



Farsight

MORNING FARSIGHT

Tuesday, July 17, 2018

IFB INDUSTRIES

CMP:RS 1085

TRGT:RS 1250

TIME HORIZON: 1 YEAR

IFB Industries is looking a good buy after better Q4FY18 earnings, multiple earnings growth drivers highlighted by management in concall and recent correction making weak hands to exit. For Q4FY18, IFB Industries reported good performance with PBT of Rs. 30.2 cr against Rs. 1.05 cr YoY, showing growth of over 28 times, while it was up 19% on QoQ (PBT of Rs. 25.26 cr in Q3FY18), indicating rising volume growth for the company. In Q4FY18 alone, company sold 84,675 units of front-load washing machines (volume growth 20% YoY), 44,098 units of top-load washing machines (20% YoY volume growth), 26,817 units of air-conditioners (+20% YoY) and 26,817 units of microwave ovens (+35% YoY). Thus, FY18 ended on a high note and for full year company achieved PBT of Rs. 115 cr against Rs. 65 cr, a growth of 75%, with EPS of Rs. 20 for FY18 against Rs. 13.15 for FY17. Going ahead, multiple triggers are seen for the coming quarters: a) The front-load washing machines, where IFB Industries has more than 43% market share, was fully utilised during FY18 (total sales 406,269 units) and company is expanding capacity to manufacture 750,000 to 800,000 units per annum in FY19. The expansion coupled with introduction of new models is likely to get completed in the next 6 months b) IFB has already expanded capacity for top-load washing machines to 3,50,000 units per annum recently, against sale of 208,684 units in FY18. Growth in top-load washing machine is likely to be driven by better customer service (IFS offers a four-year warranty on its top-load and front-load washing machines, highest in the Industry), increase in retail touch points, as well as launch of the 6kg variant of top-load washing machine c) Inverter ACs, which formed 7% of IFB's total AC sales last year, rose to 40% of total AC sales (comparison of February to June summer season) and is expected to increase to 50% or higher in FY19, along with a similar scale-up likely in the industry d) IFB has a market share of -21% in microwave ovens and is among the top three players in India. IFS sold 281,263 units of microwave ovens in FY18 and registered a robust volume growth of 35% in FY18, even though the industry growth was muted e) IFB plans to launch a washer-dryer model by 4QFY19 and expects volume of -1,000 to 2,000 units initially, as the product gains visibility and traction. The washer-dryer segment is a niche segment with only two other major players (Bosch and LG) f) IFB has significantly expanded its distribution network over the past one year and currently has indirectly-serviced (through distributors and wholesalers) 7,500 to 8,000 outlets. IFB plans to add -3,000 to 3,500 more outlets and increase business volume in FY19. In addition, 4,500 retail outlets are directly serviced by IFB h) IFB plans to launch refrigerators in 3QFY19. The refrigerators are currently in the second month of trials and are expected to continue till August 2018. It plans to first foray into the 380 litre and above category, with a price point of Rs. 40,000 and above (currently accounts for 10% to 15% of total refrigerator category) i) IFS has taken price hikes of 3% to 4% both in front-load and top-load washing machines during the first week of June and are expected to be fully in effect from the first week of July. J) IFB is in the process of turning around Trishan which it acquired recently. Revenues in 4QFY18 were Rs. 21.4 cr, while in FY18 they were at Rs 77.7 cr. The plant had some line-balancing problems which led to inefficient capacity utilisation. The plant is expected to stabilize over the next two quarters. Company is having debt free balance-sheet with cash eqv of Rs. 138 cr or Rs. 35 per share. Company is very well placed to report strong EPS growth of more than 50% in FY19 and can report an EPS of over Rs. 30, leading to PE of just 37x and M Cap to Sales of 1.7x, which are attractive for a consumer durables company, with high RoE of over 22% and debt free cash rich balance sheet coupled with over 20% volume growth across all products and several capacity expansion on the way. Share ruling at Rs. 1,085 can move to Rs. 1250 in 1 year time. Buy as an investor.

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Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.