

IFB Industries

Aims to aggressively pursue cost reduction and channel extraction

IFBI's consolidated sales grew 16% YoY to Rs11.6bn, in line with our estimate, on a favorable base (2/3 year CAGR at 10%/7%). Industry demand continue to remain flat/negative YoY while IFBI expects demand situation to remain stable in medium term. Home Appliances sales grew 18% YoY to Rs9.1bn on a favorable base (2/3 year CAGR at 9%/5%) while Engineering sales was up 8% YoY to Rs2.1bn. Gross margin expanded 90bps YoY to 40.4%, led by many material cost reduction initiatives. EBITDA margin rose 260bps YoY to 5.6%, above our estimate of 4.8%. Home Appliances' EBIT margin was at 3.9%, flat QoQ while EBIT margin of Engineering segment expanded by 180bps YoY to 10.1%. Core PAT stood at Rs250mn. Post Rs75mn loss from associate (towards IFBI's 44% stake in IFB Refrigeration), consolidated PAT fell to Rs174mn, but above our estimate of Rs155mn. Turning around AC division (Rs420mn loss in YTD FY24) is key to overall profitability and could be achieved by material cost reduction and higher capacity utilization. IFBI aims to reach double digit margin from Q1FY25 in home appliances through (1) increasing billing points and improving sales extraction by deploying more aggressive sales team and (2) Rs80mn savings per month in other expenses (office cost, logistics and cost of compliance). Factoring in partial benefit of these cost savings, we upgrade our EPS estimates for FY24E-26E by 14%-18%. Retain ADD rating with revised SOTP target of Rs1,300 based on H1FY26E EPS.

Air Conditioner business update

In Q3FY24, AC sales grew 62% YoY to Rs1.1bn on a low base (2-yr CAGR at 8%) and formed 12% of total Home Appliances sales. However, AC division reported loss of Rs420mn in 9MFY24. To turn profitable, IFBI will focus on (1) achieving annual sales volume of 0.35-0.4mn units (plant capacity is 0.5mn units) and (2) material cost reduction. It plans to sell 0.3mn units of brand IFB sales while OEM sales will be over and above it. IFBI aims to achieve material cost reduction as well as savings from PCB and compressors selection. Key focus areas include (1) enhancing reach, (2) launching new models (its benefit to be seen in Q4FY24) and (3) placement at channel counters. At peak utilization of the plant on single shift basis, AC sales can touch Rs16bn.

Washing Machine business update

In Q3FY24, Front Load WM sales grew 11% YoY to Rs3.4bn (2 year CAGR at 3%) forming 38% of Home Appliances sales. Top Load WM sales was flat YoY at Rs1.3bn (2 year CAGR at 1%) forming 14% of Home Appliance sales. Market acceptance is healthy for recently introduced 9-10kg models as well as India's first 3-in-1 offering Washer Dryer Refresher. IFBI regained its market share in Front Load, while it was flat in Top Load. To gain market share, IFBI will focus on increasing product placement, extracting higher sales from existing billing counters and offering more color options. Capacity utilization of WM is at 80%. Competition from LG and Samsung continues to be intense.

Maintain ADD with revised target price of Rs1,300

Turning around AC division will be a key challenge amid very high competitive intensity, which is likely to limit the extent of margin recovery envisaged. Retain ADD.

Financial and valuation summary

YE Mar (Rs mn)	3QFY24A	3QFY23A	YoY (%)	2QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	11,608	9,992	16.2	11,009	5.4	47,323	55,256	63,075
EBITDA	653	297	119.9	704	(7.2)	2,835	3,938	4,796
EBITDA margin (%)	5.6	3.0		6.4		6.0	7.1	7.6
Adj. Net profit	174	(11)	NA	215	(19.0)	930	1,843	2,579
Adj. EPS (Rs)	4.2	(0.3)	NA	5.2	(19.0)	22.5	44.7	62.5
EPS growth (%)						522.2	98.3	39.9
PE (x)						56.3	28.4	20.3
EV/EBITDA (x)						18.4	12.7	10.0
PBV (x)						6.9	5.5	4.3
RoE (%)						13.0	21.6	24.0
RoCE (%)						15.6	22.4	24.3

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India | Consumer Durables

04 February, 2024

ADD

Price: Rs1,267
Target Price: Rs1,300
Forecast return: 3%

Institutional Research

Market Data

Bloomberg:	IFBI IN
52 week H/L:	1,380/698
Market cap:	Rs52.3bn
Shares Outstanding:	40.5mn
Free float:	23.4%
Avg. daily vol. 3mth:	1,62,982

Source: Bloomberg

Changes in the report

Rating:	ADD; Unchanged
Target price:	Rs1,300; up 28.7%
	FY24E: Rs22.5; up 13.8%
EPS:	FY25E: Rs44.7; up 17.7%
	FY26E: Rs62.5; up 17.1%

Source: Centrum Broking

Shareholding pattern

	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	75.0	75.0	75.0	75.0
FIs	0.7	0.7	1.8	0.6
DIs	3.6	4.4	4.2	4.2
Public/other	20.8	20.0	19.0	20.2

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q3FY24	Actual Q3FY24	Variance (%)
Revenue	11,838	11,608	(1.9)
EBITDA	562	653	16.1
EBITDA margin (%)	4.8	5.6	80bps
PAT	155	174	12.9
EPS	3.7	4.2	12.9

Source: Company, Centrum Broking



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Consumer Durables

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY25E New	FY25E Old	% chg	FY26E New	FY26E Old	% chg
Revenue	55,256	55,364	(0.2)	63,075	62,864	0.3
EBITDA	3,938	3,422	15.1	4,796	4,190	14.5
EBITDA margin %	7.1	6.2	90bps	7.6	6.7	90bps
Adj. PAT	1,843	1,566	17.7	2,579	2,203	17.1
Diluted EPS (Rs)	44.7	37.9	17.7	62.5	53.4	17.1

Source: Centrum Broking

IFB versus NIFTY Midcap 100

	1m	6m	1 year
IFBI IN	33.7	52.8	53.2
NIFTY Midcap 100	4.5	30.2	59.3

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY24E	FY25E	FY26E
YoY revenue growth (%)			
Home Appliances	12.7	17.0	14.3
Engineering	13.0	15.0	13.0
Motors	5.0	22.0	20.0
Steel	15.0	14.0	12.0
EBIT margin (%)			
Home Appliances	3.8	5.3	6.0
Engineering	10.0	10.2	10.5
Motors	1.0	3.0	5.0
Steel	(1.0)	3.0	4.0

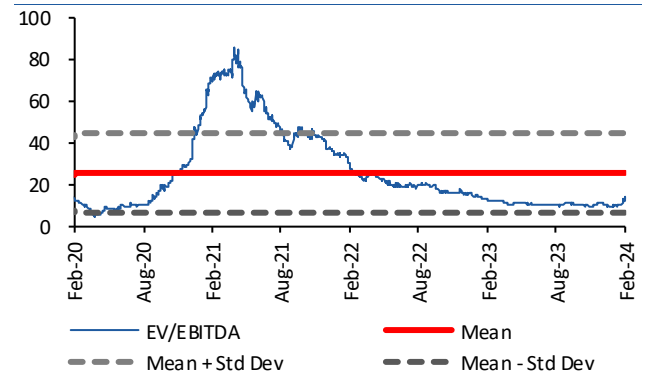
Source: Centrum Broking

Valuations

We assign P/E of 27x to H1FY26E EPS of Home Appliances segment and P/E of 10x to H1FY26E EPS of Engineering + Motors + Steel segments. We arrive at an SOTP based target price of Rs1,300.

Valuations	Rs/share
Home Appliances H1FY26E EPS (Rs)	42.3
Home Appliances P/E (x)	27
Home Appliances price per share (Rs)	1,140
Engineering + Motor + Steel H1FY26E EPS (Rs)	15.7
Engineering + Motor + Steel P/E (x)	10
Engineering + Motor + Steel price per share (Rs)	160
Target price per share (Rs)	1,300

EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap	CAGR (FY23-26E)			P/E (x)			ROE (%)			ROCE (%)		
	(Rsmn)	Sales	EBITDA	EPS	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
BLSTR	2,44,301	21.1	32.7	46	53.6	39.5	30.1	22.8	21.5	24.1	19.9	20.4	23.6
JCHAC	33,161	9.8	NA	NA	(33.0)	60.0	32.7	(16.5)	9.4	15.4	(8.5)	8.9	13.7
IFBI	52,302	14.6	43.4	158.4	56.3	28.4	20.3	13.0	21.6	24.0	15.6	22.4	24.3
VOLT	3,50,135	20.2	29.5	38.2	122.6	45.3	35.0	5.2	13.1	15.5	6.9	13.0	14.6
WHIRL	1,70,989	9.7	26.0	32.3	73.7	48.4	33.7	6.4	9.3	12.4	7.0	9.8	12.8

Source: Company, Centrum Broking

Key concall takeaways

Financials and business outlook

- Fixed cost reduction exercise started in Q2FY24 and expected to conclude by Q4FY24. Target is to reduce monthly fixed cost by Rs60mn-Rs80mn. On track to achieve this saving March 2024, but full benefit will come in Q1FY25. These are towards indirect expenses such as office cost, logistics and cost of compliance
- Gross margin improved due to material cost reduction and consolidation of vendors. It will continue for next two quarters.
- Material cost saving initiative: 50-60% benefit will come in Q4, full benefit from Q1FY25
- Efforts to improve placement in large format retail and ecommerce is work in progress, if not by March it will happen by Q1FY25
- Material cost reduction is due to commodity price reduction. Expect it to remain in a narrow range going forward.
- IFBI's consolidated purchasing power has increased due to buying across multiple product categories
- Till Dec 2023, market was either flat or de-grown (WM de-grown, Ref significant de-growth, AC 10 to 15% growth). Don't expect any major change in this trend.
- IFBI's agenda of growth is to increase numeric reach of sales counter and improve sales extraction.
- Wants to deliver 10% operating margin by Q1FY25 in home appliances segment
- Core issue with IFBI is sales team is unable to generate higher extraction per counter. Making changes in sales team to make it more aggressive.
- Focus continues on expanding presence in channels, increasing sales extraction from each account and changing the sales team, wherever necessary, to achieve this objective.
- IFB Point's new design layout is implemented in 160 stores out of 485 stores.

Washing Machines

- New product introduction from April to June-July 2024
- Regained market share in Front Load, market share is still flat in Top Load
- In Front Load, IFBI's 9-10 kg models introduced in Q1FY24 have been accepted by the market. Segment size is 120,000 units per annum. Increasing demand for higher capacity models since past two years.
- Focus is on increasing market share through higher placements and offering more color options.
- India's first 3-in-1 offering, Washer Dryer refresher is scaling up well. Product is placed at 2,000 counters. Monthly sales volume are ~1,500 units, which IFBI aims to expand to ~5,000 units.
- Account by account sales extraction has to be improved by sales team
- Introduction of new models from April will cover gap of price / feature
- In past 2 years, LG and Samsung have been very aggressive. It is expected to continue.
- Capacity utilization is 80%

Air Conditioners

- Q3 did much better, brand IFBI volume was as per their expectation, OEM sales was lower
- Q4 should be better because channel related work on AC is maturing

- AC segment is loss making. Efforts are to make it profitable through various measures.
- Capacity at plant is 0.5 mn units p.a. on one shift basis, can generate Rs16bn sales
- New models of AC introduced in the market, its impact will be seen in Q4
- Sales mix = 75% is IFB brand sales, 25% is OEM sales.
- Making marginal profit in OEM sales
- YTD loss of AC is Rs420mn
- Two measures to make profit (1) material cost reduction, (2) increasing capacity utilization
- Annual volume of 350,000 to 400,000 units will make the plant profitable
- OEM market has a particular price point expectation. The platform of IFB is built for a better quality, where they have 2-3 OEM partners. Don't know beyond them whether they can get more OEMs. Exploring export market actively.
- OEM sales Rs450mn
- Current volumes are 200,000 to 250,000. Hence capacity utilization is at 60% whereas benchmark peers are at 80%.

Refrigerators and Microwave ovens

- Microwaves are profitable. In convection series, IFB has a large market share.
- Microwave Ovens' sales grew 22% YoY to Rs712mn on a low base (3QFY23 had seen 30% YoY decline) and formed 8% of total Home Appliances segment sales. (2 year sales CAGR at negative 7%). IFBI continued to remain no. 3 brand.
- A product gap has been bridged with Introduction of 24 ltrs solo model in ovens.
- Commercial launch of Refrigerator was done in June 2023. Presently have DC & FF models in 190 to 306 litre. Pricing is mid to high premium.

Exhibit 1: Quarterly Financial Snapshot

Y/E March (Rsmn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Revenue	9,004	10,674	11,183	9,992	10,102	10,859	11,009	11,608	16.2	5.4
Direct Costs	5,719	6,733	6,655	6,041	6,153	6,578	6,307	6,920	14.5	9.7
Gross Profit	3,285	3,941	4,528	3,951	3,948	4,281	4,702	4,689	18.7	(0.3)
Staff Cost	913	983	999	1,088	980	1,083	1,102	1,148	5.5	4.1
Other Expenses	2,475	2,610	2,834	2,566	2,680	2,851	2,896	2,888	12.5	(0.3)
Total Expenditure	9,108	10,327	10,488	9,695	9,813	10,511	10,305	10,955	13.0	6.3
EBITDA	(103)	347	695	297	288	348	704	653	119.9	(7.2)
Depreciation	294	286	290	300	338	302	304	318	5.9	4.8
EBIT	(397)	61	405	(3)	(50)	46	401	335	NA	(16.3)
Interest	82	73	74	71	77	75	69	68	(4.0)	(2.2)
Other Income	44	43	51	40	93	78	61	71	75.0	16.3
PBT	(434)	31	382	(34)	(34)	49	392	338	NA	(13.8)
Tax	(152)	12	141	(22)	42	12	99	88	NA	(10.4)
PAT	(283)	19	241	(11)	(75)	37	294	250	NA	(14.9)
Profit from associates	-	-	-	-	(24)	(43)	(79)	(75)	NA	NA
PAT after minority	(283)	19	241	(11)	(99)	(6)	215	174	NA	(19.0)
EPS (Rs/share)	(6.9)	0.5	5.8	(0.3)	(2.4)	(0.2)	5.2	4.2	NA	(19.0)

As a % of revenue

Direct Costs	63.5	63.1	59.5	60.5	60.9	60.6	57.3	59.6		
Gross Margin	36.5	36.9	40.5	39.5	39.1	39.4	42.7	40.4		
Staff Cost	10.1	9.2	8.9	10.9	9.7	10.0	10.0	9.9		
Other expenses	27.5	24.5	25.3	25.7	26.5	26.3	26.3	24.9		
EBITDA Margin	(1.1)	3.3	6.2	3.0	2.9	3.2	6.4	5.6		
PAT Margin	(3.1)	0.2	2.2	(0.1)	(1.0)	(0.1)	2.0	1.5		
Tax rate	34.9	39.3	36.8	66.0	(123.4)	24.3	25.1	26.1		

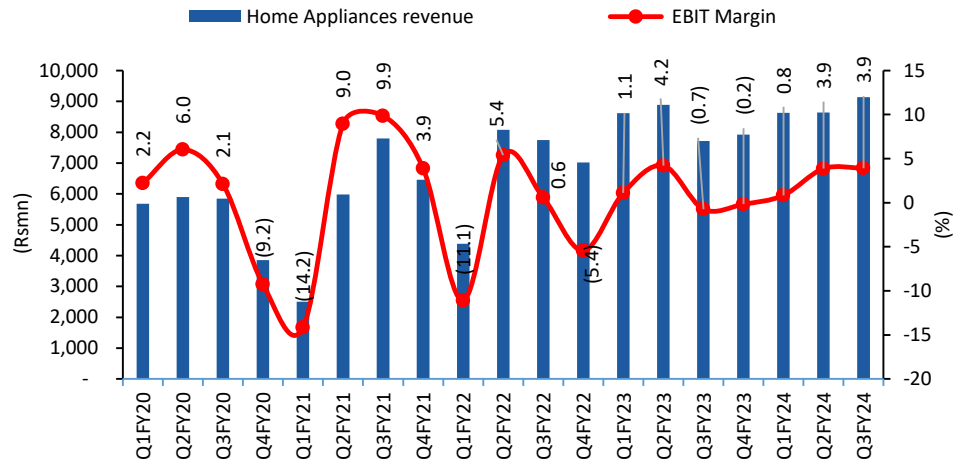
Source: Company Data, Centrum Broking

Exhibit 2: Quarterly Segmental Snapshot

Y/E March	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Revenue (Rsmn)										
Home Appliances	7,021	8,621	8,884	7,719	7,923	8,633	8,636	9,139	18.4	5.8
Engineering	1,691	1,754	1,993	1,983	1,812	1,922	2,056	2,145	8.2	4.3
Motors	178	187	188	169	165	163	155	166	(1.9)	7.2
Steel	356	369	377	347	331	376	377	380	9.8	1.0
Total	9,246	10,931	11,442	10,217	10,231	11,094	11,224	11,830	15.8	5.4
Revenue mix (%)										
Home Appliances	75.9	78.9	77.6	75.5	77.4	77.8	76.9	77.3		
Engineering	18.3	16.0	17.4	19.4	17.7	17.3	18.3	18.1		
Motors	1.9	1.7	1.6	1.7	1.6	1.5	1.4	1.4		
Steel	3.8	3.4	3.3	3.4	3.2	3.4	3.4	3.2		
Segmental EBIT (Rsmn)										
Home Appliances	(381)	96	375	(56)	(13)	72	334	359	NA	7.5
Engineering	91	77	149	164	153	143	210	216	31.7	3.0
Motors	17	11	8	2	1	1	(5)	2	-	NA
Steel	2	3	8	8	(3)	(9)	(7)	(4)	NA	NA
Total	(272)	187	539	118	138	208	532	572	383.1	7.5
Segmental EBIT margin (%)										
Home Appliances	(5.4)	1.1	4.2	(0.7)	(0.2)	0.8	3.9	3.9		
Engineering	5.4	4.4	7.5	8.3	8.4	7.5	10.2	10.1		
Motors	9.5	6.0	4.0	0.9	0.7	0.6	(2.9)	1.0		
Steel	0.6	0.7	2.0	2.4	(0.9)	(2.3)	(1.8)	(1.2)		
Total	(2.9)	1.7	4.7	1.2	1.3	1.9	4.7	4.8		

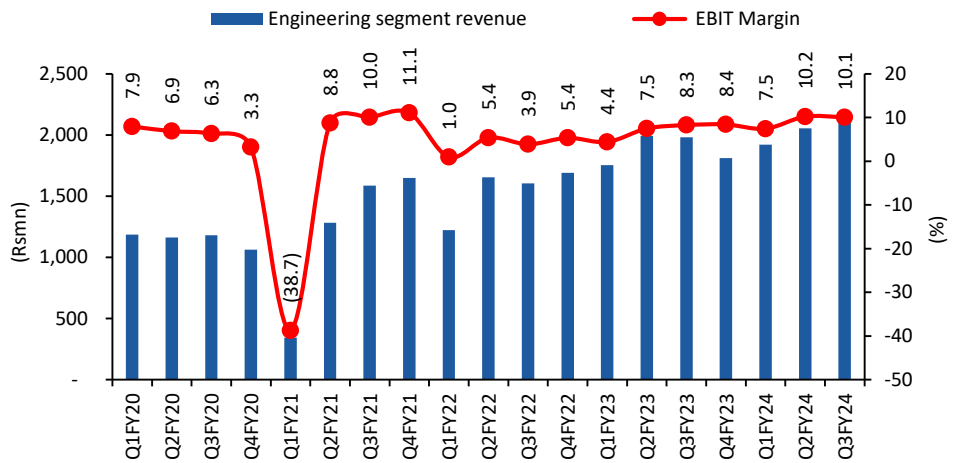
Source: Company Data, Centrum Broking

Exhibit 3: IFBI’s Home Appliance revenue and EBIT margin trend



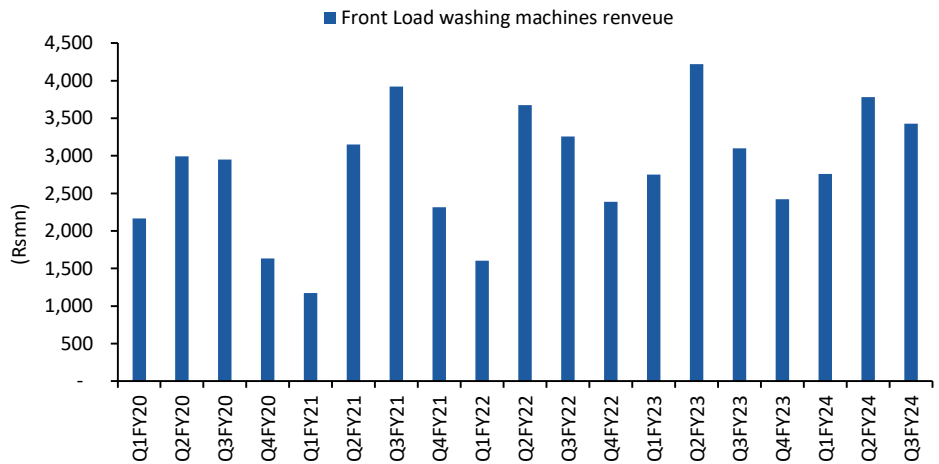
Source: Company Data, Centrum Broking

Exhibit 4: IFBI’s Engineering revenue and EBIT margin trend



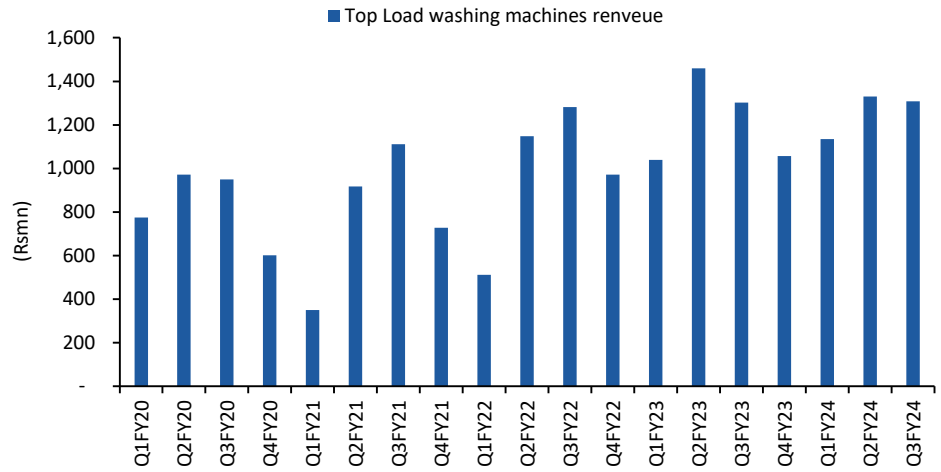
Source: Company Data, Centrum Broking

Exhibit 5: IFBI’s Front-load washing machines revenue trend



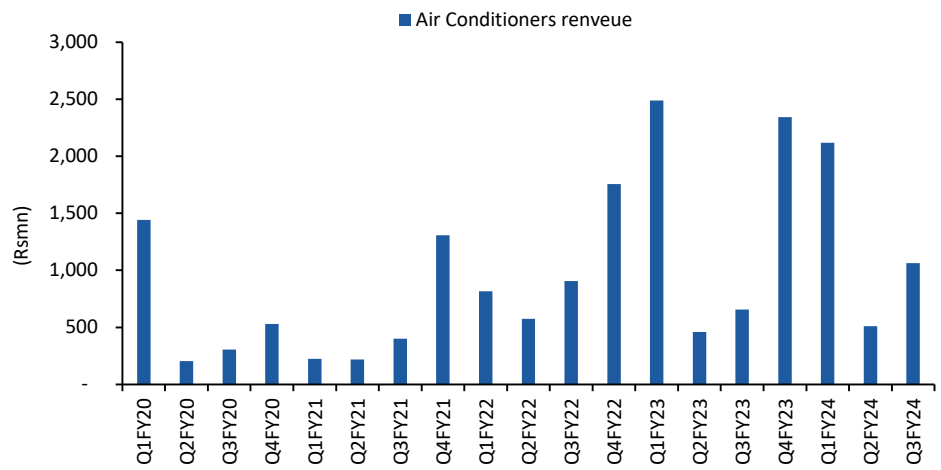
Source: Company Data, Centrum Broking

Exhibit 6: IFBI's Top-load washing machines revenue trend



Source: Company Data, Centrum Broking

Exhibit 7: IFBI's Air conditioners revenue trend



Source: Company Data, Centrum Broking

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	34,154	41,950	47,323	55,256	63,075
Operating Expense	20,624	25,582	28,252	32,767	37,214
Employee cost	3,724	4,051	4,543	5,139	5,803
Others	9,251	10,689	11,693	13,413	15,262
EBITDA	555	1,628	2,835	3,938	4,796
Depreciation & Amortisation	1,155	1,215	1,248	1,278	1,309
EBIT	(600)	413	1,587	2,660	3,487
Interest expenses	318	294	280	243	222
Other income	181	228	296	340	381
PBT	(737)	346	1,603	2,757	3,647
Taxes	(255)	172	403	694	918
Effective tax rate (%)	34.6	49.8	25.2	25.2	25.2
PAT	(482)	174	1,200	2,063	2,729
Minority/Associates	0	(24)	(270)	(220)	(150)
Recurring PAT	(482)	149	930	1,843	2,579
Extraordinary items	0	0	0	0	0
Reported PAT	(482)	149	930	1,843	2,579

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
Revenue	21.9	22.8	12.8	16.8	14.1
EBITDA	(73.6)	193.5	74.2	38.9	21.8
Adj. EPS	nm	nm	522.2	98.3	39.9
Margins (%)					
Gross	39.6	39.0	40.3	40.7	41.0
EBITDA	1.6	3.9	6.0	7.1	7.6
EBIT	(1.8)	1.0	3.4	4.8	5.5
Adjusted PAT	(1.4)	0.4	2.0	3.3	4.1
Returns (%)					
ROE	(7.2)	2.3	13.0	21.6	24.0
ROCE	(3.0)	3.7	15.6	22.4	24.3
ROIC	(7.1)	3.6	20.6	36.0	46.9
Turnover (days)					
Gross block turnover ratio (x)	3.5	3.9	4.1	4.5	4.9
Debtors	31	31	34	35	36
Inventory	92	82	80	80	83
Creditors	130	117	114	113	115
Net working capital	(6)	(1)	7	19	33
Solvency (x)					
Net debt-equity	0.2	0.2	0.0	(0.2)	(0.4)
Interest coverage ratio	1.7	5.5	10.1	16.2	21.7
Net debt/EBITDA	2.6	0.7	0.0	(0.6)	(0.9)
Per share (Rs)					
Adjusted EPS	(11.7)	3.6	22.5	44.7	62.5
BVPS	157.0	161.7	184.2	228.9	291.3
CEPS	16.3	33.1	52.8	75.6	94.2
DPS	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	nm	0.0	0.0	0.0	0.0
Valuation (x)					
P/E	nm	350.1	56.3	28.4	20.3
P/BV	8.1	7.8	6.9	5.5	4.3
EV/EBITDA	96.9	32.8	18.4	12.7	10.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	413	413	413	413	413
Reserves & surplus	6,070	6,262	7,191	9,035	11,614
Shareholders fund	6,483	6,675	7,604	9,447	12,026
Minority Interest	0	0	0	0	0
Total debt	2,386	2,041	1,691	1,341	991
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	(21)	156	156	156	156
Total liabilities	8,848	8,871	9,451	10,944	13,173
Gross block	9,843	10,635	11,459	12,209	12,959
Less: acc. Depreciation	(3,354)	(4,105)	(5,353)	(6,631)	(7,940)
Net block	6,489	6,531	6,106	5,578	5,019
Capital WIP	119	123	50	50	50
Net fixed assets	7,127	7,156	6,658	6,129	5,571
Non Current Assets	6	6	6	7	8
Investments	2,296	1,861	1,861	1,861	1,861
Inventories	5,768	5,731	6,579	7,810	9,074
Sundry debtors	3,103	4,134	4,797	5,753	6,739
Cash & Cash Equivalents	929	971	1,766	3,533	5,416
Loans & advances	6	6	6	7	8
Other current assets	1,050	1,205	1,420	1,658	2,523
Trade payables	8,120	8,303	9,288	10,952	12,541
Other current liab.	2,716	3,279	3,549	3,868	4,226
Provisions	600	614	804	995	1,261
Net current assets	(580)	(151)	926	2,946	5,733
Total assets	8,848	8,871	9,451	10,944	13,173

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	(737)	346	1,603	2,757	3,647
Depreciation & Amortisation	1,155	1,215	1,248	1,278	1,309
Net Interest	318	294	280	243	222
Net Change – WC	481	(387)	(283)	(254)	(905)
Direct taxes	(33)	4	(403)	(694)	(918)
Net cash from operations	1,183	1,472	2,445	3,330	3,354
Capital expenditure	(1,608)	(1,262)	(750)	(750)	(750)
Acquisitions, net	0	0	0	0	0
Investments	310	435	0	0	0
Others	0	0	0	0	0
Net cash from investing	(1,298)	(827)	(750)	(750)	(750)
FCF	(115)	646	1,695	2,580	2,604
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	57	(345)	(350)	(350)	(350)
Dividend paid	0	0	0	0	0
Interest paid	(318)	(294)	(280)	(243)	(222)
Others	79	36	(270)	(220)	(150)
Net cash from financing	(181)	(604)	(900)	(813)	(722)
Net change in Cash	(296)	42	795	1,767	1,883

Source: Company, Centrum Broking

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IFB Industries



Source: Bloomberg

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