

Whirlpool of India Ltd

BUY

CMP: Rs.130.00

Date: 05 February, 2010

Target Price: Rs.155.00

Market Cap.:Rs.16493.10 mn.

Key Ratios:

Particulars	FY09A	FY10E	FY11E
OPM (%)	8.19	10.28	9.73
NPM (%)	4.10	5.16	5.46
ROE (%)	51.28	44.60	35.78
ROCE (%)	41.10	49.12	39.80
P/BV(x)	2.57	6.65	4.27
P/E(x)	5.02	14.90	11.93
EV/EBDITA(x)	2.51	9.20	9.01
Debt-Equity(x)	0.80	0.49	0.35

Key Data:

Sector	Consumer Durables
Face Value	Rs.10.00
52 wk. High/Low	Rs.159.80/22.00
Volume (2 wk. Avg.)	1.02(lakh)
BSE Code	500238

V.S.R. Sastry
Vice President
Equity Research Desk
91-22-25276077
vsrsastry@firstcallindiaequity.com

Dr. V.V.L.N. Sastry Ph.D.
Chief Research Officer
drsastry@firstcallindia.com

SYNOPSIS

- Whirlpool is the most recognized brand in home appliances in India and holds a market share of over 25%. The company owns three state-of-the-art manufacturing facilities at Faridabad, Pondicherry and Pune. It's present in more than 170 countries.
- Whirlpool plans to invest around Rs 3 billion in India over the next three years.
- The company plans to achieve from 5% to 15% market share in air conditioning (ACs) segment by the year 2012.
- The company is all set to tap the rising demand for more affordable white goods, from the urban centers as well as the tier-II centers.
- The top line and bottom line of the company are expected to grow at a CAGR of 21.36% and 40.04% over FY09 to FY11E.

Share Holding Pattern:

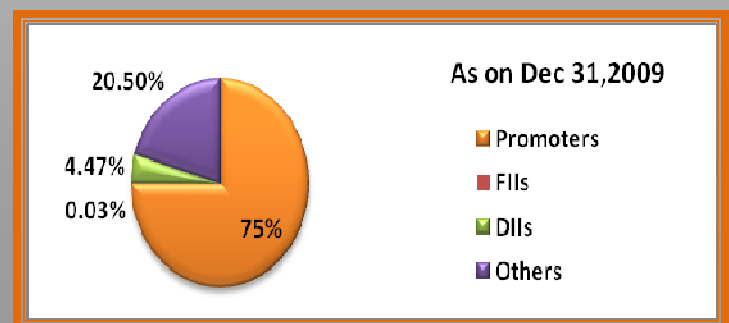


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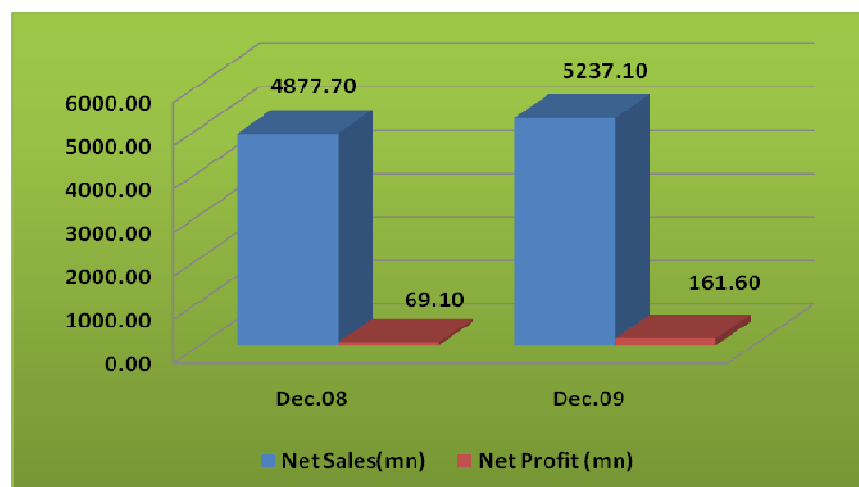
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Investment Highlights

- Results Update (Q3 FY10)

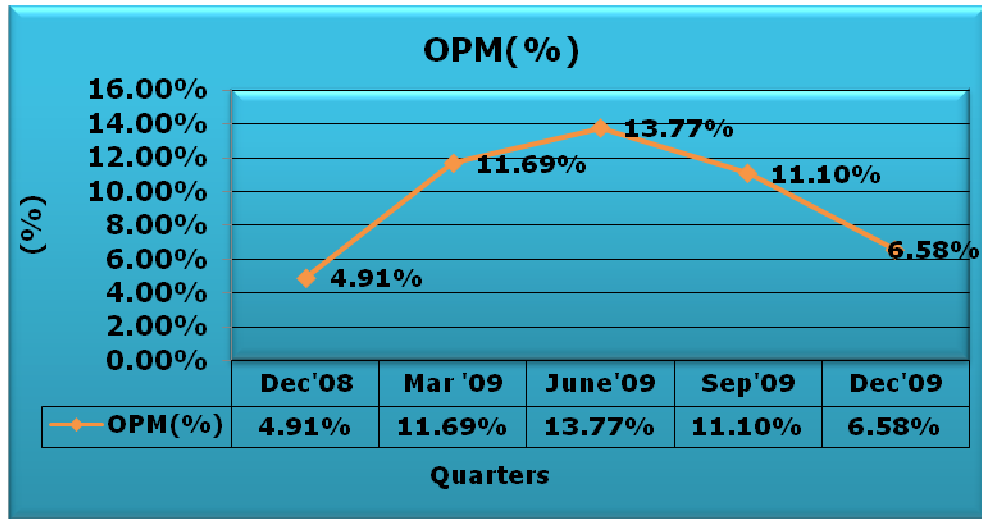
For the quarter ended on December 31, 2009 (Standalone) the company has registered a 7.37 % (YOY) growth in the net sales and stood at Rs.5237.10 mn from Rs.4877.70 mn of the corresponding period of the previous year. EBIDTA for the quarter stood at Rs. 344.40 mn compared to Rs.239.30 mn, an increase of 43.92%. The company reported good operating profit margin of 6.58% compared to 4.91% of corresponding period of previous quarter. The company reported net profit of Rs.161.60 mn. EPS for the quarter stood at Rs.1.27 per equity share of Rs.10.00.

Quarterly Results – Standalone (Rs in mn)			
As at	Q3FY09	Q3FY10	%Change
Net Sales	4877.70	5237.10	7.37%
Net Profit	69.10	161.60	133.86%
Basic EPS(Rs)	0.54	1.27	135.19%

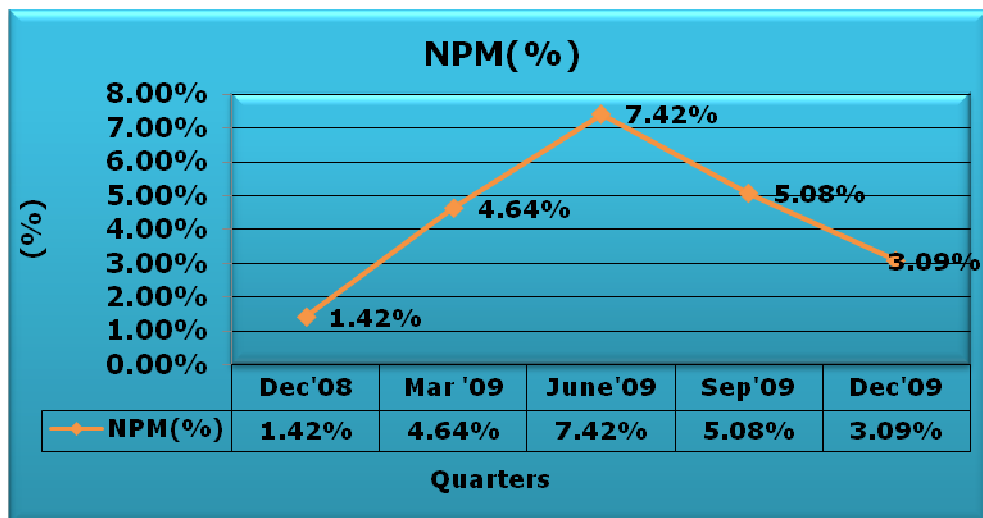


- Margins (%):

Operating Profit Margins (OPM %)



Net Profit Margins (NPM %)



- **Whirlpool aims to invest Rs 3 billion**

Whirlpool India aims to increase its investment on product development, marketing, sales and service infrastructure; it plans to invest around Rs 3 billion in India over the next three years. Company wants to ensure that it can drive growth.

- **Prices may zooms**

Whirlpool India may expect to raise product prices by 2% across the categories due to increase of input cost.

- **Plans to launch 35new split air conditioners (AC) models**

Whirlpool of India has decided to unveil 35 new split air conditioners (AC) models in India by FY09-10 and is also going to spend Rs 10 crore on advertisement, in a bid to garner 15% share of the domestic AC market by 2012. The company is eyeing around 200% growth in AC sales to 3 lakh units this year. At present, it has five split AC models in the local markets. Apart from this, it is also planning to increase its dealership network in India.

- **Expansion into the Tier 2 and Tier 3 markets**

The company plans to enter small towns with an investment of Rs 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 may help the company sustain robust top-line growth.

- **Plans to tap the rising demand**

Whirlpool is all set to tap the rising demand for more affordable white goods, from the urban centres 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.

Company Profile

Whirlpool, right from its inception in 1911 as first commercial manufacturer of motorized washers to the current market position of being world's number one manufacturer and marketer of major home appliances, has always set industry milestones and benchmarks. The parent company 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. Today, Whirlpool is the most recognized brand in home appliances in India and holds a market share of over 25%.

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.

Product range of the company includes:

- Refrigerator
- Washing Machine
- Air Conditioner
- Microwave
- 100% Dryers
- Purafresh



Peer Group Comparison

Name of the company	CMP(R.s) (As on Feb 05.2010)	Market Cap. (Rs. Mn.)	EPS (Rs.)	P/E (x)	P/BV (x)	Dividend
Whirlpool India Ltd	130.00	16493.10	8.24	15.74	11.99	0.00
Blue Star	354.35	31868.90	22.20	15.96	8.67	350.00
VIP Industries Ltd	185.15	5233.00	15.10	12.26	3.78	10.00
Videocon Industries	211.75	48970.40	20.68	10.24	0.68	10.00

Key Concerns

- Cheap imports from Singapore, China and other Asian countries
- Recession in global economy
- Fluctuations in exchange rates
- High competition from global players

Financials

Results updates

12 months ended Profit&loss Account (Standalone)

Value(Rs. in million)	FY08A	FY09A	FY10E	FY11E
Description	12m	12m	12m	12m
Net Sales	18004.4	17192.3	21458.59	25321.13
Other Income	79.8	94.6	175.53	210.64
Total Income	18084.2	17286.9	21634.12	25531.77
Expenditure	-17212.7	-15878.6	-19428.13	-23067.55
Operating Profit	871.5	1408.3	2205.99	2464.22
Interest	-209.9	-156.4	-79.80	-93.45
Gross profit	661.6	1251.9	2126.19	2370.77
Deprecation	-373.5	-390.1	-391.31	-395.22
Profit Before Tax	288.1	861.8	1734.88	1975.54
Tax	35.1	-156.7	-627.95	-592.66
Profit After Tax	323.2	705.1	1106.93	1382.88
Net Profit	323.2	705.1	1106.93	1382.88
Equity capital	1268.7	1268.7	1268.70	1268.70
Reserves	-	106.4	1213.33	2596.21
Face value(Rs)	10.00	10.00	10.00	10.00
EPS(Rs)	2.55	5.56	8.72	10.90
Total No. of Shares (mn)	126.87	126.87	126.87	126.87

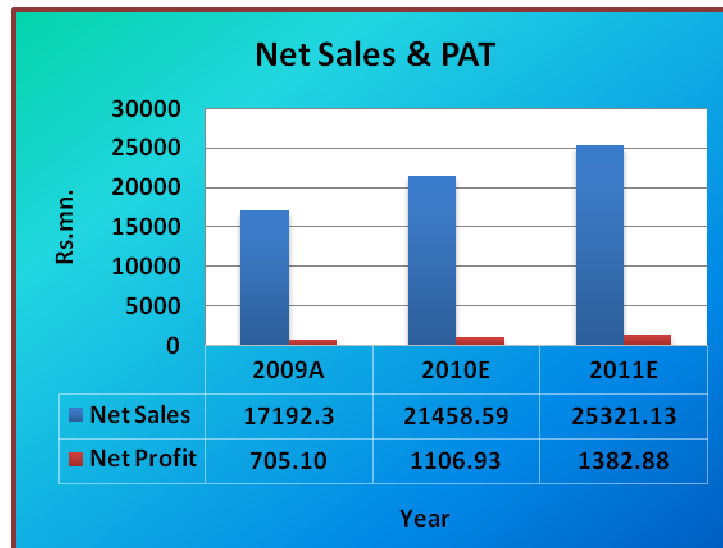
A=Actual, E=Estimated

Quarterly ended Profit & Loss Account (Standalone)

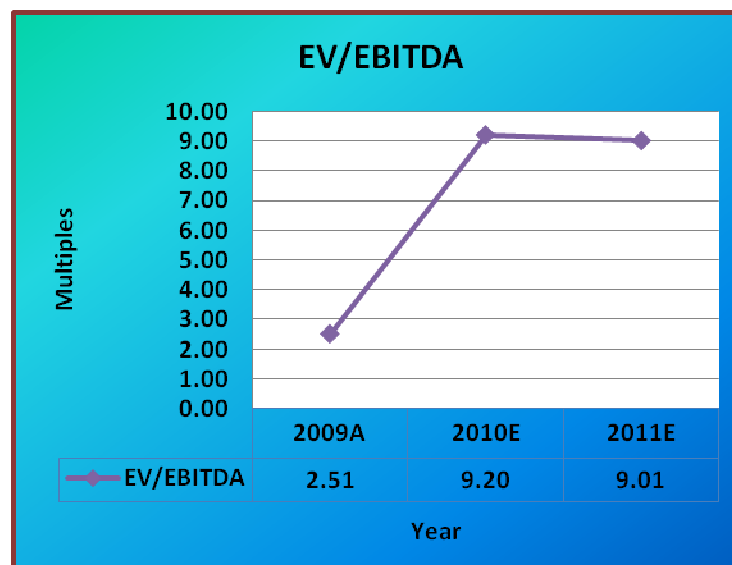
Value(Rs. in million)	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10E
Description	3m	3m	3 m	3 m
Net sales	6233.40	4908.10	5237.10	5079.99
Other income	49.70	41.90	41.70	42.23
Total Income	6283.10	4950.00	5278.80	5122.22
Expenditure	-5425.00	-4405.30	-4934.40	-4663.43
Operating profit	858.10	544.70	344.40	458.79
Interest	-55.40	-6.90	-8.40	-9.10
Gross profit	802.70	537.80	336.00	449.69
Depreciation	-95.70	-115.00	-90.50	-90.11
Profit Before Tax	707.00	422.80	245.50	359.58
Tax	-244.70	-173.50	-83.90	-125.85
Profit After Tax	462.30	249.30	161.60	233.73
Net Profit	462.30	249.30	161.60	233.73
Equity capital	1268.70	1268.70	1268.70	1268.70
Face value(Rs.)	10.00	10.00	10.00	10.00
EPS(Rs.)	3.64	1.97	1.27	1.84
Total No. of Shares (mn)	126.87	126.87	126.87	126.87

Charts

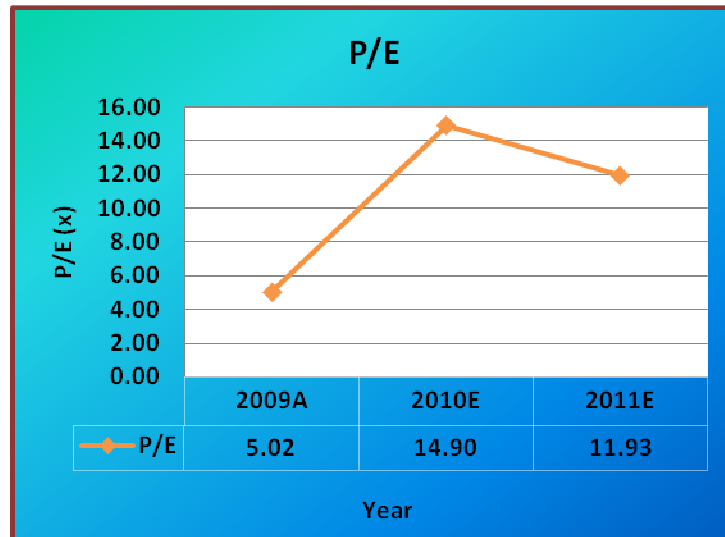
A) Net sales & Net Profit Chart



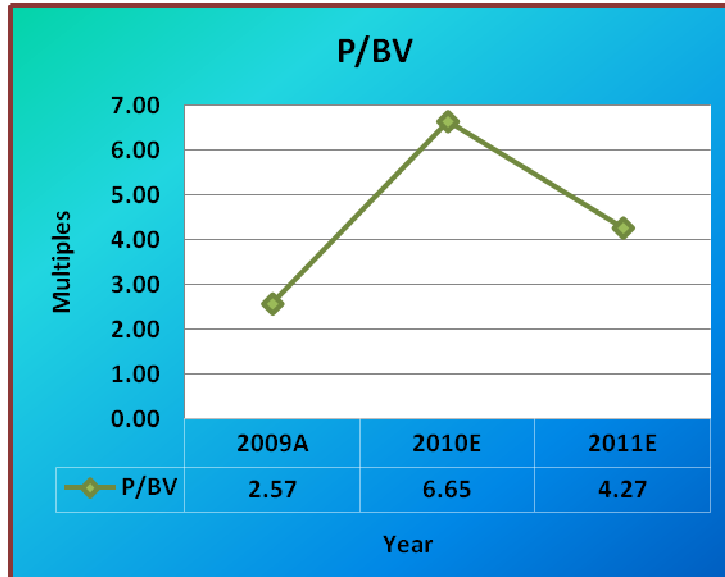
B) EV/EBITDA(x) chart



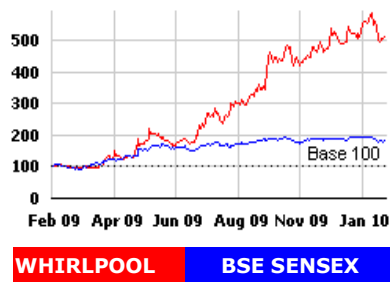
C) P/E(X) Chart



D) P/BV(X) chart



1 Year Comparative Graph



Outlook and Conclusion

- At the current market price of the stock Rs.130.00, the stock trades at a P/E of 14.90 x and 11.93 x for FY10E and FY11E respectively.
- The EPS of the stock is expected to be at Rs.8.72 and Rs.10.90 for the earnings of FY10E and FY11E respectively.
- The top line and bottom line of the company are expected to grow at a CAGR of 21.36% and 40.04% over FY09 to FY11E.
- On the basis of EV/EBDITA, the stock trades at 9.20 x and 9.01x for FY10E and FY11E respectively.
- Price to Book Value of the stock is expected to be at 6.65 x for FY10E and 4.27 x for FY11E.
- The company aims to increase its investment on product development, marketing, sales and service infrastructure; it plans to invest around Rs 3 billion in India over the next three years.

- Whirlpool is all set to tap the rising demand for more affordable white goods, from the urban centers as well as the tier-II centers. 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 Rs 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 may help the company sustain robust top-line growth.
- We recommend '**BUY**' in this particular scrip with a target price of **Rs.155.00** for Medium to Long term investment.

Industry Overview

Industry Structure and Developments

The estimated growths in the Refrigerator and Washer category have been 13% and 14% respectively. As in the previous year, the growths have been higher in Frost Free (20%) and Fully Automatic (28%) segments of these two categories, and we expect this trend - of a more buoyant growth in high-end formats - to continue. The Air Conditioner and Microwave markets have been growing at an estimated rate of 20% + and this growth is expected to be robust, even if the rate of growth drops as the categories mature. Growth is being driven by Split AC format in Air Conditioners and by Convection models in Microwave. The high-end cooking market comprising of Built-in hobs, hoods, ovens and dishwashers, currently niche and sold through specialized channels, will grow in line with high-end housing and penetration of high-end modular kitchens.

Outlook and opportunities

The Refrigerator category witnessed the launch of 2 new ranges Whirlpool Mastermind and Whirlpool Professional, both in the fast growing Frost Free segment. Whirlpool Professional, which is a range of high-capacity top mount refrigerators, was enabled by the investment in a new line in Ranjangaon specially made for producing high-capacity refrigerators that has high potential for both the domestic and export markets. These introductions have helped grow our volume, share and profitability in Refrigerators and taken us closer to category leadership. This augurs well for the ensuing financial year, when a number of new launches are slated in the Direct Cool and Frost Free segments, which will give a further impetus to our volume and share growth.

In Washing Machines, the high rate of growth witnessed in the previous year continued, across air segments. The product portfolio was expanded with the introductions of a front load fully automatic range in the highly salient <6 kg capacity. A Fully Automatic Dryer was also introduced to complement our range and establish Whirlpool as a complete Fabric Care brand in appliances. The Washer market is seeing higher demand in fully automatic machines in both front load and top load and there are robust plans to address this with new offerings in the next financial year to accelerate the already high growth and strengthen our share in this category. A new cabinet line has been installed in the Pondicherry plant to cater to these launches. The AC and Microwave categories are rapidly growing categories and present a significant opportunity for Whirlpool. Your company has doubled volume in both these businesses in this financial year and there are aggressive plans to grow these categories aggressively in the years to come.

A range of Built-in appliances was launched in 2007. These products are an integral part of modular kitchens which are seeing a boom, especially with the growth in high-end housing. This is currently a niche market but with strong potential for growth in the years to come. Our range of products are imported from our factories in Europe which are known for both performance and styling.

Water Purifiers are becoming increasingly salient with growing concern for health and hygiene. Your company sees an opportunity for an established, international brand such as Whirlpool to enter, grow and dominate this market with water purification products for the home, and it is with this intention that a range of sophisticated products using the Reverse Osmosis technology have been introduced. There are plans to expand the portfolio to cater to different purification and filtration needs of consumers in India.

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For Further Details Contact:

3rd Floor, Sankalp, The Bureau, Dr.R.C.Marg, Chembur, Mumbai 400 071

Tel.: 022-2527 2510/2527 6077/25276089 Telefax: 022-25276089

E-mail: info@firstcallindiaequity.com

www.firstcallindiaequity.com