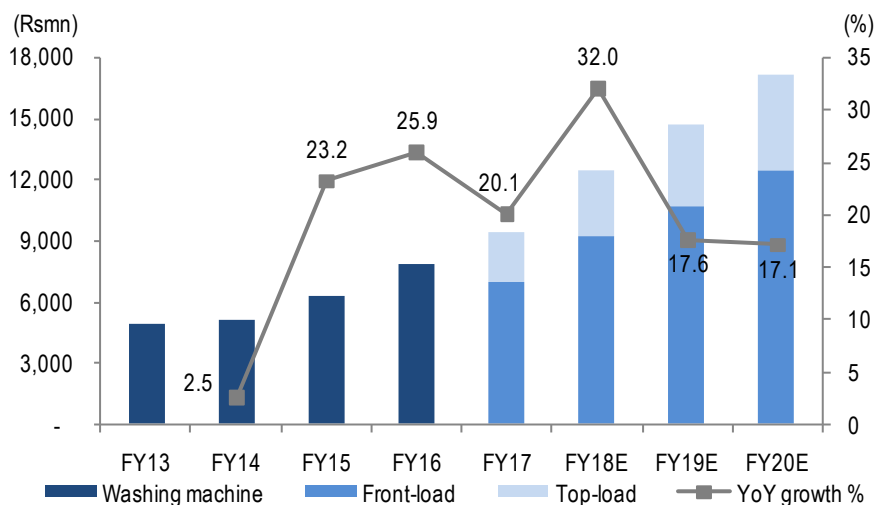
Source: Crisil, Nirmal Bang Institutional Equities Research

Exhibit 9: Washing machine industry - value trend



Source: Crisil, Nirmal Bang Institutional Equities Research

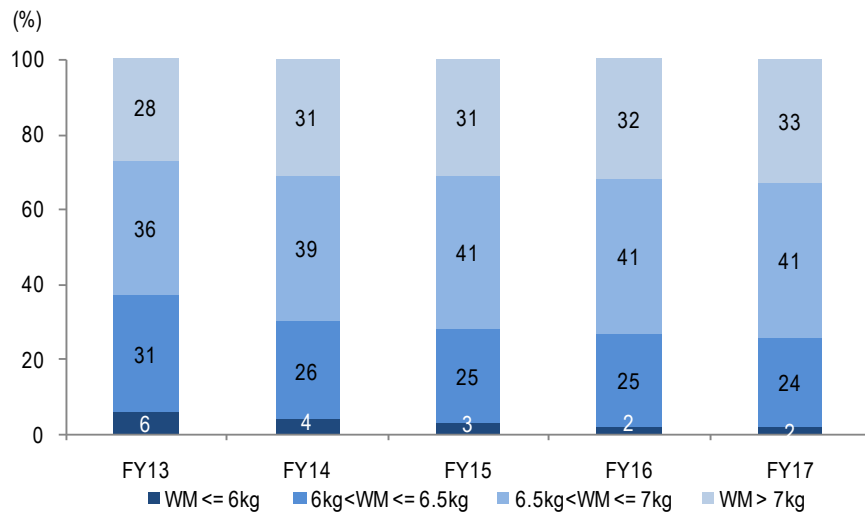
Exhibit 10: Revenue growth trend of IFB’s washing machine



Source: Company, Nirmal Bang Institutional Equities Research

In terms of operations, the washing machine segment has two sub-categories, namely front-load and top-load. In terms of capacity, 6kg to 7kg is the most prevalent category, accounting for 65% of sales, while the above 7kg category accounts for 33% of sales. The share of below 6kg category has declined sharply over the years. As consumer preference moves towards high-capacity and premium models, the shift in product mix will result in an increase in realisation across the industry. During FY13-FY17, the washing machine industry posted 9.4% value CAGR, as per Crisil estimate. IFB has outpaced industry growth by posting washing machine revenue CAGR of 17.5% over the same period, largely led by its dominance in front-load category where it commands a strong market share of 42%-44%.

Exhibit 11: Capacity-wise sales mix of washing machines industry



Source: Industry, Nirmal Bang Institutional Equities Research

Front-load washing machine - IFB is the undisputed market leader

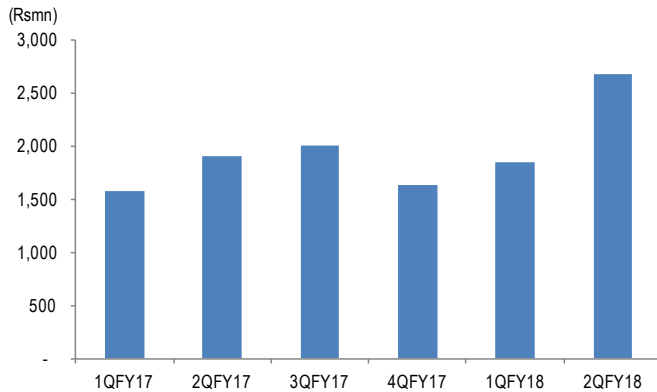
The brand IFB is synonymous with the product category of front-load washing machines where it has carved a niche for itself through its aesthetically superior product portfolio with a strong track record of high-quality performance over the past several years. IFB has attained industry leadership in the front-load washing machine category and enjoys a strong market share of 42%-44% which has helped it to achieve premium brand positioning. The front-load washing machine category accounts for 25% of total industry size while the top-load washing machine category remains bigger with 75% industry share. The front-load washing machine is the largest product segment of IFB accounting for 48.5% of home appliance revenues in FY17. In 1HFY18, revenues from front-load washing machines grew 30.2% YoY and contributed 47.7% to total 1HFY18 home appliance sales. IFB operates in the fully automatic 6kg to 8.5kg capacity range and has 14-15 product variants, with new variants being continuously added to refresh the portfolio. IFB achieved a sales volume of 338,557 units in FY17 (up 13.2% YoY), translating to revenues of Rs7bn in value terms. It is currently operating at 75% of its capacity utilisation and has total capacity to produce 4,50,000 units per year (1,600 units per day, per shift). IFB is expected to increase its total capacity to 700,000 units in the next few months to keep pace with future demand.

To continue its growth momentum and industry superiority, IFB plans to launch new product variants in 2HFY18 with focus on features such as IoT capability, water and energy efficiency, user convenience and interface designs. Not only does IFB enjoy a strong market position in India, but it also has great visibility on the international stage. The key global markets that IFB caters to are South East Asia (via Panasonic) and the Middle East region. IFB aims to scale up its exports to Panasonic (under an OEM arrangement) to 25,000 units in FY18 compared to 13,500 units exported in FY17. There is further scope to grow in export markets as IFB is currently in talks with another large global OEM for supplying front-load washing machines. Currently, import content in front-load washing machines stands at 27%-28% which IFB aims to reduce to 12%-13%, primarily via domestic sourcing of electronic components. Import substitution will conclude by 4QFY18 and is expected to aid overall profitability.

While global brands such as Bosch and Siemens entered the domestic market over the past two years and offered products at aggressive price points, IFB successfully retained its market share owing to its strong brand salience. With rising geographical penetration, expanding retail touch points (including IFB Points and CoCo), new product introductions and healthy growth momentum likely in the front-load washing machine

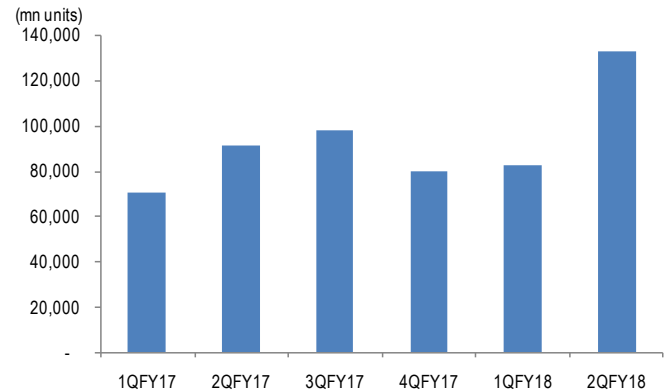
category because of rising consumer premiumisation, we expect IFB to post strong revenue CAGR of 21.1% over FY17-FY20E. Our ground research also indicated strong brand pull of IFB as it was the most admired and the most marketed brand in the front-load washing machine category in each and every multi-brand retail store that we visited.

Exhibit 12: Front-load - quarterly revenue trend of IFB



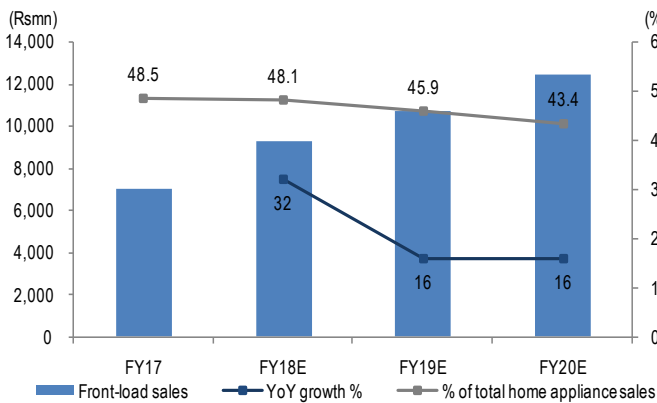
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Front-load - quarterly volume trend of IFB



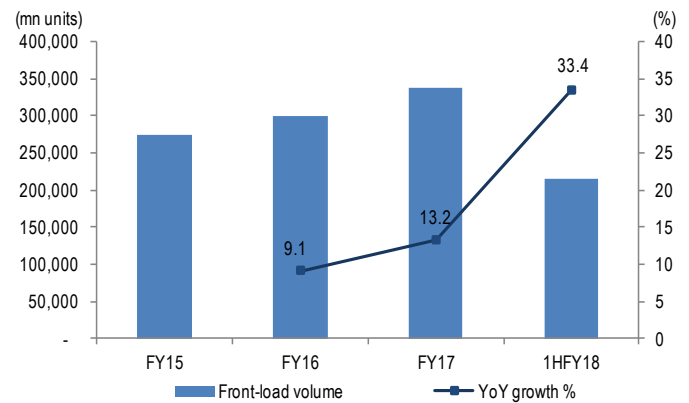
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Front-load – annual revenue trend of IFB



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Front-load - annual volume trend of IFB



Source: Company, Nirmal Bang Institutional Equities Research

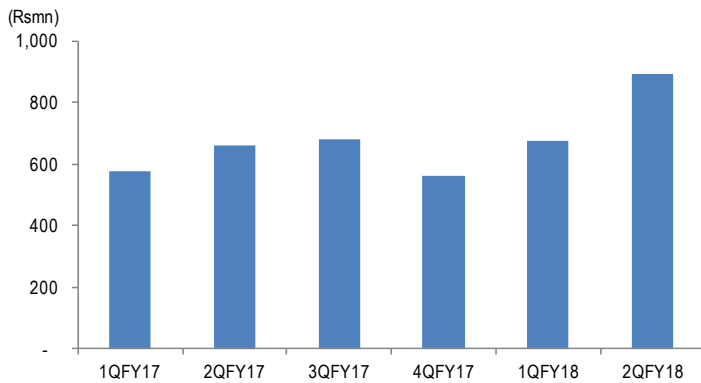
Top-load washing machine – IFB attained successful market penetration

After many years of leadership in front-load washing machines, IFB made a complementary diversification in the top-load washing machine category. IFB began commercial production of its own manufactured range of fully automatic top-load washing machines in 4QFY15, focusing on the capacity range of 6.5kg to 9.5kg. IFB has witnessed remarkable growth in the top-load washing machine category since initiation with sales of 40,000 units in FY15 which grew to 1,18,600 units in FY16 and 1,74,869 units in FY17, 109% volume CAGR over FY15-FY17, making top-load washing machine the fastest-growing category. IFB has attained a healthy market share of 16%-17% in the top-load 6.5kg to 9.5kg segment where it currently operates. However, in the overall top-load washing machine category, including below 6.5kg range where IFB doesn't have presence, IFB's market share stands at 7%-8%.

Top-load washing machine is the second-largest and the fast-growing category of IFB with revenues of Rs2.4bn contributing 17% to home appliance revenues in FY17. In 1HFY18, revenues from top-load washing machines grew 26.5% YoY and contributed 16.5% to home appliance revenues. Top-load washing machines have features such as high-end Deep Clean technology and unique wash features which have been instrumental in gaining customer acceptance. Strong demand traction has led IFB to increase its capacity in top-load washing machines to 3,60,000 units per year in 1HFY18 from 2,40,000 units earlier.

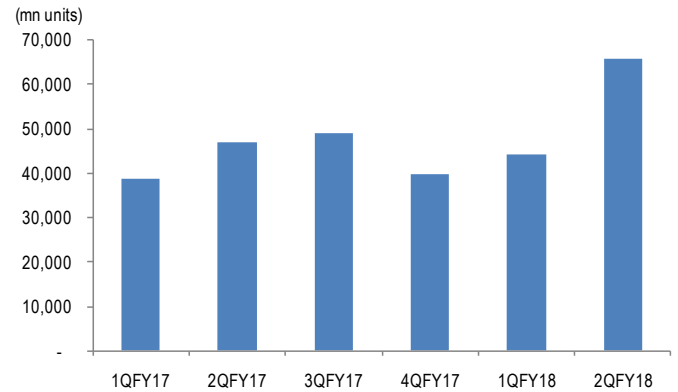
Considering the low base of IFB's sales volume owing to its recent entry into this category as well as the fact that top-load washing machine industry is 3x the size of front-load, a strong growth momentum is likely to sustain for IFB over the next few years. Further, the 6kg product variant of top-load washing machine, which is a mass market entry-level product category, is under development by IFB and is planned for launch in 4QFY18. This is expected to provide a further fillip to volume growth in future along with expansion of distribution network. We expect IFB to post strong revenue CAGR of 24.6% over FY17-FY20E in the top-load washing machine category. Our ground research also indicated wider product availability and growing prominence of IFB's top-load washing machines at multi-brand retail stores. While the leaders continued to be LG, Samsung and Whirlpool in top-load washing machines, IFB's products were equally good and it emerged as a credible alternative to them.

Exhibit 16: Top-load - quarterly revenue trend of IFB



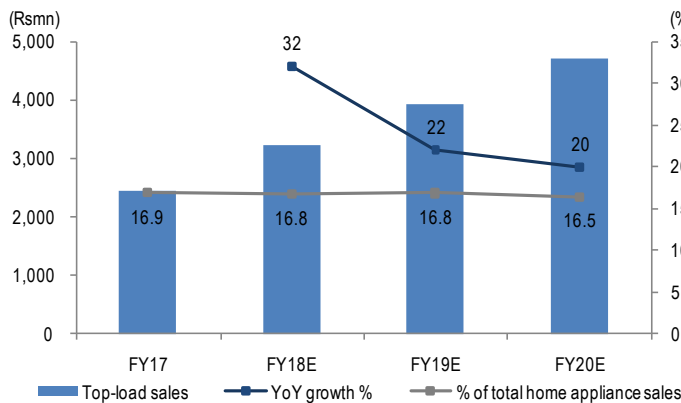
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Top-load - quarterly volume trend of IFB



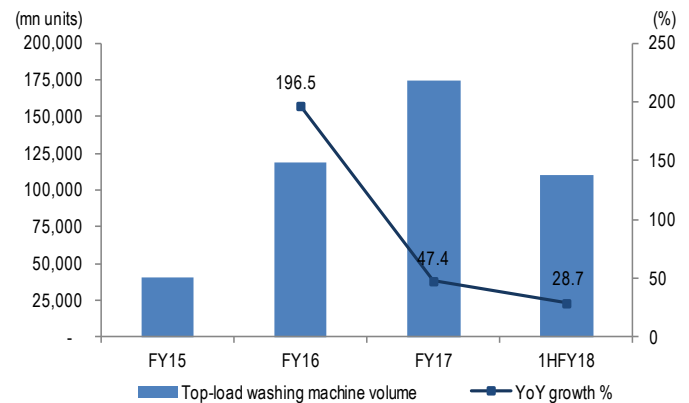
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Top-load - annual revenue trend of IFB



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Top-load - annual volume trend of IFB



Source: Company, Nirmal Bang Institutional Equities Research

Microwave oven – IFB offers widest range, gained healthy market share

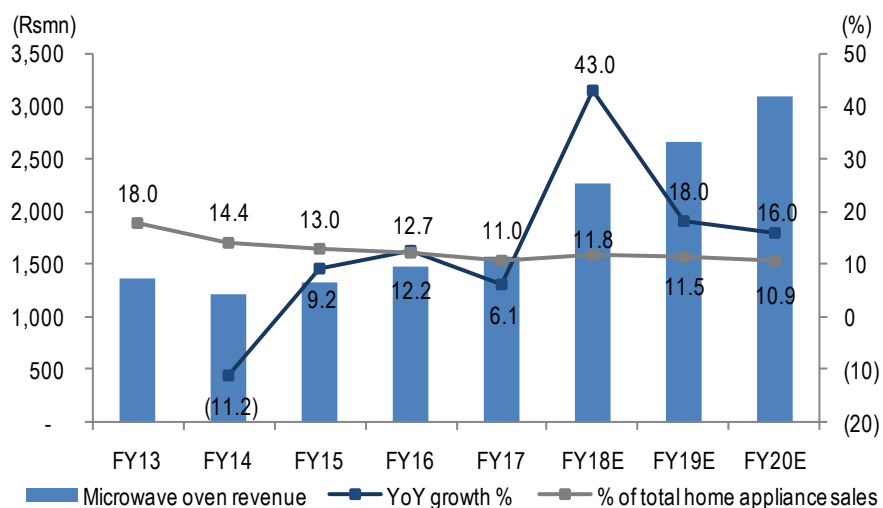
While the microwave oven category remains small in India at 1.5mn units per annum with a penetration level of just 3%-4%, it is increasingly finding favour with the young generation considering the changing habits and preference of food consumption. Entry-level ovens are becoming an integral part of kitchens of people with various income levels in urban towns. The market is dominated by convection microwave ovens which account for 70% of sales followed by grill ovens (20%) and solo ovens (10%). The lower-end units (20 litre or less) contribute to volume while the higher-end (32 litre and above) contribute to value. Microwave oven is a highly fragmented and highly traded market with the leaders being LG, Samsung and IFB.

Microwave oven is the third-largest product category of IFB, contributing 11% to home appliance revenues in FY17 with revenues of Rs1.6bn. In 1HFY18, revenues from microwave ovens grew 55.9% YoY to Rs1.2bn and contributed 12.5% to total home appliance revenues. IFB has gained market share in the microwave oven category over the years and is currently the third-largest player in India with a market share of 20%. It sold 2,08,144 units of microwave ovens in FY17 versus 1,90,000 units in FY16, registering volume growth of 9.5% and value growth of 6.1%, while the overall industry was flatish, partly owing to the demonetisation impact.

Key drivers of growth in microwave ovens for IFB were positive acceptance of its new ‘Oil-free Cooking’ technology and leveraging the retail stores network of IFB’s washing machines. IFB also reaches a large segment of its target audience through its microwave cooking class programme, Spice Secrets, which teaches customers how to optimise microwave oven usage post purchase. Spice Secrets conducts 800 to 900 classes across India every month, engaging 18,000-20,000 customers. With the help of the new Oil-free Cooking range, IFB plans to engage audiences and drive ‘health’ as a platform to increase customer connect. The perception of microwave oven as a necessity rather than a luxury in urban households, rising nuclear families and a health-conscious society will be future growth drivers for the category.

With improved distribution reach and wider acceptance of new products launched, we expect IFB to post healthy revenue CAGR of 25.1% over FY17-FY20E. Our ground research at multi-brand stores indicated that IFB has the widest product portfolio in microwave ovens among all the brands as well as its products were aesthetically more appealing with a mirror-type reflective glass door and a touch-based electronic display panel which gave them a premium feel. In terms of range, IFB’s products were available in 20 litre, 23 litre, 25 litre, 28 litre as well as more than 30 litre categories whereas brands such as LG and Samsung had only 20 litre, 28 litre and more than 30 litre options. The store managers indicated that consumers prefer to upgrade from their old 20 litre range to 23 or 25 litre categories as the price gap is narrow and IFB’s product placement was perfect with no such offerings from LG and Samsung.

Exhibit 20: Microwave ovens - revenue growth trend of IFB



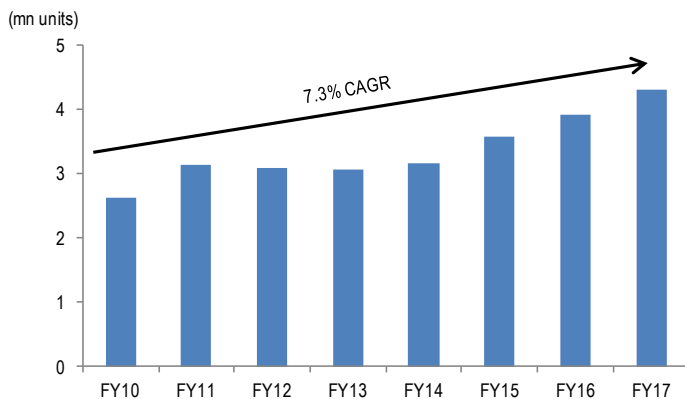
Source: Company, Nirmal Bang Institutional Equities Research

Air-conditioner – leveraging distribution network to achieve scale

Air-conditioner (AC) is the fourth-largest product category of IFB, accounting for 10.5% of its revenues in FY17 with sales of Rs1.5bn. The AC industry’s market size in India is estimated at 4.3mn units (Rs118bn in value) with a low penetration level of only 5%. The AC industry is highly fragmented with a presence of around 15 credible brands and a lot more low-priced brands because of high import content. As the two largest components of AC, namely compressor and plastic unit, are imported from China, making AC is essentially assembly work without any entry barrier. Voltas is the industry leader with 22% market share while players such as LG, Daikin, Hitachi, Lloyd, Blue Star, Panasonic, Samsung and Whirlpool have market share ranging from 5%-15%. Considering the low penetration level, the AC industry is likely to post a sustainable long-term CAGR upwards of 15% for the next 10 years. The growth in AC industry is likely to be driven by rising temperature (as it is a seasonal product mainly used in the harsh summer season), rising urbanisation and increase in household income.

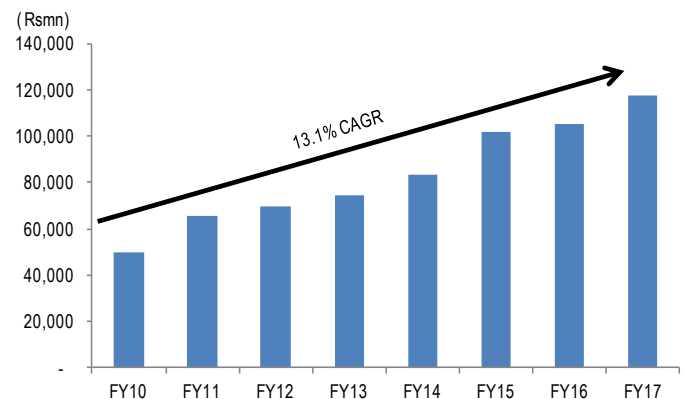
IFB is only present in residential ACs and not in commercial or VRF category. The AC product portfolio of IFB was launched at the end of FY13 and since then it has maintained a healthy growth momentum. The AC segment forms 10.5% of total appliance revenues in FY17 and posted strong revenue CAGR of 21% over FY14-FY17. IFB sold 60,745 units in FY17 versus 50,000 units in FY16, achieving volume growth of 19% YoY. In 1HFY18, revenues from ACs grew 11.8% YoY to Rs1bn and contributed 10.6% to total 1HFY18 home appliance revenues.

Exhibit 21: Air-conditioner industry - volume trend



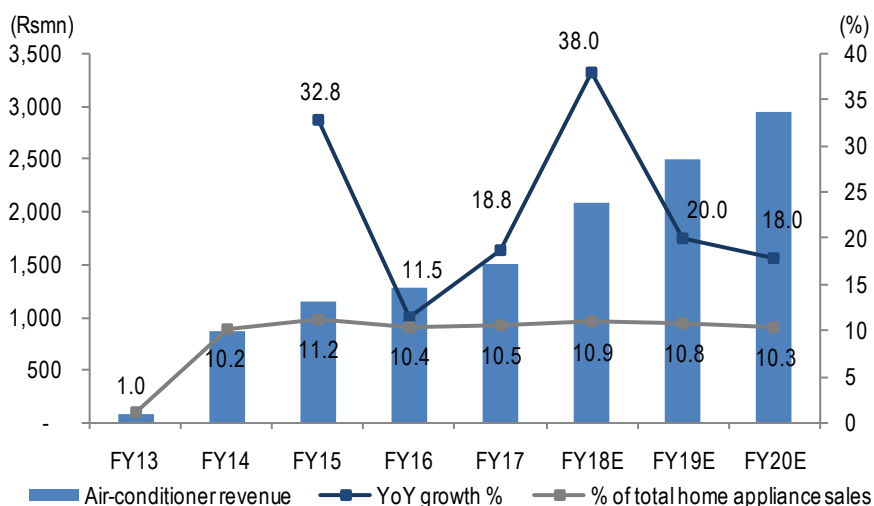
Source: Crisil, Nirmal Bang Institutional Equities Research

Exhibit 22: Air-conditioner industry - value trend



Source: Crisil, Nirmal Bang Institutional Equities Research

Exhibit 23: Air-conditioner - revenue growth trend of IFB



Source: Company, Nirmal Bang Institutional Equities Research

While IFB is a small player in the AC industry currently with a market share below 2%, it intends to grow market share driven by enhanced product portfolio (including inverter ACs) and quality features along with leveraging on its large distribution network. True to its focus on high-quality product performance, IFB offers best-in-class features such as energy efficiency, titanium gold coating on condensers, 52 degree compliant compressors and copper piping across all models. IFB plans to build on these strengths and gradually increase market share without compromising on profitability. In line with the strong industry growth, we expect IFB's current growth momentum to sustain and factor in 25% revenue CAGR over FY17-FY20E, primarily owing to a low base effect.

Other categories

Other product categories where IFB has its presence includes clothes dryers, dishwashers, industrial equipment, built-in oven and modular kitchens which together account for 13.1% of total home appliance revenues in FY17 and 12.6% in 1HFY18. The other product categories grew 23.7% YoY in 1HFY18. The key products under the other categories are summarised below.

Clothes dryers and domestic dishwashers: Clothes dryers and domestic dishwashers are seen as niche luxury appliance but a rise in disposable income, migration to larger cities and high aspiration of consumers will result in increased demand for these products. Entry-level dishwashers are increasingly finding favour in urban towns because of changing lifestyle of the people and rising cost of domestic help. Clothes dryers and domestic dishwashers contributed 2.2% to total home appliance revenues in FY17. IFB has a commanding market share in clothes dryers and domestic dishwashers at ~80% and ~50%, respectively, although the volume is small in comparison with microwave ovens. Development work in these categories is focused on introduction of better aesthetics and cycle time reduction. New ranges are expected to be launched by 4QFY18 and various channels such as IFB Points, IFB website and e-commerce portals will be used to drive growth.

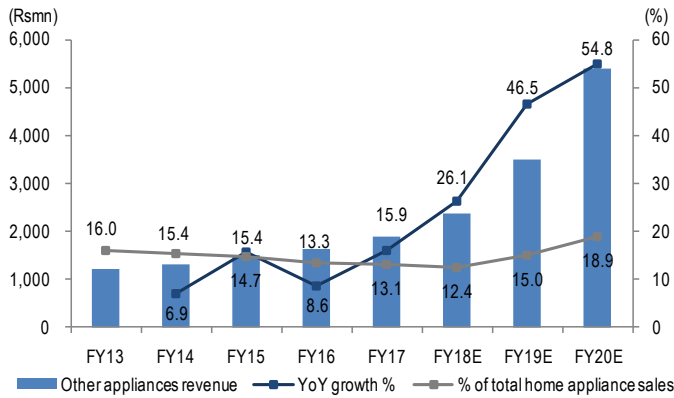
Industrial dishwasher and laundry equipment: IFB's range covers the categories of glass washers, under-counter dishwashers, hood type and rack conveyor type dishwashing equipment. IFB has a significant presence in various customer segments including defence establishments, pubs and bars, large institutions, hotels and restaurants, ships etc. IFB has a leading market share of ~40% in value terms in the industrial dish-washing segment and continues to be one of two large players in the laundry equipment (with capacity up to 160 kg).

Built-in ovens, chimneys and hobs: In the kitchen appliance category, IFB's product portfolio includes built-in ovens, chimneys and hobs. Increasing urbanisation and rising preference towards integrated modular kitchens will drive growth for this category. IFB Points are a key vertical for driving growth in this segment with 45%-50% of the company's sales in this category being generated from IFB Points. The management expects significant growth from these products in the medium term of three years.

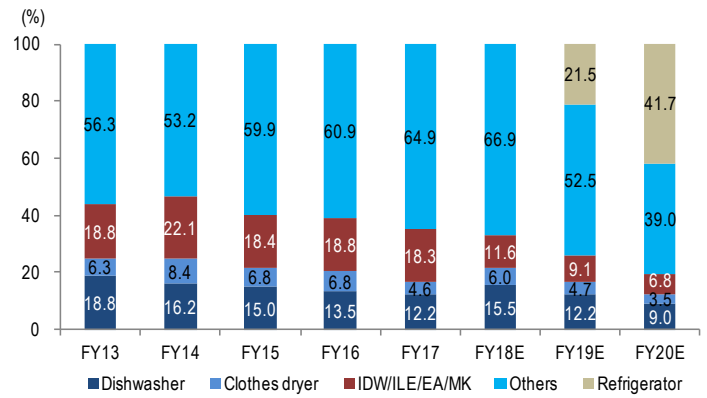
Modular kitchens: IFB is on course to offer a wide range of modular kitchen with features such as food grade, termite-resistant and boiling water-proof plywood. The company currently has three pilot stores in Goa, Bengaluru and Kolkata. IFB plans to open 5 to 10 modular kitchen stores by the end of FY18 and expects IFB Points to also promote the range by 4QFY18. Collectively, industrial dishwashers, industrial laundry equipment, kitchen appliances and modular kitchens contributed 2.4% to FY17 sales.

Refrigerators: After top-load washing machines, a large product category where IFB is diversifying into is refrigerators. The market size of refrigerators in India is Rs195bn as of FY17-end, much larger than the washing machine industry size of Rs74bn. IFB started pilot product testing for refrigerators in November 2017 and plans to commercially launch its range of refrigerators in 1HFY19. Initially, IFB will be outsourcing the manufacturing of refrigerators. Considering the large market size of refrigerator industry, even a 1% market share grabbed by IFB in the initial couple of years through product roll-out at its existing distribution network will translate into sales of Rs2bn, which will be a considerable addition to its total home appliance revenues (around 8% in FY20E) considering IFB's low base.

Others: IFB also has meaningful revenues coming from the sale of additives and accessories like detergents and conditioners for washing machines, microwave ovens and dishwashers. IFB's customer base of 4mn acts as a captive consumer base which is serviced by IFB call centre, websites and IFB stores to generate revenues of additives and accessories.

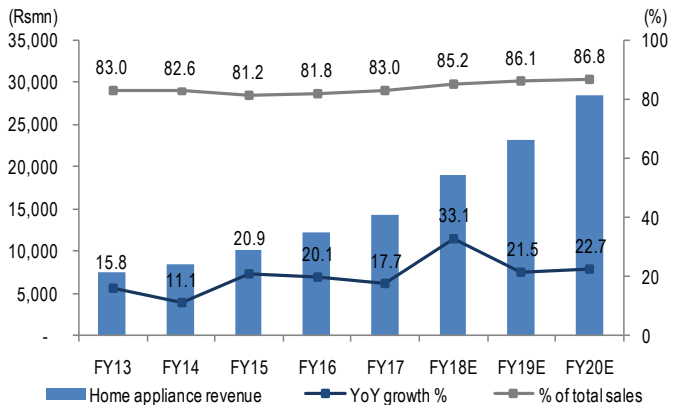
Exhibit 24: Other appliances - revenue trend


Source: Company, Nirmal Bang Institutional Equities Research

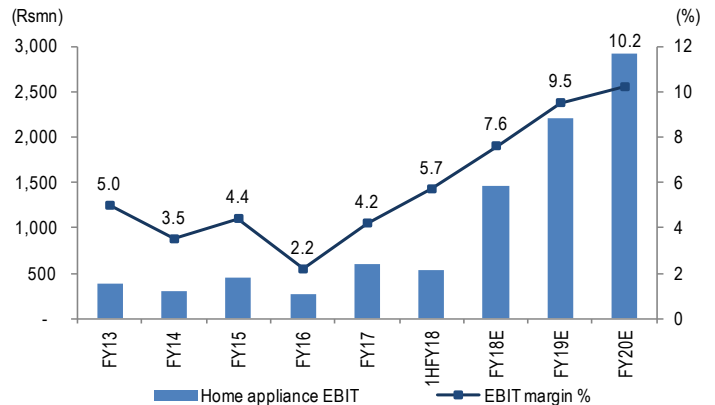
Exhibit 25: Other appliances - revenue mix


Source: Company, Nirmal Bang Institutional Equities Research

The home appliance segment forms 83% of total revenues in FY17 and posted strong revenue CAGR of 19.5% over FY14-FY17. With the launch of 6kg top-load washing machines, scale-up in air-conditioners and microwave ovens and the introduction of refrigerators, we expect the home appliance division to post healthy revenue CAGR of 25.6% over FY17-FY20E.

Exhibit 26: Home appliance segment - revenue trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 27: Home appliance segment – EBIT margin trend


Source: Company, Nirmal Bang Institutional Equities Research

Distribution network expansion to aid growth

Multi-brand retail: Large-format retail stores (with a pan-India presence) as well as regional and geographic-specific chain stores form a part of the multi-brand retail distribution channel. This channel of distribution contributed 61% to total home appliance volume sales of IFB in FY17, and is currently the largest contributing business channel. Sales from this channel will continue to post a healthy growth rate driven by rising penetration of home appliances in India. However, the percentage share of multi-brand retail sales in overall sales from the entire distribution network is expected to gradually decline in future owing to changing consumer behaviour in shopping. Online sales through IFB's website and other e-commerce websites (such as Flipkart and Amazon) are rising sharply. This has been an ongoing trend as the share of multi-brand retail in total revenues in volume terms declined from 68% in FY15 to 61%/54% in FY17/1HFY18, respectively, as other mode of sales, particularly online, has picked up pace.

IFB Points: IFB Points are exclusive IFB stores with a full display of the entire range of the company's products and their variants. In FY13, IFB had 200 IFB Points which contributed 8% to total home appliance sales in volume terms. Gradually, it increased to 15% of total volume sales in FY17 as the number of IFB Points doubled to 400. As of 2QFY18-end, IFB had 412 IFB points, of which 100 are company-owned company-operated (CoCo) stores. These IFB Points accounted for 12% of sales in volume terms and 14% of sales in value terms of total home appliance revenues of 1HFY18. The management plans to increase the number of IFB Points to 500 in the near term. The launch of new IFB Points in Tier 1 and Tier 2 cities will help IFB increase its penetration level and increase its reach in smaller untapped cities. The purpose of IFB Points, apart from generating direct sales, is also to educate the consumers about IFB's features and provide them the touch and feel of the entire range of IFB's products. In many cases, the consumers visiting IFB Points for preliminary research end up buying IFB products from online or from multi-brand stores later.

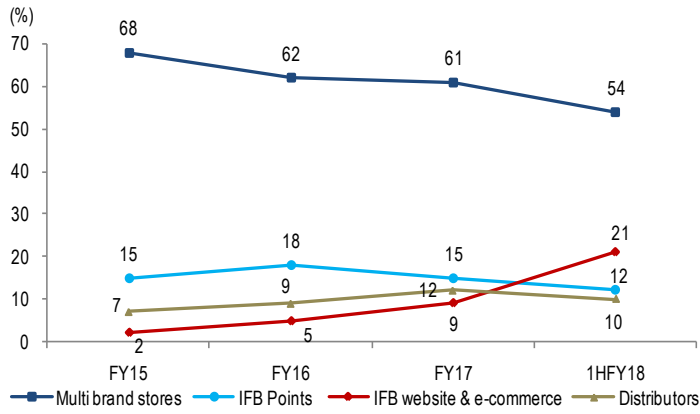
IFB website and e-commerce: IFB website and other e-commerce websites (such as Flipkart and Amazon) contributed 9% to total home appliance volume sales in FY17, compared to only 2% in FY15. In 1HFY18, the contribution jumped sharply to 21% of total sales in volume terms. With the rise in mobile penetration and internet connectivity, the medium of e-commerce through online portals and mobile apps has become crucial distribution channel to reach out to a large number of customers. We expect sales through IFB website and e-commerce to steadily increase, as per the changing consumer shopping behaviour.

Channel of distributors: This channel contributed 12% to total home appliance volume sales in FY17 compared to 7% in FY15. IFB has done significant work to expand this channel over the past few quarters. The distributors of IFB have in turn added 9,000 retailers to IFB network over the past year to take the total retail count to 14,000 outlets. This channel is expected to drive volume in future with expansion into small towns and villages. In 1HFY18, the contribution from this channel was 10% of total sales in volume terms.

Defence canteen, institutional and dealer channels: These channels contributed 3% to total home appliance volume sales in FY17. Defence canteens and institutions buy directly from IFB and include both consumer products and industrial products. The dealer channel mainly includes large dealers of air-conditioners and is expected to grow as IFB drives expansion in its air-conditioner business. The contribution from these channels is expected to remain stable in future and will increase with growth in industrial categories and expansion of IFB's product portfolio.

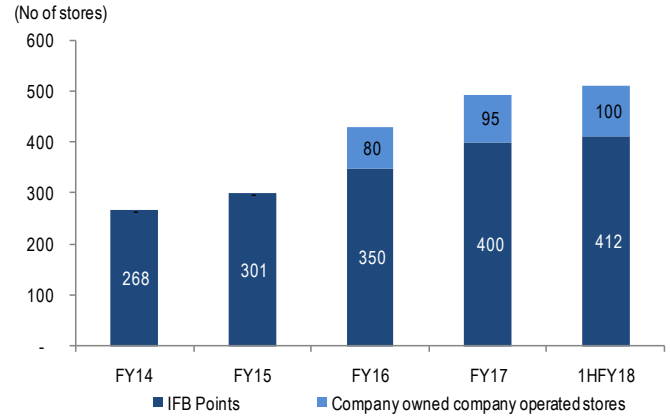
Service centres: IFB has ~800 service franchisees across India, which the company plans to increase to 900 in the near term. IFB also has 29 service training centres where it trains its employees in assembly, repair, installation, dismantling and troubleshooting of all IFB products.

Exhibit 28: Revenue share from key distribution channels



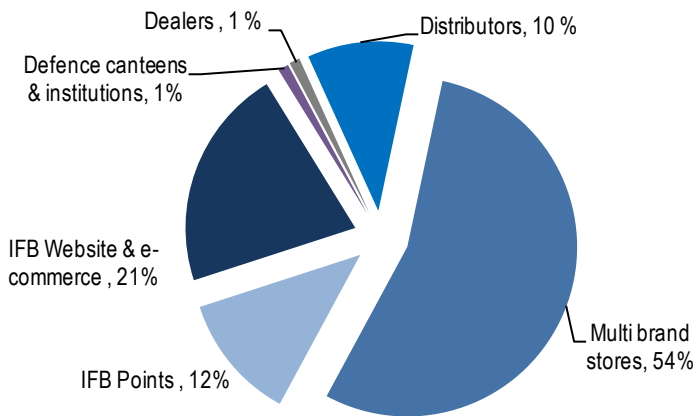
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 29: Rise in network of IFB Points



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 30: Distribution network-wise revenue mix (in volume) as on 1HFY18



Source: Company, Nirmal Bang Institutional Equities Research

Fine blanking segment – aiming at diversification

The fine blanking division contributed 17% to total revenues in FY17 with sales at Rs3bn, up 9% YoY. In 1HFY18, revenues from fine blanking division grew 9.6% YoY to Rs1.8bn and contributed 16.3% to total 1HFY18 sales. The fine blanking division mainly caters to the automobile sector, both two-wheelers and four-wheelers category. It specialises in manufacturing and engineering of transmission, clutch, switchgear, braking, seat belt and compressor components. In FY17, revenues from two-wheelers and four-wheelers were 53% and 40%, respectively, of the fine blanking segment's revenues. IFB has prominent clients such as Hero MotoCorp, Honda Motorcycles and Scooters, Yamaha, Bajaj Auto, Mahindra & Mahindra, Royal Enfield and TVS Motor Company in the two-wheeler category and Maruti Suzuki, Ford, Fiat, Tata Motors, Hyundai, Honda and Nissan in the four-wheeler category.

In November 2013, IFB launched its after-market business, Ultramiles. It operates in the two-wheeler market and specialises in motorcycle chains and sprocket kit. Ultramiles has registered healthy growth and is expected to expand to all states by FY19 with an aim of generating Rs1bn in sales in a couple of years.

Exhibit 31: IFB's after-market products - Ultramiles



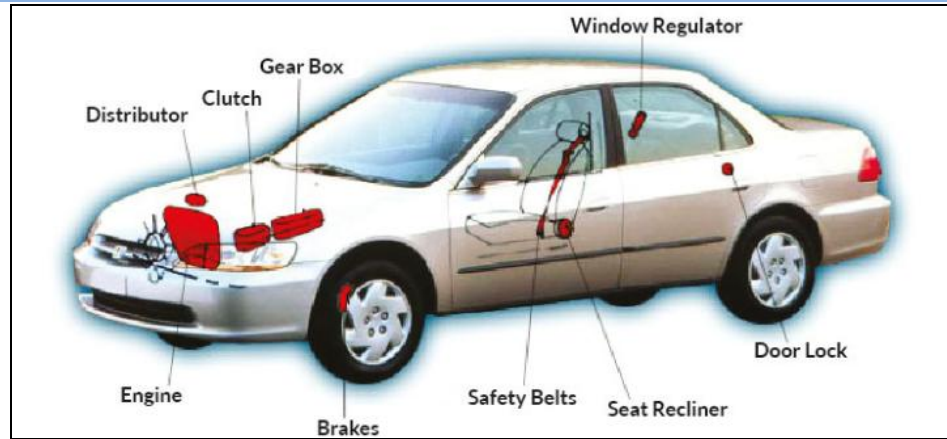
Source: Company

In July 2016, IFB made a strategic investment of Rs120mn in Trishan Metals Private Limited by acquiring a 52% stake. The purpose behind the acquisition was to overcome the issue of short-supply from existing suppliers as Trishan Metals has a narrow width rolling mill in Dhankuni, West Bengal. IFB expects this investment to offer a secured supply of raw materials to the fine blanking division. IFB is in the process of turning around Trishan Metals and aims to turn it into EBITDA positive in 2HFY18.

In 1HFY18, IFB acquired 100% stake in Singapore-based Global Automotive & Appliances Pte Ltd (GAAL) from IFB Automotive Pvt. Ltd. (a promoter group company). GAAL has a step-down subsidiary in Thailand called Thai Automotive & Appliances Limited (TAAL) which is into the fine blanking business. The acquisition was a strategic decision as countries like Thailand, Indonesia and Vietnam are a good base for automobile OEMs. IFB aims to capture South East Asia market through this facility as supplies to most of these countries from Thailand attract zero duty. The Thailand plant was profitable in 2QFY18 at the PAT level.

In the automobile segment, IFB expects demand to pick up in 2HFY18 and continue into FY19. It is thus planning to improve its supply chain to meet higher market demand. To decrease its reliance on the automobile sector as well as to scout for new growth opportunities, IFB plans to scale up and expand into non-automobile sectors such as electricals, railways, cycle industry and defence.

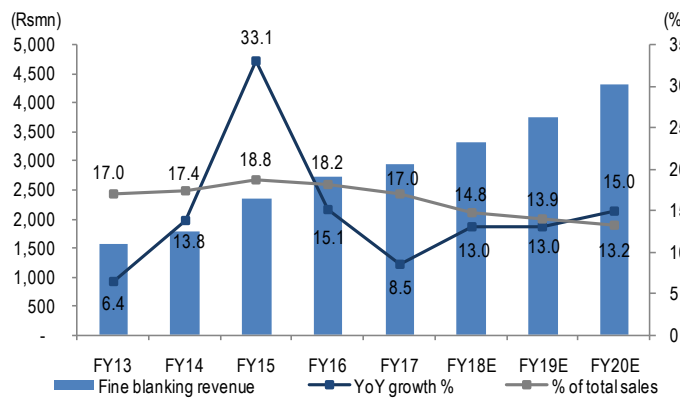
Exhibit 32: IFB's product offering for four-wheelers



Source: Company

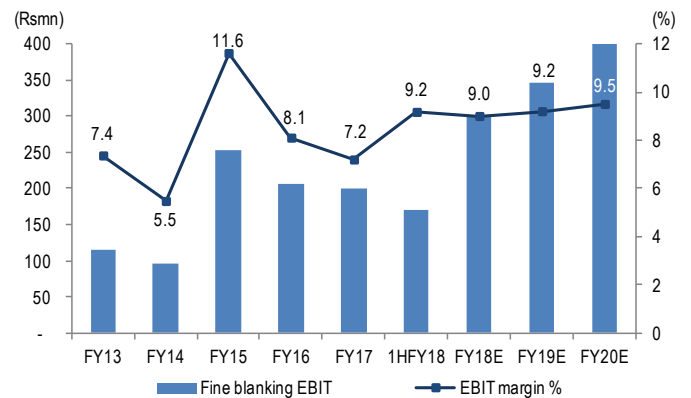
With healthy demand outlook from automobile sector, the recent endeavour into the South East Asian market through acquisition of GAAL and expanding into the non-automobile sectors, we expect IFB to post a healthy revenue CAGR of 13.7% over FY17-FY20E.

Exhibit 33: Fine blanking segment - revenue trend



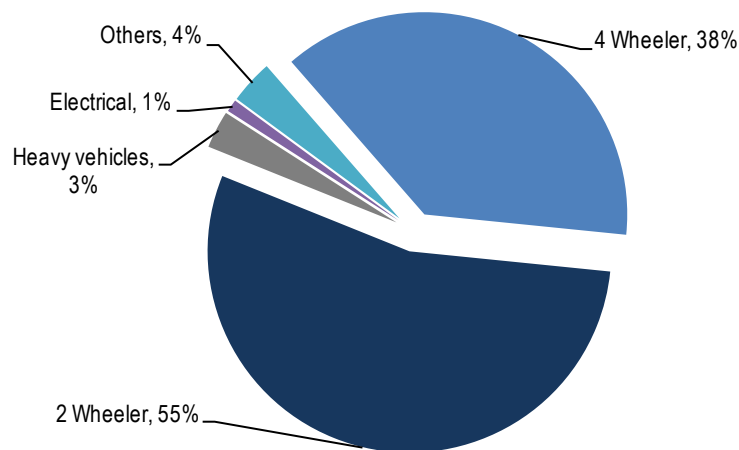
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 34: Fine blanking segment - EBIT margin trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 35: Fine blanking segment – category-wise revenue mix as on 1HFY18



Source: Company, Nirmal Bang Institutional Equities Research

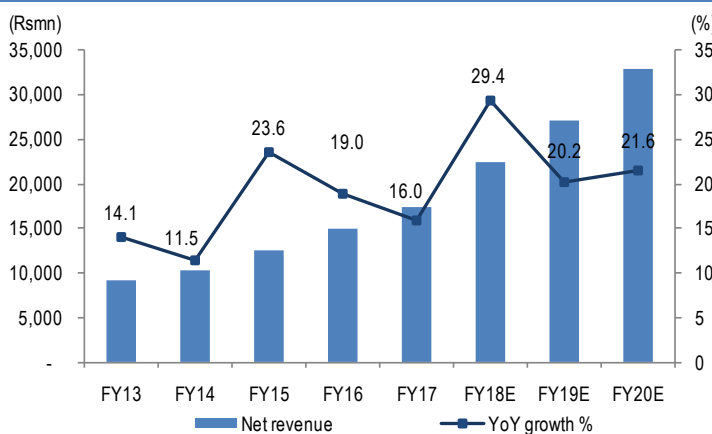
Financials

Strong 23.7% revenue CAGR and 500bps margin expansion likely over FY17-FY20E

IFB is a strong growth franchise with a proven track record of outpacing industry growth as well as its peers. Over the past seven years from FY10-FY17, IFB posted industry-leading revenue CAGR of 18.2% in the home appliance segment. The overall top-line of the company grew 19.5% CAGR over FY14-FY17. We believe the home appliance industry is on the cusp of a strong and sustainable long-term growth trajectory driven by factors such as higher GDP growth, rising disposable income, increased urbanisation, easy availability of consumer finance, quicker replacement cycle, improved rural electrification as well as rising affordability and growing necessity of white goods. Even in the near term, over the next two to four quarters, consumer spending is likely to rise as the negative sentiment of demonetisation and GST fades away while positive drivers such as payout of Seventh Central Pay Commission, moderate inflation and a low interest rate regime stimulate consumer demand. IFB aims to sustain its high growth momentum by expanding the distribution network, leveraging its market leadership in front-load washing machines and scaling up its top-load washing machines. Other growth drivers include the launch of 6 kg top-load washing machine model, entry into the refrigerator segment and scale-up of its microwave oven and AC revenues. Hence, we expect IFB to post 23.7% net revenue CAGR over FY17-FY20E.

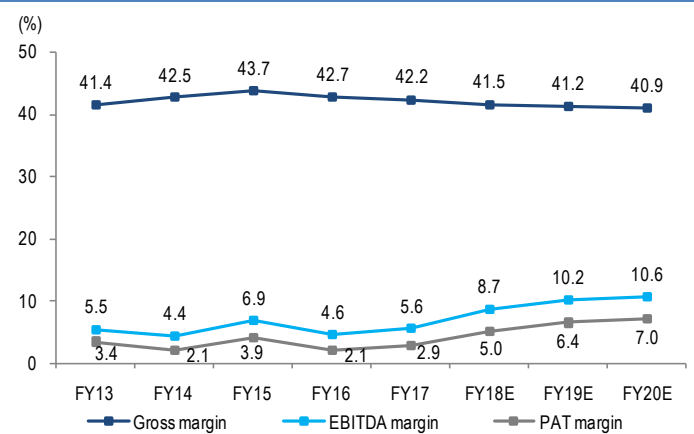
While IFB was always a strong gross margin franchise (upwards of 41%), it had a much lower EBITDA margin compared to peers. However, two key levers are likely to significantly improve the operating margin of IFB henceforth. Firstly, the home appliance business of IFB has now attained the necessary scale to drive margins. The quarterly revenue base of below Rs4bn in the home appliance segment was insufficient to cover the fixed costs relating to distribution, advertising and sales promotion as well as trade discount. As the quarterly revenue exceeds Rs5bn, IFB will start getting benefits of economies of scale. The same was exhibited in 2QFY18 performance, where IFB achieved EBITDA margin of 10.6% compared to the 5%-7% range over the past five years. Secondly, IFB plans to reduce import content in front-load washing machines from 27% to 12%-13%, primarily via domestic sourcing of electronic components. These will be margin-accretive owing to cost efficiency of domestic sourcing. Considering the commodity cost-wise inflationary scenario likely over the next three years, we have factored in a decline in gross margin of IFB from 42.2% in FY17 to 40.9% in FY20E as a matter of prudence. However, with rising economies of scale (23.7% revenue CAGR), and domestic sourcing benefits, we expect a healthy rise in the EBITDA margin profile from 5.6% in FY17 (and 7.5% in 1HFY18) to 10.6% in FY20E. Along with improved operating leverage, rising other income owing to increased cash balance will lead to a rise in PAT margin from 4% in 1HFY18 to 7% in FY20E.

Exhibit 36: Revenue growth trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 37: Margin trend



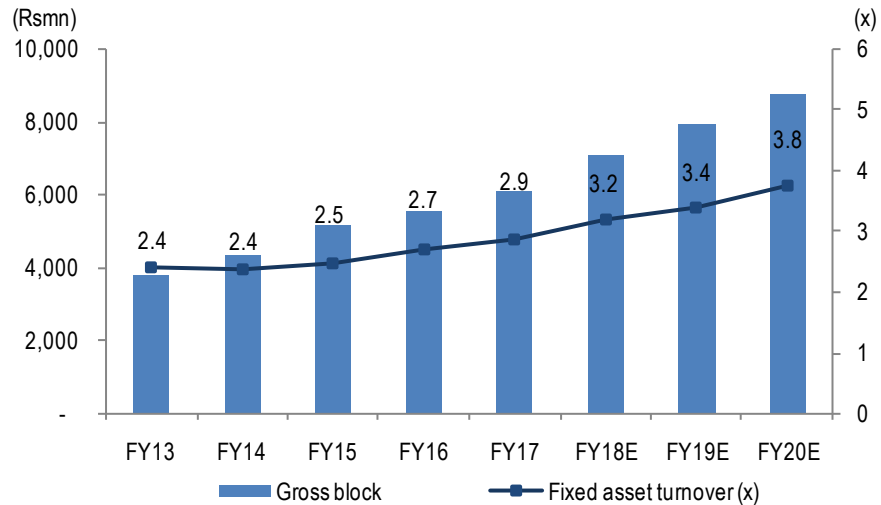
Source: Company, Nirmal Bang Institutional Equities Research

Healthy fixed-asset turnover likely to sustain

IFB manufactures two core products, front-load and top-load washing machines (65% of FY17 home appliance revenues) at its manufacturing plant in Goa. Similarly, it makes fine blanking products at its two manufacturing plants in Bengaluru and Kolkata. The capacity utilisation of washing machine plant has improved over the past few years and currently stands at 75%, but there is scope for further leverage benefit to play out. Over the past three years, while IFB posted revenue CAGR of 19.5% over FY14-FY17, its gross block increased at a lower rate of 12% CAGR.

This translated to a rise in fixed-asset turnover from 2.4x in FY14 to 2.9x in FY17. Going forward, while we expect 23.7% revenue CAGR over FY17-FY20E, capex is likely to moderate at Rs1bn per annum as products such as ACs and refrigerators are likely to be outsourced. With rising scale of operations, optimising current plant capacity through rising utilisation level and new product introduction through the outsourcing route, fixed-asset turnover will rise further to 3.8x in FY20E.

Exhibit 38: Gross block and fixed-asset turnover trend

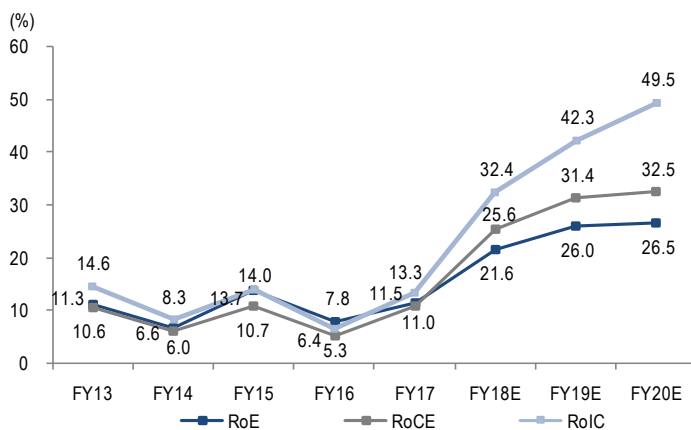


Source: Company, Nirmal Bang Institutional Equities Research

Return ratios likely to shoot up

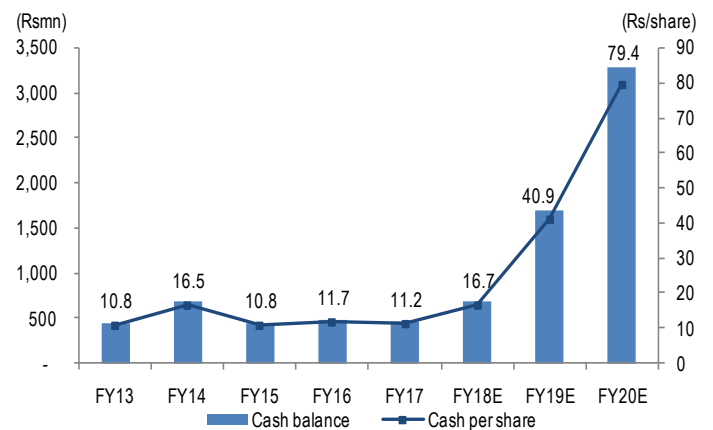
While IFB has a track record of healthy growth with moderate capex requirement and minimal debt on the balance sheet, its return ratios were subdued because of relatively lower profitability. With strong margin expansion likely, we expect the return ratios to shoot up. RoE is likely to expand from 11.5% in FY17 to 26.5% in FY20E, while RoCE is likely to jump from 11% in FY17 to 32.5% in FY20E. With rising profitability and healthy free cash flow generation, even cash balance on the balance sheet is likely to rise from Rs464mn in FY17 to Rs3.3bn in FY20E. This will translate to a rise in cash per share from Rs11.2 in FY17 to Rs79.4 in FY20E. Excluding cash and investments, RoIC is expected to improve sharply from 13.3% in FY17 to 49.5% in FY20E.

Exhibit 39: Trend in return ratios



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 40: Rising cash balance

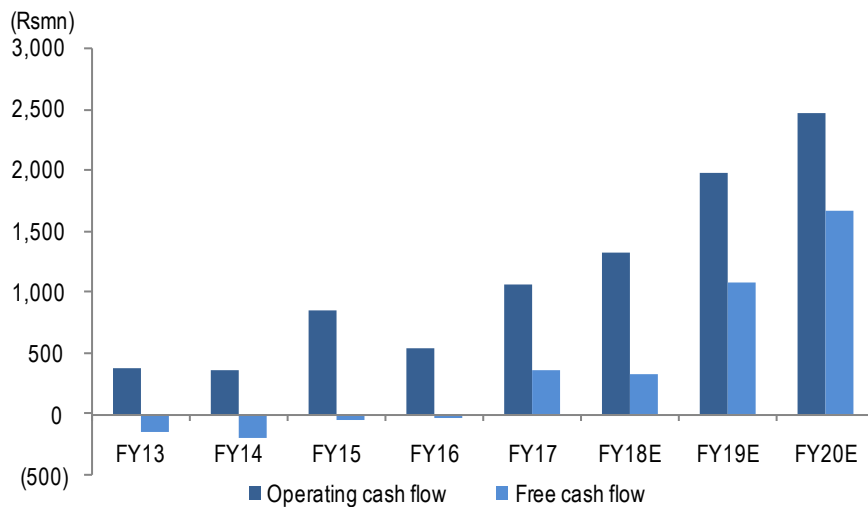


Source: Company, Nirmal Bang Institutional Equities Research

Cash flow generation to improve considerably

With healthy revenue growth, strong profitability improvement and a lean working capital cycle, IFB is likely to generate total operating cash flow of Rs5.8bn over FY17-FY20E as compared to Rs2.4bn over FY14-FY17. As a result of moderate capex outlay of Rs2.7bn over the next three years, we expect IFB to generate total free cash flow of Rs3bn over FY17-FY20E as compared to Rs296mn in FY14-FY17.

Exhibit 41: Operating and free cash flow trend

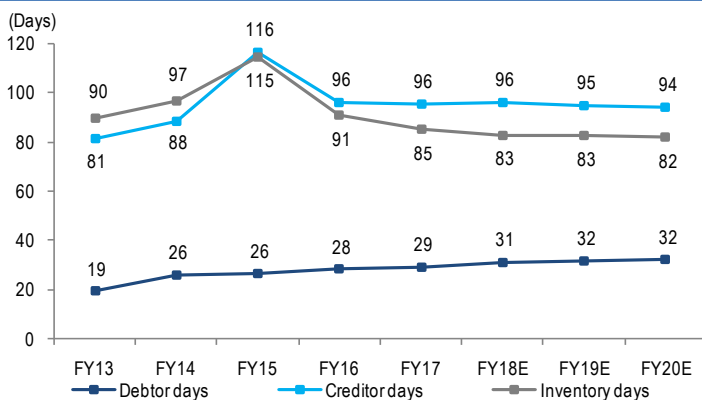


Source: Company, Nirmal Bang Institutional Equities Research

Lean working capital cycle to continue

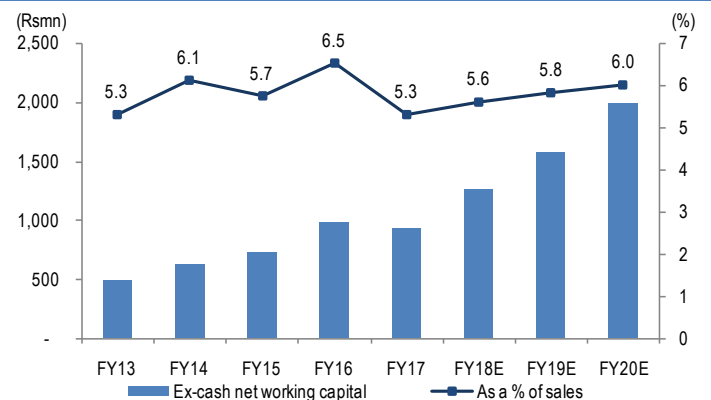
IFB operates with a lean working capital position as it has a cash conversion cycle of below 25 days over the past seven years (except FY14) and ex-cash net working capital as a percentage of sales in the range of 5% to 6.5%. While the working capital position in FY17 is at its lowest in the past five years, we are factoring in a gradual rise in the working capital position, on a conservative basis, as a matter of prudence considering the healthy revenue CAGR of 23.7% likely over FY17-FY20E. We are factoring in a rise in ex-cash net working capital as a percentage of sales from 5.3% in FY17 to 6% in FY20E. Despite the increase, the working capital position will continue to be lean and within the range where IFB operated over the past five years.

Exhibit 42: Trend in working capital cycle



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 43: Ex-cash net working capital position



Source: Company, Nirmal Bang Institutional Equities Research

2QFY18 performance
Exhibit 44: IFB's 2QFY18 performance

Y/E March (Rsmn)	2QFY17	1QFY18	2QFY18	YoY (%)	QoQ (%)	1HFY17	1HFY18	YoY (%)
Net revenue from operations	4,394	4,917	6,020	37.0	22.4	8,570	10,937	27.6
Cost of materials consumed	1,870	1,706	2,458	31.4	44.1	3,478	4,163	19.7
Purchase of stock-in-trade	608	1,235	748	23.1	(39.4)	1,515	1,983	30.9
Inc./dec. in inventories	16	(70)	308	NA	NA	(57)	238	NA
Employee costs	392	516	530	35.2	2.6	778	1,046	34.4
Other expenses	1,166	1,321	1,362	16.9	3.1	2,252	2,683	19.1
Total expenditure	4,052	4,708	5,406	33.4	14.8	7,967	10,114	27.0
EBITDA	342	209	613	79.6	193.1	604	822	36.2
EBITDAM (%)	7.8	4.3	10.2			7.0	7.5	
Interest costs	14	11	11	(19.1)	(2.7)	21	22	8.3
Depreciation	109	125	129	18.0	3.2	214	253	18.2
Other income	44	34	33	(24.3)	(2.3)	62	68	9.2
PBT	263	107	507	92.8	372.0	431	614	42.6
Tax	71	34	141	98.6	320.2	83	175	110.9
PAT	192	74	366	90.7	395.5	348	439	26.4
Other comprehensive income/(loss)	(8)	(14)	(14)	65.1	(0.7)	(15)	(27)	87.1
Total comprehensive income	184	60	352	91.8	486.7	333	412	23.7
NPM (%)	4.4	1.5	6.1			4.1	4.0	
EPS (Rs)	4.6	1.8	8.9	90.7	395.5	8.4	10.6	26.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 45: IFB's 2QFY18 segment-wise snapshot

Y/E March	2QFY17	1QFY18	2QFY18	YoY %	QoQ %	1HFY17	1HFY18	YoY %
Revenue (Rsmn)								
Home appliances	3,945	4,378	5,113	29.6	16.8	7,669	9,491	23.8
Fine blanking	873	932	915	4.8	(1.8)	1,686	1,847	9.6
Revenue Mix (%)								
Home appliances	81.9	82.5	84.8	-	-	82.0	83.7	-
Fine blanking	18.1	17.5	15.2	-	-	18.0	16.3	-
EBIT (Rsmn)								
Home appliances	244	77	463	90.0	505.1	410	539	31.5
Fine blanking	61	73	97	60.2	33.7	111	169	52.1
EBIT Margin (%)								
Home appliances	6.2	1.7	9.1	-	-	5.3	5.7	-
Fine blanking	6.9	7.8	10.6	-	-	6.6	9.2	-

Source: Company, Nirmal Bang Institutional Equities Research

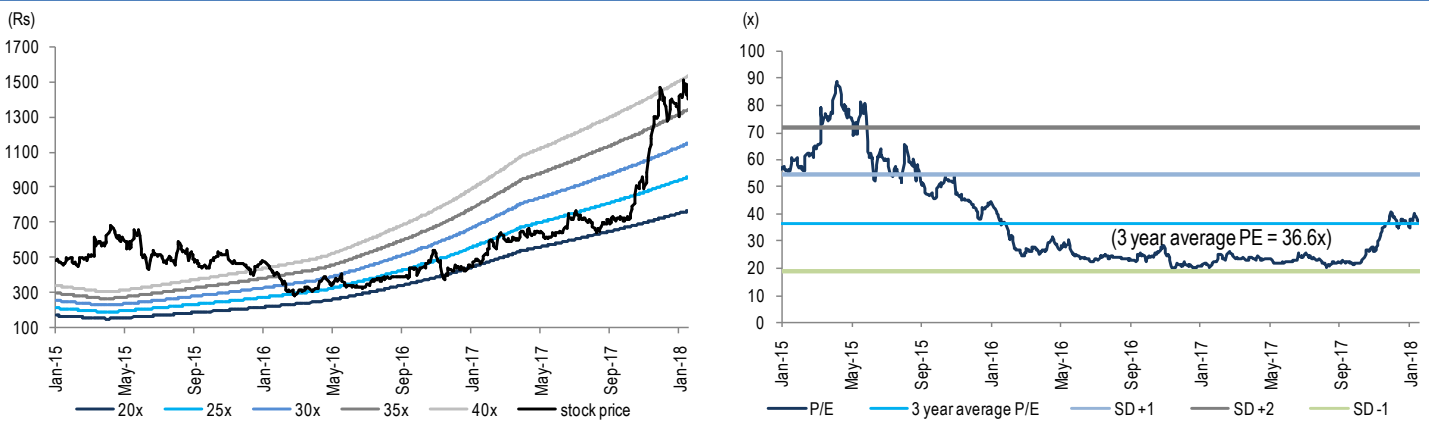
Outlook and valuation

We believe the home appliance industry is on the cusp of a strong and sustainable long-term growth trajectory and expect the industry to post 15% CAGR in value terms over the next five to seven years. IFB aims to sustain its high-growth momentum by expanding the distribution network, leveraging its market leadership in front-load washing machines and scaling up its top-load washing machines. Other growth drivers include the launch of a 6kg top-load washing machine model, entry into the refrigerator segment and scale up of its microwave oven and AC revenues by FY20.

While IFB was always a strong gross margin franchise (upwards of 41%), it had a much lower EBITDA margin compared to peers. However, with the home appliance business of IFB attaining the necessary scale and import content in front-load washing machines likely to reduce, the operating margin profile of IFB is likely to substantially improve. We expect a healthy rise in the EBITDA margin profile of IFB from 5.6% in FY17 (and 7.5% in 1HFY18) to 10.6% in FY20E. This will lead to a significant improvement in its financial profile with stronger return ratios (RoE/RoCE rising from 11.5%/11% in FY17 to 26.5%/32.5% in FY20E, respectively) and higher free cash flow (Rs3bn over FY17-FY20E compared to Rs296mn over FY14-FY17). In addition, the working capital cycle remains lean (at 5%-6% of sales) while fixed-asset turnover is expected to rise from 2.9x in FY17 to 3.8x in FY20E.

We expect IFB to post 23.7% revenue CAGR over FY17-FY20E. A 500bps EBITDA margin improvement over FY17-FY20E will translate into 53.2% EBITDA CAGR, while rising other income will lead to strong 65.4% earnings CAGR over FY17-FY20E. The stock has traded at an average P/E of 36x over the past three years. We have valued IFB using the SOTP method by assigning a P/E of 36x FY20E earnings to its home appliance business (Rs1,810) and 15x FY20E earnings to its fine blanking business (Rs90). We initiate coverage on IFB Industries with a Buy rating and a target price of Rs1,900, up 36% from CMP.

Exhibit 46: P/E charts



Source: BSE, Nirmal Bang Institutional Equities Research

Exhibit 47: Peer comparison - FY19E P/E versus EPS growth

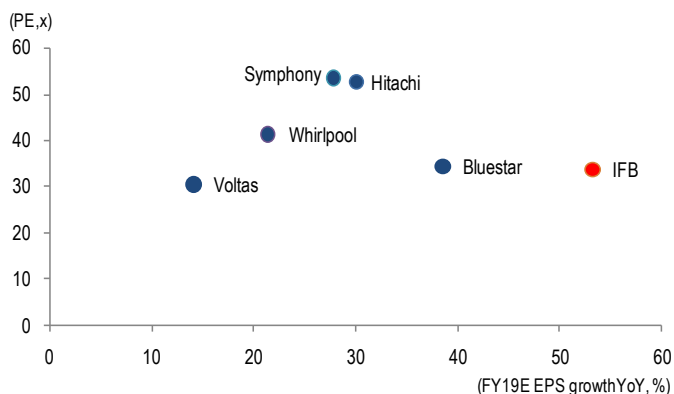
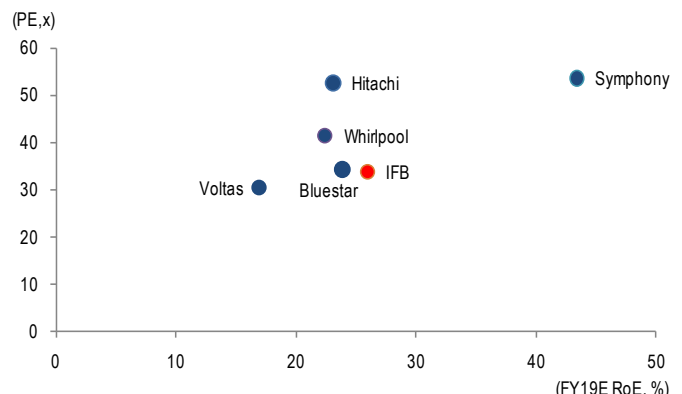


Exhibit 48: Peer comparison - FY19E P/E versus RoE



Note: Bloomberg consensus numbers for all companies except IFB; Source: Bloomberg, Nirmal Bang Institutional Equities Research

Company background

IFB Industries, originally known as Indian Fine Blanks, started its operations in West Bengal on 12 September 1974 in collaboration with Hienrich Schmid AG of Switzerland. The company was established with the objective of manufacturing fine blanking tools, press tools and fine blanked components used in a wide range of precision engineering industries. In 1989, the company entered into collaboration with Bosch-Siemens Hausgerate GmbH, Germany, for the production of fully automatic washing machines and manufacture of state-of-the-art domestic appliances. The company changed its name from Indian Fine Blank to IFB Industries with effect from 19 July 1989.

Headquartered in Kolkata, the current revenue composition of IFB constitutes home appliance segment (83% of FY17 net revenues) and fine blanking segment (17% of FY17 net revenues). The fine blanking business has two manufacturing units, one each in Kolkata and Bengaluru. The home appliance division has its manufacturing facility in Goa.

In the home appliance segment, IFB has always been ahead of the pack in launching new products. It launched India's first front-load washing machine, India's first clothes dryers and India's first dishwasher. Over the years, it has become one of the leading manufacturers and marketers of major home appliances in India with a reach of more than 14,000 retail touch points. This division has products such as washing machines, clothes dryers, dish-washers, microwave ovens, air-conditioners and kitchen appliances and is planning to foray in refrigerators in 1HFY19. Currently, washing machine is the largest product category of IFB accounting for 65% of the home appliance segment revenue in FY17. IFB has become the undisputed leader in the front-load washing machine category with a market share of 42%-44%.

The fine blanking segment specialises in manufacturing and engineering of transmission, clutch, switchgear, braking, seat belt and compressor components for the automobile sector. To achieve diversification, IFB plans to cater to South East Asian region's automobile OEMs as well as enter non-automobile sectors such as electricals, railways, cycle industry and defence in the domestic market.

Key management personnel

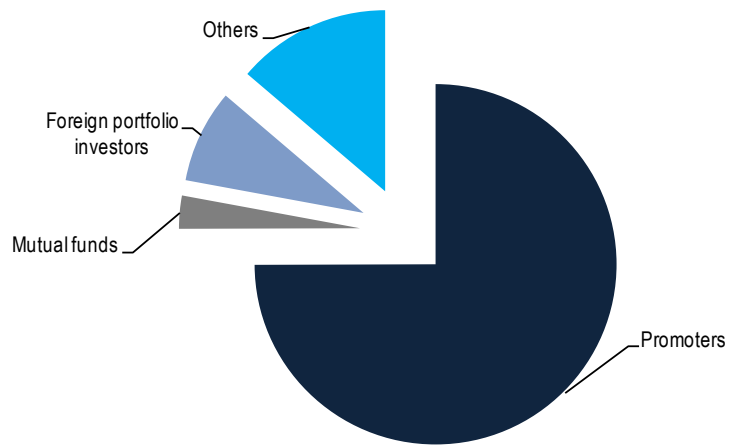
- **Mr. Bijon Nag – Founder & Executive Chairman:** He founded the company in 1974 and currently serves as its Executive Chairman. Mr. Bijon Nag is the chief patriarch of the IFB group and also serves as Chairman of group entity IFB Agro.
- **Mr. Bikram Nag - Managing Director and Joint Executive Chairman:** He is son of Mr. Bijon Nag and serves as Managing Director and Joint Executive Chairman of IFB Industries. He is also the joint executive chairman of IFB group entity IFB Agro. Mr. Nag has more than 12 years of experience in the field of marketing and business management. Mr. Nag holds B.B.A. from Richmond College, London.
- **Rajshankar Ray – CEO of Home Appliances Division:** He serves as Chief Executive Officer of Home Appliances division at IFB Industries and has been with the organisation for more than 11 years. He previously served as Factory Head - Goa of IFB Industries and also as Vice President - Sales and Operations. He has more than 25 years of experience in the industry and has previously served as Deputy General Manager at Eicher Tractors.
- **Mr. Sudam Maitra - Deputy Managing Director:** He serves as Deputy Managing Director of IFB Industries since 3 September 2014. He has previously worked with Maruti Suzuki for a period of 31 years. Mr. Maitra was awarded the Supply Chain Person of the year 2013 from Indian Chamber of Commerce.
- **Mr. Prabir Chatterjee - CFO & Executive Director:** He serves as Chief Financial Officer and Executive Director of IFB Industries. He previously served as Vice President of Finance at IFB Industries. He has completed his graduation from the University of Calcutta.

Key risks

- Significant slowdown in consumer spending could impact industry demand and affect IFB's revenue growth.
- Any unforeseen rise in competitive intensity, especially by premium brands, could impact the margins of IFB.
- Any adverse change in terms of trade by IFB could lead to elongation in the working capital cycle.
- Any disruption in manufacturing plants of IFB could impact availability of products as the two core categories front-load and top-load washing machines are manufactured in-house.
- Wild fluctuations in commodity prices, if they cannot be passed on to the consumers, could impact profitability.
- A slowdown in the automobile industry will negatively impact the growth of the fine blanking division.

Exhibit 49: Shareholding pattern

Shareholding pattern (%)	
Promoter	74.95
IFB Automotive Pvt Ltd	46.54
Nupur Gases Pvt Ltd	14.83
Other promoter group entities	13.58
Mutual funds	2.95
HDFC Asset Management	1.24
UTI Asset Management	1.00
Tata Asset Management	0.56
Foreign portfolio investors	8.32
Kotak Mahindra (International) Limited	4.37
Jwalamukhi Investment Holdings	2.88
Others	13.78



Source: BSE, Company

Financials

Exhibit 50: Income statement

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Net sales	15,009	17,407	22,523	27,075	32,929
% growth	19.0	16.0	29.4	20.2	21.6
Raw material costs	8,607	10,054	13,176	15,920	19,461
Staff costs	1,556	1,659	2,140	2,437	2,865
Other overheads	4,152	4,720	5,246	5,950	7,100
Total expenditure	14,315	16,433	20,562	24,306	29,426
EBITDA	694	974	1,961	2,768	3,503
% growth	(19.8)	40.3	101.4	41.2	26.5
EBITDA margin (%)	4.6	5.6	8.7	10.2	10.6
Other income	133	112	140	168	219
Interest costs	22	32	39	27	20
Depreciation	454	436	493	526	544
Profit before tax	352	618	1,570	2,383	3,159
Tax	38	108	439	650	852
PAT	314	510	1,131	1,733	2,307
PAT margin (%)	2.1	2.9	5.0	6.4	7.0
EPS (Rs)	7.6	12.3	27.4	42.0	55.9
% growth	(36.9)	62.5	121.9	53.2	33.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 52: Balance sheet

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Share capital	413	413	413	413	413
Reserves	3,771	4,263	5,394	7,127	9,434
Net worth	4,183	4,676	5,807	7,540	9,847
Total borrowings	164	222	208	158	108
Deferred tax liability	258	288	288	288	288
Total liabilities	4,605	5,186	6,303	7,986	10,243
Gross block	5,541	6,084	7,064	7,964	8,764
Depreciation	2,802	3,034	3,527	4,053	4,597
Net block	2,739	3,050	3,537	3,911	4,167
Capital work-in-progress	126	80	100	100	100
Investments	169	611	655	655	655
Inventories	2,144	2,349	2,996	3,598	4,372
Debtors	1,155	1,382	1,913	2,337	2,887
Cash	482	464	688	1,686	3,278
Other current assets	989	1,108	1,441	1,733	2,107
Total current assets	4,769	5,303	7,039	9,354	12,644
Creditors	2,267	2,631	3,465	4,144	5,012
Other current liabilities & provisions	1,042	1,285	1,622	1,949	2,371
Total current liabilities	3,309	3,916	5,087	6,093	7,383
Net current assets	1,460	1,387	1,952	3,261	5,262
Total assets	4,605	5,186	6,303	7,986	10,243

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 51: Cash flow

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
EBIT	241	538	1,468	2,243	2,960
(Inc./dec.) in working capital	(255)	56	(341)	(311)	(409)
Cash flow from operations	(14)	593	1,127	1,931	2,551
Other income	133	112	140	168	219
Depreciation	454	436	493	526	544
Tax paid (-)	(39)	(78)	(439)	(650)	(852)
Net cash from operations	534	1,064	1,322	1,975	2,462
Capital expenditure (-)	(563)	(702)	(1,000)	(900)	(800)
Net cash after capex	(28)	362	322	1,075	1,662
Interest paid (-)	(22)	(32)	(39)	(27)	(20)
Inc./dec.) in total borrowings	(181)	58	(15)	(50)	(50)
Inc./dec.) in investments	348	(442)	(44)	-	-
Cash from financial activities	145	(416)	(98)	(77)	(70)
Others	(81)	36	-	-	-
Opening cash balance	445	482	464	688	1,686
Closing cash balance	482	464	688	1,686	3,278
Change in cash balance	37	(18)	225	998	1,592

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 53: Key ratios

Y/E March	FY16	FY17	FY18E	FY19E	FY20E
Per share (Rs)					
EPS	7.6	12.3	27.4	42.0	55.9
Book value	101.3	113.3	140.7	182.7	238.5
Valuation (x)					
P/E	184.3	113.4	51.1	33.3	25.1
P/BV	13.8	12.4	10.0	7.7	5.9
EV/EBITDA	82.8	59.1	29.2	20.3	15.6
EV/sales	3.8	3.3	2.5	2.1	1.7
Return ratios (%)					
RoCE	5.3	11.0	25.6	31.4	32.5
RoE	7.8	11.5	21.6	26.0	26.5
RoIC	6.4	13.3	32.4	42.3	49.5
Profitability ratios (%)					
EBITDA margin	4.6	5.6	8.7	10.2	10.6
EBIT margin	1.6	3.1	6.5	8.3	9.0
PAT margin	2.1	2.9	5.0	6.4	7.0
Turnover ratios					
Total asset turnover ratio (x)	3.3	3.4	3.6	3.4	3.2
Fixed asset turnover ratio (x)	2.7	2.9	3.2	3.4	3.8
Debtor days	28	29	31	32	32
Inventory days	91	85	83	83	82
Creditor days	96	96	96	95	94

Source: Company, Nirmal Bang Institutional Equities Research

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