

# IFB Industries Ltd.

11<sup>th</sup> February 2025

## Growth in the washers continues to disappoint

In Q3 FY25, IFB Industries Ltd. (IFB) reported a revenue growth of 9% on a YoY basis, driven by a subdued performance in the home appliances segment. EBITDA margins witnessed an improvement on a YoY basis, expanding by 139 bps from ~6% to ~7% on account of better manpower cost management. Underperformance in the washer category continued, suppressing overall performance. In contrast, AC and refrigerators experienced decent growth during the quarter. Going forward, the Company will focus on increasing sales from its existing retailers, which will be supported by its expanded product portfolio. In the medium-term, the Company remains optimistic about demand stability.

### Washer segment underperformance

In Q3 FY25, contrary to management's expectations, IFB was unable to achieve a robust revenue growth. These expectations were not met due to flat growth in its key product category, washers. While primary sales of washers were strong in September and October, demand declined in November and December, resulting in subpar growth in Q3 FY25. Additionally, the EBITDA margin fell short of expectations due to an unfavorable sales mix. Contribution of AC segment (a lower-margin business) increased significantly at the cost of the higher margin washer business. The management is unable to determine the reason for the washer segment's underperformance.

### Consultant to drive cost cutting initiatives has been finalized

As per the guidance given in Q2 FY25, the Company has engaged Alvarez & Marsal as consultants for its cost-cutting initiatives, aiming to achieve savings of Rs. 2,000 Mn within the next 15–18 months. This project is set to commence on February 17, 2025. Additionally, the Company is pursuing a material cost reduction program, the benefits of which are expected to be fully realized by Q4 FY25.

### Focus on industrial segment

While sales were marginally higher compared to Q3 FY24, the margin in this segment depleted due to higher material costs. The Company aims to increase the industrial segment business by 3x in the next 3 years. Here, the key growth drivers are laundrettes, hotels, hospitals, restaurants, and laundry installations in government institutions. IFB is focusing on both exports and the government sector and anticipates positive results from this business in the upcoming quarters.

### View & valuation

We continue to believe that there is a significant room to grow while simultaneously driving margins higher by optimizing costs. However, execution will have to be kept under watch as the Company continues to witness hiccups with internal bottlenecks. Given the above assumptions, based on our revised estimates, we maintain our BUY rating on IFB Industries Ltd. with a target price of Rs. 1,786 based on SOTP valuation for FY26E.

## BUY

CMP Rs. 1,348

TARGET Rs. 1,786 (32.4%)

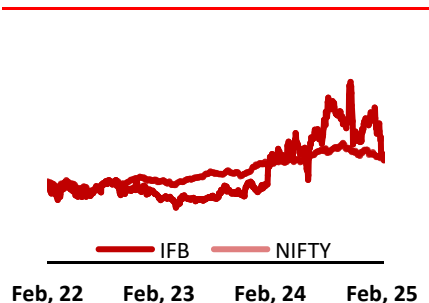
### Company Data

|                         |               |
|-------------------------|---------------|
| Bloomberg Code          | IFB IN        |
| MCAP (Rs. Mn)           | 54,640        |
| O/S Shares (Mn)         | 41            |
| 52w High/Low            | 2,360 / 1,014 |
| Face Value (in Rs.)     | 10            |
| Liquidity (3M) (Rs. Mn) | 102           |

### Shareholding Pattern %

|                   | Dec 24 | Sep 24 | Jun 24 |
|-------------------|--------|--------|--------|
| Promoters         | 74.96  | 74.96  | 74.96  |
| FIIIs             | 0.88   | 1.08   | 0.84   |
| DIIIs             | 6.82   | 6.7    | 6.74   |
| Non-Institutional | 17.35  | 17.22  | 17.47  |

### IFB vs Nifty



Source: Keynote Capitals Ltd.

### Key Financial Data

| (Rs. Mn)     | FY24   | FY25E  | FY26E  |
|--------------|--------|--------|--------|
| Revenue      | 44,378 | 49,597 | 55,422 |
| EBITDA       | 2,136  | 3,276  | 3,938  |
| Net Profit   | 721    | 1,416  | 1,853  |
| Total Assets | 21,798 | 23,062 | 26,000 |
| ROCE (%)     | 15%    | 20%    | 22%    |
| ROE (%)      | 10%    | 18%    | 19%    |

Source: Company, Keynote Capitals Ltd.

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Q3 FY25 Result Update

Result Highlights (Rs. Mn)

| Particulars                           | Q3 FY25     | Q3 FY24     | Change % (Y-o-Y) | Q2 FY25     | Change % (Q-o-Q) | 9M FY25      | 9M FY24     | Change % (Y-o-Y) | FY24         |
|---------------------------------------|-------------|-------------|------------------|-------------|------------------|--------------|-------------|------------------|--------------|
| Revenue                               | 12,695      | 11,608      | 9%               | 12,193      | 4%               | 37,580       | 33,476      | 12%              | 44,378       |
| COGS                                  | 7,563       | 6,920       | 9%               | 7,262       | 4%               | 22,697       | 19,804      | 15%              | 26,358       |
| Gross Profit                          | 5,132       | 4,689       | 9%               | 4,931       | 4%               | 14,883       | 13,672      | 9%               | 18,020       |
| <b>Gross Profit %</b>                 | <b>40%</b>  | <b>40%</b>  | <b>4 Bps</b>     | <b>40%</b>  | <b>-1 Bps</b>    | <b>40%</b>   | <b>41%</b>  | <b>-124 Bps</b>  | <b>41%</b>   |
| Employee Cost                         | 1,115       | 1,148       | -3%              | 1,134       | -2%              | 3,368        | 3,333       | 1%               | 4,394        |
| Other Operating Expense               | 3,126       | 2,888       | 8%               | 3,093       | 1%               | 9,102        | 8,634       | 5%               | 11,456       |
| EBITDA                                | 891         | 653         | 36%              | 704         | 27%              | 2,413        | 1,705       | 41%              | 2,171        |
| <b>EBITDA %</b>                       | <b>7%</b>   | <b>6%</b>   | <b>139 Bps</b>   | <b>6%</b>   | <b>124 Bps</b>   | <b>6%</b>    | <b>5%</b>   | <b>133 Bps</b>   | <b>5%</b>    |
| Depreciation                          | 378         | 318         | 19%              | 305         | 24%              | 982          | 924         | 6%               | 1,244        |
| EBIT                                  | 514         | 335         | 53%              | 399         | 29%              | 1,431        | 781         | 83%              | 927          |
| <b>EBIT %</b>                         | <b>4%</b>   | <b>3%</b>   | <b>116 Bps</b>   | <b>3%</b>   | <b>77 Bps</b>    | <b>4%</b>    | <b>2%</b>   | <b>147 Bps</b>   | <b>2%</b>    |
| Finance Cost                          | 76          | 68          | 12%              | 44          | 71%              | 168          | 212         | -21%             | 279          |
| Other Income                          | 41          | 71          | -43%             | 127         | -68%             | 239          | 209         | 14%              | 324          |
| PBT                                   | 478         | 338         | 41%              | 482         | -1%              | 1,502        | 779         | 93%              | 972          |
| Share of Profit from Associates & JVs | -57         | -75         | -                | -49         | -                | -134         | -197        | -                | -242         |
| Tax                                   | 110         | 88          | 25%              | 119         | -7%              | 368          | 199         | 85%              | 226          |
| <b>PAT</b>                            | <b>311</b>  | <b>174</b>  | <b>78%</b>       | <b>314</b>  | <b>-1%</b>       | <b>1,001</b> | <b>384</b>  | <b>161%</b>      | <b>504</b>   |
| <b>EPS</b>                            | <b>7.67</b> | <b>4.31</b> | <b>-</b>         | <b>7.76</b> | <b>-</b>         | <b>24.69</b> | <b>9.47</b> | <b>-</b>         | <b>12.43</b> |

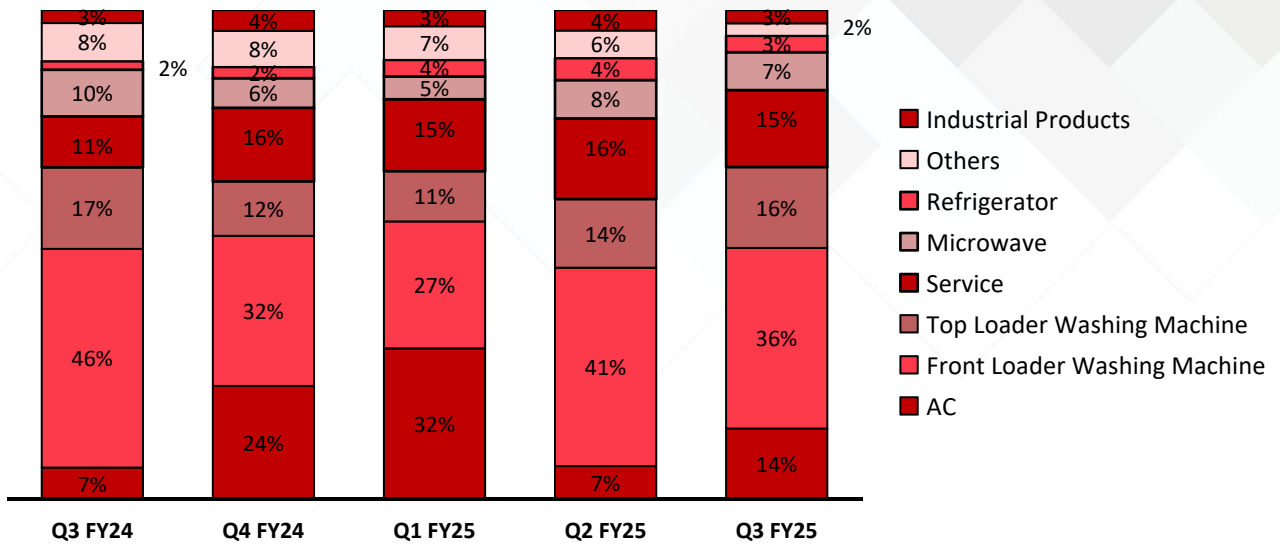
Segment Highlights (Rs. Mn)

| Particulars                      | Q3 FY25 | Q3 FY24 | Change % (Y-o-Y) | Q2 FY25 | Change % (Q-o-Q) | 9M FY25 | 9M FY24 | Change % (Y-o-Y) | FY24   |
|----------------------------------|---------|---------|------------------|---------|------------------|---------|---------|------------------|--------|
| <b>Revenue</b>                   |         |         |                  |         |                  |         |         |                  |        |
| Home Appliances                  | 10,178  | 9,139   | 11%              | 9,521   | 7%               | 29,935  | 26,409  | 13%              | 34,719 |
| Engineering                      | 2,203   | 2,145   | 3%               | 2,326   | -5%              | 6,631   | 6,123   | 8%               | 8,370  |
| Motor                            | 153     | 166     | -8%              | 177     | -14%             | 494     | 483     | 2%               | 668    |
| Steel                            | 466     | 380     | 23%              | 474     | -1%              | 1,396   | 1,133   | 23%              | 1,574  |
| <b>Operating Profit</b>          |         |         |                  |         |                  |         |         |                  |        |
| Home Appliances                  | 341     | 359     | -5%              | 266     | 28%              | 1,013   | 779     | 30%              | 825    |
| Engineering                      | 255     | 216     | 18%              | 297     | -14%             | 790     | 570     | 39%              | 884    |
| Motor                            | -10     | 2       | -738%            | -8      | 29%              | -21     | -2      | 930%             | 2      |
| Steel                            | 18      | -4      | -500%            | 13      | 36%              | 33      | -20     | -267%            | -12    |
| <b>Operating Profit Margin %</b> |         |         |                  |         |                  |         |         |                  |        |
| Home Appliances                  | 3%      | 4%      | -58 Bps          | 3%      | 55 Bps           | 3%      | 3%      | 43 Bps           | 2%     |
| Engineering                      | 12%     | 10%     | 147 Bps          | 13%     | -121 Bps         | 12%     | 9%      | 261 Bps          | 11%    |
| Motor                            | -7%     | 1%      | -765 Bps         | -4%     | -221 Bps         | -4%     | 0%      | -376 Bps         | 0%     |
| Steel                            | 4%      | -1%     | 493 Bps          | 3%      | 105 Bps          | 2%      | -2%     | 412 Bps          | -1%    |

Source: Company, Keynote Capitals Ltd.

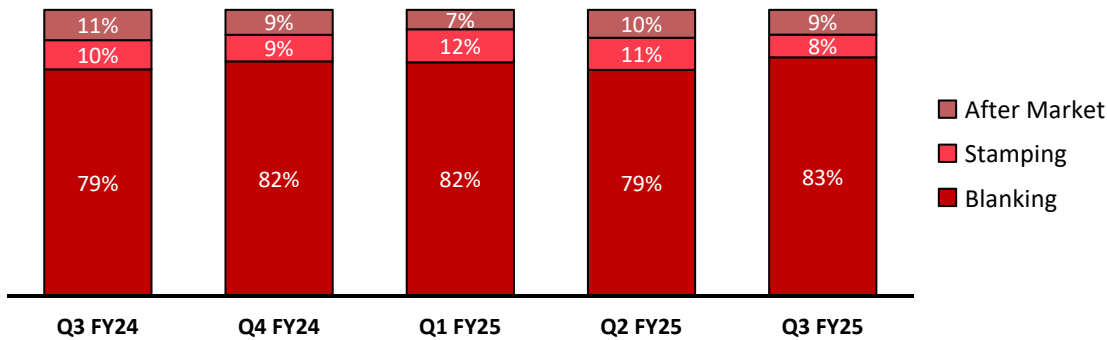
Quarterly business progression

Home Appliances Division – Revenue Mix (%)



Source: Company, Keynote Capitals Ltd.  
Others include dishwashers and others

Engineering Division – Revenue Mix (%)



Source: Company, Keynote Capitals Ltd.

Q3 FY25 Conference Call Takeaways

General Highlights

- In Q3 FY25, the subdued performance was due to stagnant demand for washers in November and December, following strong sales in September and October. This trend was observed across the industry, and the management was unable to identify specific reasons for it.
- The cost-cutting program with consultants aims to save Rs. 2 Bn by reducing machine weight, optimizing logistics, streamlining sales, and improving design. Of this, Rs. 1.5–1.7 Bn will come from weight and logistics. Savings in AC segment is expected from March 2025.
- As part of its cost-saving initiative, the Company is focusing on rationalizing roles due to overlapping responsibilities and duplication of work within close proximity. To address this, the Company is working with EY to optimize roles within teams.

## IFB Industries Ltd | Quarterly Update

- ~25% of IFB Points are facing issues due to regional staff. Additionally, IFB products are being sold slightly cheap in nearby competing electronic stores compared to IFB Points. The Company aims to resolve this inefficiency.
- During the quarter, inventory days increased from 35 days in Q3 FY24 to 43 days in Q3 FY25. This rise is attributed to the buildup of AC in preparation for the upcoming summer demand and unsold washer inventory due to flat demand during Q3 FY25.
- Out of the 475 IFB Points, 180 operates as COCO model, while the remaining are FOFO model. Going forward, new stores are being established based on FOFO model.
- In the engineering segment, the Company is focused on developing products for the railways and electronics sectors. In the auto components segment, it is exploring acquisition opportunities but has not yet identified a suitable organization.

### Home Appliances

- The anticipated EBITDA margin expansion did not materialize due to weak washer sales. Even in January, sales remained sluggish, leaving the Company with unsold inventory. However, the Company remains optimistic that sales will improve, which will subsequently lead to margin expansion.
- The entire washer industry is focusing on premiumization. To align with this trend, the Company plans to enhance its marketing efforts by launching a pan-India brand campaign for washers, ACs, and refrigerators, initially targeting the top 10 states.
- The Company believes that it needs to intensify its sales efforts. This is because it is only able to achieve a monthly sales volume for top-load washers of 30,000–32,000 units whereas the capacity is to scale up to 50,000-60,000 units per month.
- In this quarter, sales of industrial washers have declined, but margins have improved.
- The Company has sufficient stock of AC compressors imported from China to last until March 2025 and has placed additional orders for May and June. It does not anticipate any challenges despite the current import difficulties.
- The AC segment has turned EBITDA positive, supported by favourable industry conditions and a positive reception of IFB's products. However, the Company remains below its volume guidance due to the subpar performance of AC's segment in H1 FY25.
- The prices of LG and Haier AC are higher compared to IFB models. To address this disparity, the Company plans to adjust its pricing strategy to reduce the price gap.
- The refrigeration plant has a capacity of ~1 Mn units and is currently operating at an EBITDA breakeven level, though it is still incurring losses at the PBT level. The management anticipates that the plant will achieve full breakeven by June 2025, which is expected to occur at ~50% capacity utilization.

Financial Statement Analysis

Income Statement

| Y/E Mar, Rs. Mn                 | FY23          | FY24          | FY25E         | FY26E         | FY27E         |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Net Sales</b>                | <b>41,950</b> | <b>44,378</b> | <b>49,597</b> | <b>55,422</b> | <b>61,839</b> |
| Growth %                        |               | 6%            | 12%           | 12%           | 12%           |
| Raw Material Expenses           | 25,582        | 26,358        | 29,458        | 32,917        | 36,419        |
| Employee Expenses               | 4,051         | 4,394         | 4,712         | 4,988         | 5,256         |
| Other Expenses                  | 10,693        | 11,491        | 12,151        | 13,578        | 14,841        |
| <b>EBITDA</b>                   | <b>1,624</b>  | <b>2,136</b>  | <b>3,276</b>  | <b>3,938</b>  | <b>5,322</b>  |
| Growth %                        |               | 32%           | 53%           | 20%           | 35%           |
| Margin%                         | 4%            | 5%            | 7%            | 7%            | 9%            |
| Depreciation                    | 1,215         | 1,244         | 1,355         | 1,438         | 1,530         |
| <b>EBIT</b>                     | <b>409</b>    | <b>892</b>    | <b>1,921</b>  | <b>2,500</b>  | <b>3,791</b>  |
| Growth %                        |               | 118%          | 115%          | 30%           | 52%           |
| Margin%                         | 1%            | 2%            | 4%            | 5%            | 6%            |
| Interest Paid                   | 332           | 307           | 251           | 251           | 251           |
| Other Income & exceptional      | 269           | 386           | 250           | 250           | 250           |
| <b>PBT</b>                      | <b>346</b>    | <b>972</b>    | <b>1,920</b>  | <b>2,499</b>  | <b>3,791</b>  |
| Tax                             | 172           | 226           | 480           | 625           | 948           |
| <b>PAT</b>                      | <b>173</b>    | <b>745</b>    | <b>1,440</b>  | <b>1,875</b>  | <b>2,843</b>  |
| Others (Minorities, Associates) | -24           | -24           | -24           | -22           | -20           |
| <b>Net Profit</b>               | <b>149</b>    | <b>721</b>    | <b>1,416</b>  | <b>1,853</b>  | <b>2,823</b>  |
| Growth %                        |               | 383%          | 96%           | 31%           | 52%           |
| Shares (Mn)                     | 40.5          | 40.5          | 40.5          | 40.5          | 40.5          |
| <b>EPS</b>                      | <b>3.69</b>   | <b>17.80</b>  | <b>34.95</b>  | <b>45.73</b>  | <b>69.68</b>  |

Balance Sheet

| Y/E Mar, Rs. Mn                       | FY23          | FY24E         | FY25E         | FY26E         | FY27E         |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash, Cash equivalents & Bank         | 971           | 1,106         | 2,080         | 4,417         | 7,641         |
| Current Investments                   | 892           | 1,921         | 1,921         | 1,921         | 1,921         |
| Debtors                               | 4,134         | 4,631         | 4,761         | 5,265         | 5,875         |
| Inventory                             | 5,731         | 5,392         | 6,186         | 6,913         | 7,648         |
| Short Term Loans & Advances           | 530           | 929           | 929           | 929           | 929           |
| Other Current Assets                  | 186           | 231           | 231           | 231           | 231           |
| Total Current Assets                  | 12,443        | 14,208        | 16,108        | 19,675        | 24,244        |
| Net Block & CWIP                      | 7,072         | 6,428         | 5,816         | 5,210         | 4,607         |
| Long Term Investments                 | 968           | 709           | 685           | 663           | 643           |
| Other Non-current Assets              | 586           | 453           | 453           | 453           | 453           |
| <b>Total Assets</b>                   | <b>21,068</b> | <b>21,798</b> | <b>23,062</b> | <b>26,000</b> | <b>29,947</b> |
| Creditors                             | 8,303         | 9,832         | 9,681         | 10,766        | 11,890        |
| Provision                             | 102           | 167           | 167           | 167           | 167           |
| Short Term Borrowings                 | 840           | 36            | 36            | 36            | 36            |
| Other Current Liabilities             | 2,144         | 2,454         | 2,454         | 2,454         | 2,454         |
| Total Current Liabilities             | 11,390        | 12,488        | 12,336        | 13,422        | 14,545        |
| Long Term Debt                        | 637           | 215           | 215           | 215           | 215           |
| Deferred Tax Liabilities              | 156           | 196           | 196           | 196           | 196           |
| Other Long Term Liabilities           | 2,211         | 1,722         | 1,722         | 1,722         | 1,722         |
| Total Non Current Liabilities         | 3,004         | 2,134         | 2,134         | 2,134         | 2,134         |
| Paid-up Capital                       | 413           | 413           | 413           | 413           | 413           |
| Reserves & Surplus                    | 6,262         | 6,763         | 8,179         | 10,032        | 12,856        |
| Shareholders' Equity                  | 6,675         | 7,176         | 8,592         | 10,445        | 13,268        |
| Non Controlling Interest              | 0             | 0             | 0             | 0             | 0             |
| <b>Total Equity &amp; Liabilities</b> | <b>21,068</b> | <b>21,798</b> | <b>23,062</b> | <b>26,000</b> | <b>29,947</b> |

Cash Flow

| Y/E Mar, Rs. Mn                            | FY23         | FY24          | FY25E        | FY26E        | FY27E        |
|--------------------------------------------|--------------|---------------|--------------|--------------|--------------|
| Pre-tax profit                             | 346          | 972           | 1,920        | 2,499        | 3,791        |
| Adjustments                                | 1,418        | 1,508         | 1,356        | 1,414        | 1,479        |
| Change in Working Capital                  | -654         | 1,369         | -1,077       | -145         | -222         |
| Total Tax Paid                             | -30          | -101          | -480         | -625         | -948         |
| <b>Cash flow from operating Activities</b> | <b>1,079</b> | <b>3,748</b>  | <b>1,720</b> | <b>3,144</b> | <b>4,100</b> |
| Net Capital Expenditure                    | -659         | -649          | -744         | -831         | -928         |
| Change in investments                      | 519          | -744          | 0            | 0            | 0            |
| Other investing activities                 | 79           | 18            | 250          | 275          | 303          |
| <b>Cash flow from investing activities</b> | <b>-60</b>   | <b>-1,375</b> | <b>-494</b>  | <b>-556</b>  | <b>-625</b>  |
| Equity raised / (repaid)                   | 0            | 0             | 0            | 0            | 0            |
| Debt raised / (repaid)                     | -397         | -1,300        | 0            | 0            | 0            |
| Dividend (incl. tax)                       | 0            | 0             | 0            | 0            | 0            |
| Other financing activities                 | -544         | -556          | -251         | -251         | -251         |
| <b>Cash flow from financing activities</b> | <b>-941</b>  | <b>-1,856</b> | <b>-251</b>  | <b>-251</b>  | <b>-251</b>  |
| <b>Net Change in cash</b>                  | <b>78</b>    | <b>516</b>    | <b>975</b>   | <b>2,336</b> | <b>3,224</b> |

Valuation Ratios

|                                | FY23  | FY24 | FY25E | FY26E | FY27E |
|--------------------------------|-------|------|-------|-------|-------|
| <b>Per Share Data</b>          |       |      |       |       |       |
| EPS                            | 4     | 18   | 35    | 46    | 70    |
| Growth %                       |       | 383% | 96%   | 31%   | 52%   |
| Book Value Per Share           | 165   | 177  | 212   | 258   | 327   |
| <b>Return Ratios</b>           |       |      |       |       |       |
| Return on Assets (%)           | 1%    | 3%   | 6%    | 8%    | 10%   |
| Return on Equity (%)           | 2%    | 10%  | 18%   | 19%   | 24%   |
| Return on Capital Employed (%) | 7%    | 15%  | 20%   | 22%   | 25%   |
| <b>Turnover Ratios</b>         |       |      |       |       |       |
| Asset Turnover (x)             | 2.0   | 2.1  | 2.2   | 2.3   | 2.2   |
| Sales / Gross Block (x)        | 3.5   | 3.6  | 3.8   | 4.0   | 4.2   |
| Working Capital / Sales (x)    | 3%    | 3%   | 6%    | 9%    | 13%   |
| Receivable Days                | 31    | 36   | 35    | 33    | 33    |
| Inventory Days                 | 82    | 77   | 72    | 73    | 73    |
| Payable Days                   | 117   | 127  | 118   | 111   | 111   |
| Working Capital Days           | -4    | -14  | -11   | -5    | -5    |
| <b>Liquidity Ratios</b>        |       |      |       |       |       |
| Current Ratio (x)              | 1.1   | 1.1  | 1.3   | 1.5   | 1.7   |
| Interest Coverage Ratio (x)    | 2.0   | 4.2  | 8.7   | 11.0  | 16.1  |
| Total Debt to Equity           | 0.2   | 0.0  | 0.0   | 0.0   | 0.0   |
| Net Debt to Equity             | 0.1   | -0.1 | -0.2  | -0.4  | -0.6  |
| <b>Valuation</b>               |       |      |       |       |       |
| PE (x)                         | 282.2 | 58.5 | 20.8  | 15.9  | 10.4  |
| Earnings Yield (%)             | 0%    | 2%   | 5%    | 6%    | 10%   |
| Price to Sales (x)             | 0.7   | 0.7  | 1.1   | 0.9   | 0.8   |
| Price to Book (x)              | 4.5   | 4.1  | 6.1   | 5.0   | 4.0   |
| EV/EBITDA (x)                  | 19.1  | 13.6 | 16.5  | 13.7  | 10.1  |
| EV/Sales (x)                   | 0.7   | 0.7  | 1.1   | 1.0   | 0.9   |

Source: Company, Keynote Capitals Ltd. estimates

## KEYNOTE Rating History

| Date                           | Rating | Market Price at recommendation | Upside/Downside |
|--------------------------------|--------|--------------------------------|-----------------|
| 12 <sup>th</sup> June 2024     | BUY    | 1,547                          | +46.6%          |
| 12 <sup>th</sup> August 2024   | BUY    | 2,065                          | +13.8%          |
| 8 <sup>th</sup> November 2024  | BUY    | 1,646                          | +32.0%          |
| 11 <sup>th</sup> February 2025 | BUY    | 1,348                          | +32.4%          |

Source: Company, Keynote Capitals Ltd. estimates

## Rating Methodology

| Rating                                                   | Criteria                                                                                                         |
|----------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| BUY                                                      | Expected positive return of > 10% over 1-year horizon                                                            |
| NEUTRAL                                                  | Expected positive return of > 0% to < 10% over 1-year horizon                                                    |
| REDUCE                                                   | Expected return of < 0% to -10% over 1-year horizon                                                              |
| SELL                                                     | Expected to fall by >10% over 1-year horizon                                                                     |
| NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS) | Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage |

## Disclosures and Disclaimers

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