

BSE SENSEX

35,739

S&P CNX

10,857

CMP: INR525
TP: INR570 (+9%)
Neutral

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VOLTAS

Stock Info

Bloomberg	VOLT IN
Equity Shares (m)	331.0
52-Week Range (INR)	675 / 441
1, 6, 12 Rel. Per (%)	-15/-22/-8
M.Cap. (INR b)	173.8
M.Cap. (USD b)	2.7
Avg Val, INRm	922.0
Free float (%)	69.7

Financials Snapshot (INR b)

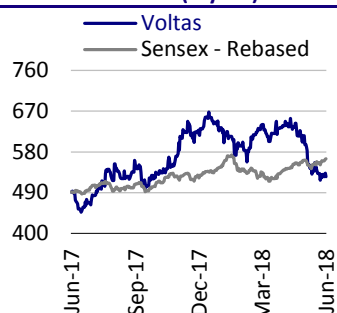
Y/E Mar	2018	2019E	2020E
Net Sales	64.0	72.0	79.9
EBITDA	6.6	7.7	8.4
Adj PAT	5.7	6.4	7.1
EPS(INR)	17.3	19.2	21.4
EPS Gr. (%)	11.9	11.3	11.0
BV/Sh. (INR)	118.0	132.1	147.7
RoE (%)	15.9	15.4	15.3
RoCE (%)	15.3	14.9	14.9
P/E (x)	30.3	27.2	24.6
P/BV (x)	4.4	4.0	3.5

Shareholding pattern (%)

As On	Mar-18	Dec-17	Mar-17
Promoter	30.3	30.3	30.3
DII	29.7	29.1	26.5
FII	19.6	20.0	20.7
Others	20.5	20.7	22.5

FII Includes depository receipts

Stock Performance (1-year)



Unseasonal rainfall hurt 1QFY19 room AC sales

Inverter ACs account for 30% of room AC sales

We met VOLT's management. Our key takeaways:

Unseasonal rainfall and resultant weak summer hurt 1QFY19 sales

- Room air-conditioner (AC) sales in April/May 2018 were subdued as a result of rains and hailstorms across North and South India. Industry volumes declined in April; VOLT saw lower-than-industry decline, driven by market share gains and better-than-industry promotional offers. The company remains hopeful of a pick-up in demand in the second half of June in North India and this would offset the weakness seen in the prior two months. Moreover, 1QFY19 has a weak base – primary sales had declined sharply in May-June 2017 on GST-related destocking by dealers.
- The structural growth story in room ACs remains intact for the next few years (despite near-term hiccups of a weak summer), driven by low penetration levels, rising income levels and increasing distribution in tier-2/3 cities. VOLT has ~15,000 touch points across the country.
- Margins are facing downward pressure on rising raw material prices, high competitive intensity, rupee depreciation, and increasing share of interest subvention sales. VOLT has hiked prices by ~3% across select SKUs in June 2018 to offset the impact of higher input prices.

Inverter ACs now constitute ~30% of VOLT's room AC sales

- The share of inverter ACs in room AC sales has risen to 30% for VOLT against 40% for the industry. The reduced price difference between inverter ACs and fixed-speed ACs has led to faster-than-expected transition to inverter ACs in the country.
- VOLT has gained share in inverter ACs, driven by: (a) launch of 40-45 SKUs, one of the highest across peers, (b) aggressive marketing campaigns focused on inverter ACs, (c) realignment of inverter AC prices in line with peers.

Arcelik JV set to launch products in 2HCY18

- The JV will simultaneously launch washing machines, refrigerators, microwave ovens and dishwashers across India in 2HCY18. The company will have more SKUs in refrigerators and washing machines than in the other two categories.
- The JV will make use of VOLT's existing distribution network to sell these products. The aim is to leverage Arcelik's R&D and manufacturing capabilities along with VOLT's brand and distribution in India.
- The land for the factory has already been acquired in Gujarat and the plant is expected to be ready in 18 months. The initial capital commitment by the JV partners is USD50m each, but as the manufacturing and distribution operations are expanded, the partners are open to infusing more equity capital.

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Projects segment – government orders the primary driver

- Ordering is primarily driven by rural electrification and urban infrastructure projects by the government. Key end markets seeing an uptick include metro rail, hospitals and educational institutions. Private capex remains weak and is yet to see any significant on-the-ground revival.
- Orders in the Middle East are being driven by UAE (primarily in Dubai) and Oman. VOLT is yet to see a pick-up in orders for the FIFA World Cup scheduled to be held in Qatar in 2022.

Valuation and view

We cut our earnings by 5% for each of FY19 and FY20 to factor in lower sales in the UCP segment. We now build in 5% growth in the UCP segment in FY19 versus our earlier estimate of 15% growth. We maintain our **Neutral** rating, with a revised SOTP-based price target of INR570 (UCP business at 35x FY20E EPS; EMP and Engineered Products business at 15x FY20E EPS).

Exhibit 1: Change in estimates

Description	New Estimate			Old Estimate		Change in estimate	
	FY18	FY19	FY20	FY19	FY20	FY19	FY20
Sales	64,044	72,007	79,909	75,233	83,619	-4%	-4%
EBITDA	6,626	7,664	8,389	8,129	8,926	-6%	-6%
Margin (%)	10.30%	10.60%	10.50%	10.80%	10.70%	-0.20%	-0.20%
PAT	5,718	6,370	7,072	6701	7452	-5%	-5%
EPS	17.3	19.2	21.4	20.2	22.5	-5%	-5%

Source: Company, MOSL

Exhibit 2: Voltas SOTP valuation

Name of segment	Mar-20	Multiple	Value/Share
Unitary Cooling Products	12.7	35	446
Engineered Products Services	2.4	15	36
Electro Mechanical Products	5.9	15	89
Total			570

Source: MOSL

Exhibit 3: Operating matrix

INR M	FY15	FY16	FY17	FY18	FY19E	FY20E
Order Book	38,930	39,140	43,210	50,620	54,400	59,326
Domestic	20,220	25,441	30,247	35,434	38,080	41,528
International	18,710	13,699	12,963	15,186	16,320	17,798
YoY	7.8%	3.6%	15.7%	9.6%	13.9%	13.9%
Order Inflows	22,380	22,500	27,850	34,440	37,884	41,672
Segmental Revenues						
Electro mechanical projects	22,085	28,288	26,550	28,450	34,104	36,747
Engineering Products	3,601	3,706	3,318	3,099	3,564	3,742
Unitary Cooling products	25,105	25,209	30,469	32,260	33,873	38,954
Others	661	0	0	0	0	0
Total Revenues	51,452	57,088	65,626	80,352	94,789	94,789
EMP, % YoY	-18.0%	28.1%	-6.1%	7.2%	19.9%	7.7%
Engg Products, % YoY	-19.7%	2.9%	-10.5%	-6.6%	15.0%	5.0%
UCP, % YoY	22.3%	0.4%	20.9%	5.9%	5.0%	15.0%
Segmental PBIT						
Electro mechanical projects	231	550	849	1,854	2,387	2,572
Engineering Products	1,081	1,127	956	992	1,141	1,198
Unitary Cooling products	3,491	3,381	4,403	4,749	4,885	5,617
Total PBIT	4,874	5,058	6,208	7,595	8,413	9,388
Segmental PBIT, %						
Electro mechanical projects	1.0	1.9	3.2	6.5	7.0	7.0
Engineering Products	30.0	30.4	28.8	32.0	32.0	32.0
Unitary Cooling products	13.9	13.4	14.5	14.7	14.4	14.4
Total PBIT	9.5	8.9	9.5	9.5	8.9	9.9
EPS (INR/sh)	10.2	11.0	15.4	17.3	19.2	21.4
NWC (Days)	40.7	40.8	35.5	42.0	33.0	38.0
EPS Composition (INR/sh)	10.2	11.0	15.4	17.3	19.2	21.4
Electro mechanical projects	-0.7	0.4	2.0	4.5	6.1	6.2
Engineering Products	2.4	2.4	2.8	2.0	2.1	2.4
Unitary Cooling products	8.4	8.2	10.7	10.8	11.1	12.7

Source: Company, MOSL

Financials and valuations

Income Statement						(INR Million)	
Y/E March	2014	2015	2016	2017	2018	2019E	2020E
Total Revenues	52,660	51,831	57,198	60,328	64,044	72,007	79,909
Change (%)	(4.8)	-2	10	5	6	12	11
Raw Materials	38,543	35,974	40,871	42,359	45,675	51,541	58,125
Staff Cost	5,947	5,899	6,351	6,184	5,867	6,446	6,737
Other Expenses	5,515	5,857	5,646	5,994	5,875	6,356	6,659
EBITDA	2,656	4,100	4,330	5,791	6,626	7,664	8,389
% of Total Revenues	5.0	7.9	7.6	9.6	10.3	10.6	10.5
Other Income	1,002	1,087	1,367	1,998	1,741	1,606	1,866
Depreciation	248	280	264	245	244	257	267
Interest	225	233	158	160	119	94	80
Exceptional Items	215	462	289	11	6	0	0
PBT	3,399	5,136	5,275	7,395	8,011	8,919	9,908
Tax	941	1,276	0	2,089	2,270	2,586	2,873
Rate (%)	27.7	25	0	28	28	29	29
Adjusted PAT	2,458	3,860	3,642	5,114	5,779	6,370	7,072
Extra-ordinary Income (net)	-	0	0	0	0	0	0
Reported PAT	2,458	3,860	3,931	5,114	5,779	6,370	7,072
Change (%)	18.7	57	2	30	13	10	11
Adj. Consolidated PAT	2,238	3,381	3,931	5,114	5,724	6,370	7,072
Change (%)	14.5	51	16	30	12	11	11

Balance Sheet						(INR Million)	
Y/E March	2014	2015	2016	2017	2018	2019E	2020E
Share Capital	331	331	331	331	331	331	331
Reserves	17,862	20,690	27,780	32,735	38,721	43,382	48,557
Net Worth	18,193	21,021	28,111	33,066	39,052	43,713	48,888
Minority Intetest	138	161	267	285	317	317	317
Loans	2,629	1,217	2,707	1,709	1,423	1,423	1,423
Deferred Tax Liability	(239)	(349)	(311)	(198)	(46)	(277)	(447)
Capital Employed	20,721	22,049	30,775	34,863	40,746	45,176	50,181
Gross Fixed Assets	4,198	4,114	5,218	5,165	5,422	5,556	5,757
Less: Depreciation	2,113	2,223	2,890	2,889	3,133	3,390	3,657
Net Fixed Assets	2,086	1,891	2,327	2,276	2,289	2,166	2,099
Capital WIP	18	44	13	6	-	-	-
Investments	7,320	10,939	19,458	22,679	27,536	27,536	27,536
Goodwill	798	798	723	723	723	723	723
Curr. Assets	36,974	34,844	35,863	38,808	42,370	52,695	60,835
Inventory	9,010	8,671	7,247	9,070	8,130	9,141	10,144
Debtors	22,039	21,051	13,672	14,541	15,703	17,655	19,593
Cash & Bank Balance	2,818	2,516	1,855	3,314	2,837	8,246	11,508
Loans & Advances	3,108	2,606	935	935	1,218	1,370	1,520
Current Liab. & Prov.	26,476	26,466	27,610	29,628	32,172	37,943	41,012
Creditors	16,267	15,414	17,488	19,946	21,764	23,484	24,966
Other Liabilities	10,208	11,051	10,122	9,682	10,408	14,459	16,046
Net Current Assets	10,499	8,378	8,253	9,180	10,198	14,752	19,823
Application of Funds	20,721	22,050	30,775	34,863	40,746	45,176	50,181

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2014	2015	2016	2017	2018	2019E	2020E
Basic (INR)	6.8	10.2	11.9	15.5	17.3	19.2	21.4
Adj EPS	7.4	10.2	11.9	15.5	17.3	19.2	21.4
Cash EPS	7.5	11.1	12.7	16.2	18.0	20.0	22.2
Book Value	55.0	63.6	85.0	100.0	118.0	132.1	147.7
DPS	1.9	2.3	2.6	3.5	4.0	4.4	4.9
Payout (incl. Div. Tax.)	29.2	23.3	27.1	26.2	26.8	26.8	26.8

Valuation (x)

P/E				34.0	30.3	27.2	24.6
Cash P/E				32.4	29.1	26.2	23.6
EV/EBITDA				29.7	26.0	21.7	19.5
EV/Sales				2.8	2.7	2.3	2.0
Price/Book Value				5.2	4.4	4.0	3.5
Dividend Yield (%)				0.7	0.8	0.8	0.9

Profitability Ratios (%)

RoE	13.0	17.2	14.8	18.0	15.9	15.4	15.3
RoCE	12.0	16.6	13.9	16.5	15.3	14.9	14.9
RoIC	15.0	28.1	29.4	41.8	46.0	51.7	53.6

Turnover Ratios

Debtors (Days)	153	148.2	87.2	88.0	89.5	89.5	89.5
Inventory (Days)	62	61.1	46.2	54.9	46.3	46.3	46.3
Creditors. (Days)	164	161.4	111.6	120.7	124.0	119.0	114.0
Asset Turnover (x)	2.5	2.4	1.9	1.7	1.6	1.6	1.6

Leverage Ratio

Debt/Equity (x)	0.1	0.1	0.1	0.1	0.0	0.0	0.0
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Cash Flow Statement

(INR Million)

Y/E March	2014	2015	2016	2017	2018	2019E	2020E
PBT before EO Items	3,399	5,136	5,275	7,384	8,005	8,919	9,908
Add : Depreciation	248	280	264	245	244	257	267
Interest	225	233	-	-	-	-	-
Less : Direct Taxes Paid	(941)	(1,276)	(1,696)	(2,089)	(2,270)	(2,586)	(2,873)
(Inc)/Dec in WC	98	1,425	(537)	533	(1,496)	856	(1,809)
CF from Operations	3,030	5,798	3,384	6,084	4,483	7,445	5,493
(Inc)/Dec in FA	462	58	(213)	(213)	(213)	(213)	(213)
Free Cash Flow	3,492	5,856	3,171	5,871	4,270	7,232	5,280
Investment in liquid assets	(3,247)	(3,619)	(8,520)	(3,221)	(2,922)	-	(120)
CF from Investments	(2,785)	(3,561)	(8,733)	(3,434)	(3,135)	(213)	(333)
(Inc)/Dec in Debt	17	(1,412)	1,491	(998)	(286)	-	-
Less : Interest Paid	(225)	(233)	-	-	-	-	-
Dividend Paid	(716)	(894)	(988)	(1,337)	(1,534)	(1,709)	(1,898)
CF from Fin. Activity	(925)	(2,539)	4,650	(1,157)	(1,821)	(1,709)	(1,898)
Inc/Dec of Cash	(679)	(302)	(699)	1,493	(473)	5,523	3,263
Add: Beginning Balance	3,497	2,818	2,516	1,817	3,310	2,723	8,246
Closing Balance	2,818	2,516	1,855	3,314	2,837	8,246	11,508

E: MOSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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