

BSE SENSEX
34,299

S&P CNX
10,301

CMP: INR484 TP: INR540 (+13%)
Neutral

VOLTAS

Stock Info

Bloomberg	VOLT IN
Equity Shares (m)	331
M.Cap.(INRb)/(USDb)	168.5 / 2.3
52-Week Range (INR)	675 / 493
1, 6, 12 Rel. Per (%)	-5/-22/-11
12M Avg Val (INR M)	894
Free float (%)	69.7

Financials Snapshot (INR b)

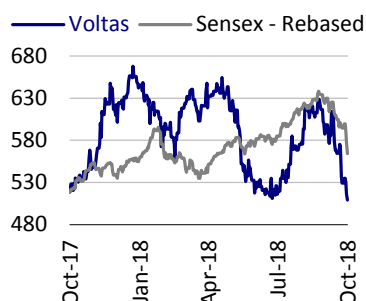
Y/E Mar	2018	2019E	2020E
Net sales	64.0	71.7	79.6
EBITDA	6.6	8.0	9.1
PAT	5.7	6.2	7.1
EPS (INR)	17.3	18.8	21.5
Gr. (%)	11.9	8.7	14.6
BV/Sh (INR)	118.0	131.7	147.5
RoE (%)	15.9	15.1	15.4
RoCE (%)	15.3	14.8	15.1
P/E (x)	28.8	26.4	23.1
P/BV (x)	4.2	3.8	3.4

Shareholding pattern (%)

As On	Jun-18	Mar-18	Jun-17
Promoter	30.3	30.3	30.3
DII	32.7	29.7	27.8
FII	15.5	19.6	19.2
Others	21.6	20.5	22.7

FII Includes depository receipts

Stock Performance (1-year)



Takeaways from review of Voltas Beko products

Impressive line-up of refrigerators and washing machines

We took a look at the recently launched washing machines and refrigerators of **‘Voltas Beko’—a TATA product**, which are expected to see a pan-India rollout by Diwali this year. We were quite impressed by the product quality, range and features on offer v/s competition. In line with earlier commentary from management, pricing is largely in line with Korean peers (although most products are imported and despite the recent sharp INR depreciation). Going forward, two critical factors would determine the success of the ‘Voltas Beko’ brand and its target to capture 10% share—namely (1) dealer margins being offered, and (2) the ad/promotion campaigns rolled out to capture consumer mindshare (INR1b is planned for advertising annually over the next four years, as per media reports).

Our take on the product line-up is highlighted below:

Refrigerators (250-470litres, double-door frost-free): The refrigerators are imported from Thailand with the initial rollout of frost-free models; the company plans to launch smaller-sized direct-cooling models later. Unique features of the refrigerators that stood out for us are:

- Frost-free inverter compressors with 12 years warranty versus the 10-year industry norm
- Digital display to separately control temperatures in the freezer and cabinet; note: this feature is usually available in high-end/premium LG and Samsung models of 400litres and above
- Dual cooling and separate air flow between fridge and freezer along with 2x cooling. The company has branded this as **‘Neofrost dual’** cooling
- Blue light protection, which the company claims keeps vegetables/food fresh for 30 days
- **Ion guard** in the food compartment to neutralize food odors. Beverage holders have also been provided to store large-sized bottles.
- Tube light inside the compartments for better lighting v/s regular bulbs inside the fridge
- **‘Store fresh’** tray at the bottom to keep food fresh for 30 days and to avoid mixing of odors.

Washing Machines (Semi-auto, top and front-load, 7-12kgs): The company launched washing machines in different categories of 7-12kgs across range and sizes. Some of the unique features that stood out for us are:

- 12-year motor warranty v/s 10-year industry norm
- All front-load, fully-automatic machines come with inverter motors for power savings and better efficiency
- **Monsoon wash**, which has 15min/30min extra wash cycle and vents on top of the washing machine for better drying during monsoons

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- 'A+++' rating for fully-automatic washing machines—these are the top-of-the-line fully-automatic washers and are most energy efficient as per EU standards
- In our view, size of the washing tub is bigger than competition across comparative sizes
- Washer-cum-dryer models also being launched in top-end models.

JV to leverage existing distribution network of Voltas: Currently, Voltas has around 100 exclusive brand outlets and around 70% of its dealers (~16,000 touch points for Voltas) deal in other product categories and this network would be utilized by the JV. As per media reports, the JV aims to add 10,000 additional outlets, with Voltas also adding 500 more exclusive brand outlets over the next two years, taking it to over 1,000 in the next 3-4 years. The company would have a 360 degree approach with sales being generated via modern trade outlets, multi-brand outlets, exclusive outlets and e-commerce.

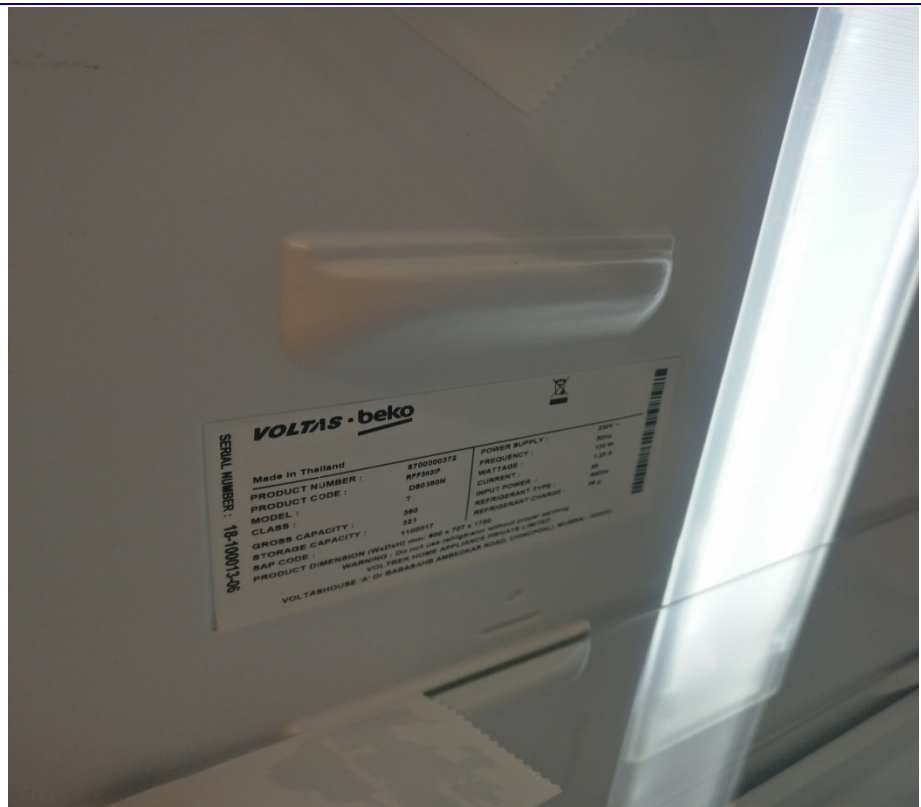
Products mostly imported till plant starts in Sanand, Gujarat in FY20. The products will initially be imported from Arcelik's plants in Thailand and Turkey. However, from next year the company will start manufacturing some of these products in its up-coming plant in Sanand, Gujarat, spread over 60 acres. Production is slated to begin from mid-CY19 onwards and the factory would have a capacity of 1m refrigerators and washing machines along with 0.5m microwaves. It aims to invest INR10b in its manufacturing, distribution and marketing spends over the next five years with both companies investing equally in the JV. Our channel checks indicate that the washing machines are being made by Vimal Plast, while the remaining products are being imported from the Arcelik factory in Thailand.

Valuation and view

We maintain our Neutral rating and target price of INR540, which values the core UCP segment at 32x FY20E EPS and 15x for the remaining business. We currently do not ascribe any value to the Voltas-Arcelik JV as we expect losses in the first few years until: (a) manufacturing starts at its factory in Sanand, Gujarat, in FY20; (b) volumes scale up driven by market share gains to make the venture successful; and (c) high advertising and promotion spends are planned to establish the brand in the durables segment (ex-AC). In our view, if the JV is able to achieve its targeted sales of INR100b by FY25 with EBITDA margins of 10%, we get a DCF-based value of ~INR80/share for Voltas.

A tall, dark grey refrigerator with a top freezer compartment. The top door has a blue '12' energy rating sticker, a 'No Frost' logo, and a 'Super Frost' logo. The bottom door has a small circular handle.

Exhibit 2: Refrigerators manufactured in Thailand and imported into India



3

Exhibit 3: “Store Fresh” with blue light to keep vegetables fresh; beverage holder



Source: MOSL, Industry

Exhibit 4: ‘Volt Beko’ range of fully-auto front-load washing machines



Source: MOSL, Industry

Exhibit 5: ‘Volt Beko’ fully-automatic top-load washing machines



Source: MOSL, Industry

Exhibit 6: ‘Volt Beko’ fully-automatic top-load washing machine-9 kg



Source: MOSL, Industry

Exhibit 7: Semi-automatic top-load 8kgs washing machine



Source: MOSL, Industry

Exhibit 8: ‘Voltas Beko’ fully-automatic front-load 8kgs with ‘A+++’ rating



Source: MOSL, Industry

Exhibit 9: Touch points by players in the Home Appliances category

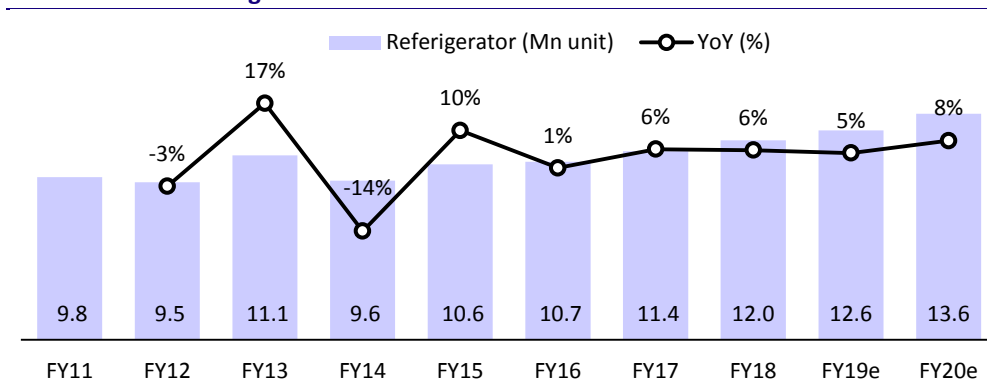
Company Name	No. of retail Touch points
Voltas	16,000
Blue Star	4,500
Daikin	5,000
Hitachi	9,698
LG	20,000+
Lloyd Electric	>10000
Whirlpool	35,000
Kenstar	3,500
Symphony	23,400
Micromax	4,000
Intex	10,000
Samsung	>150,000
Carrier Midea	3,200

Source: MOSL, Industry

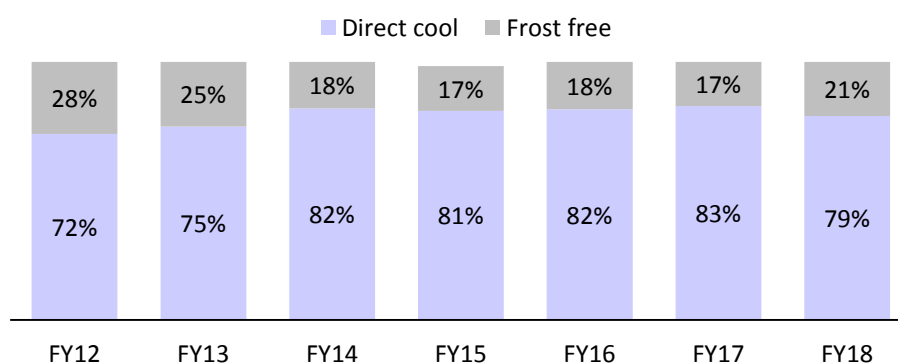
Exhibit 10: DCF valuation for the Voltas-Arcelik JV assuming INR100b sales in FY25

Description	Amount
FY25 targeted sales (INRb)	100,000
EBITDA	10,000
Margin (%)	10%
Depreciation	720
PBT	9,280
PAT for the JV	6,310
PAT for Voltas (49% stake)	3,092
PE Multiple	25
Value for Voltas's share in JV	77,302
PV of JV	27,099
Value per share (INR) for Voltas	82

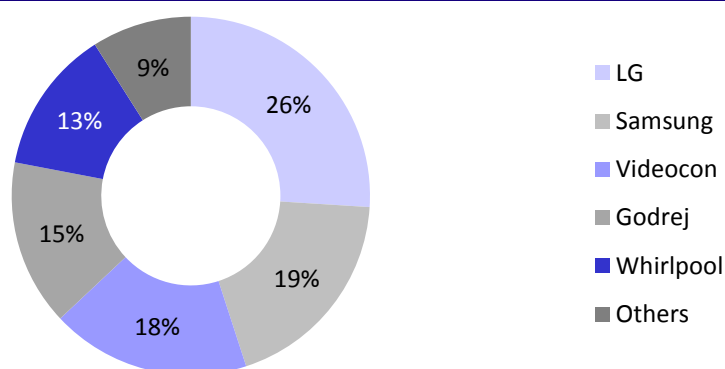
Source: MOSL, Industry

Exhibit 11: India Refrigerator market volumes and YoY Growth

Source: Industry, MOSL

Exhibit 12: Mix of direct-cool and frost-free in industry refrigerator sales

Source: Industry, MOSL

Exhibit 13: Market share in the Indian refrigerator market

Source: Industry, MOSL

Exhibit 14: Refrigerator pricing across brands (260/275litres double-door frost-free, 3-star)

Brand	Price (INR/unit)
LG (260litre)	23,499
Whirlpool (265litre)	20,749
Haier (260litres)	19,899
Samsung (275litres)	25,400

Source: Amazon, MOSL

Exhibit 15: Refrigerator pricing across brands (290/300litres double-door frost-free, 3-star)

Brand	Price (INR/unit)
Whirlpool (292litres)	25,349
Bosch (288litres)	26,638
Samsung (292litres)	28,400
Godrej (290litre)	21,990
LG (308litres)	30,999

Source: Amazon, MOSL

Exhibit 16: Refrigerator pricing across brands (350/400litres double-door frost-free, 3-star)

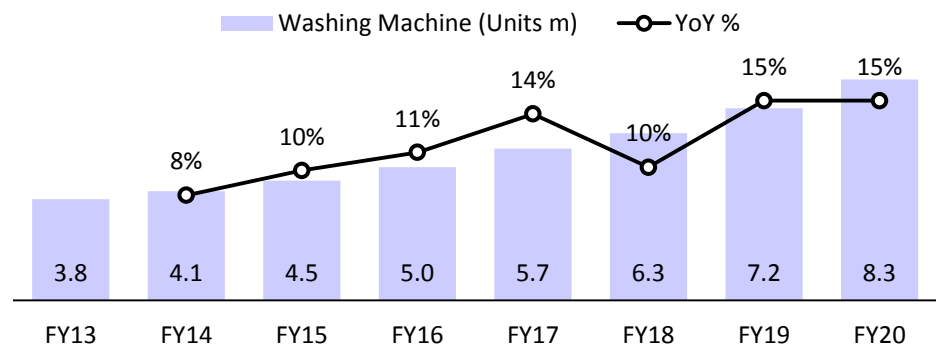
Brand	Price (INR/unit)
Samsung (345litres)	33,099
Haier (345litres)	32,499
Godrej (311litres)	22,999
Whirlpool (355litres)	29,490
LG (360litres)	38,749

Source: Amazon, MOSL

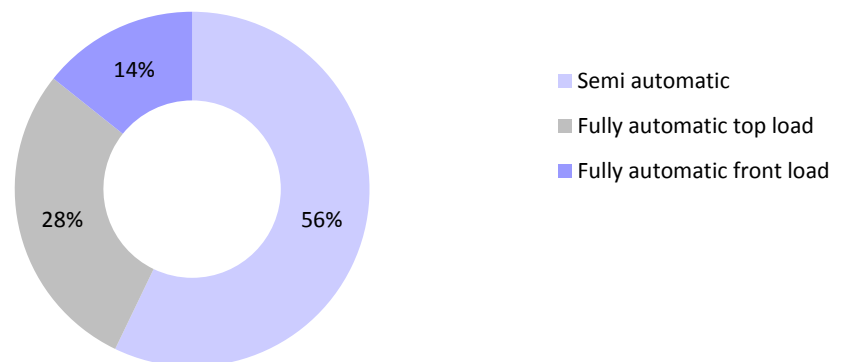
Exhibit 17: Refrigerator pricing across brands (>400litres double-door frost-free, 3-star)

Brand	Price (INR/unit)
LG (471litres)	57,990
Whirlpool (440litres)	43,990
Samsung (476litres)	55,200
Hitachi (565litres)	59,999

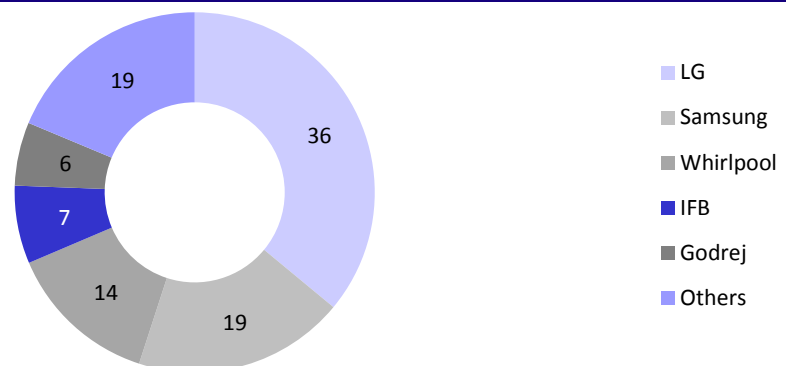
Source: Amazon, MOSL

Exhibit 18: India Washing machine volumes and growth (%)

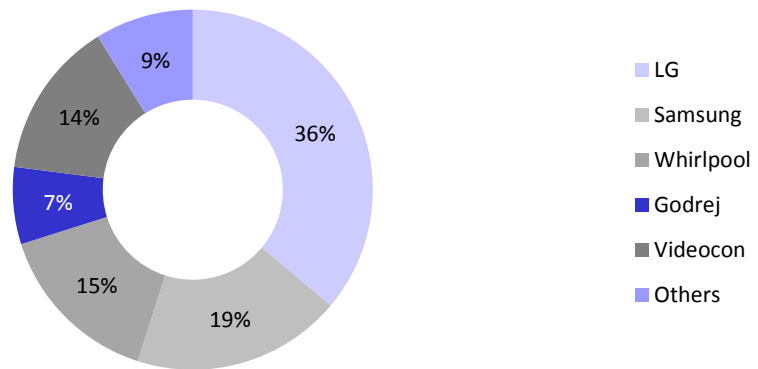
Source: Industry, MOSL

Exhibit 19: Break-up of washing machine volumes by type

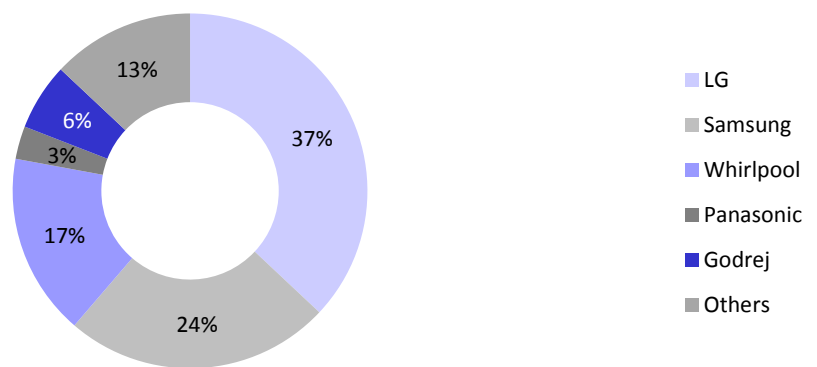
Source: Industry, MOSL

Exhibit 20: Market share by players in the Indian washing machine industry

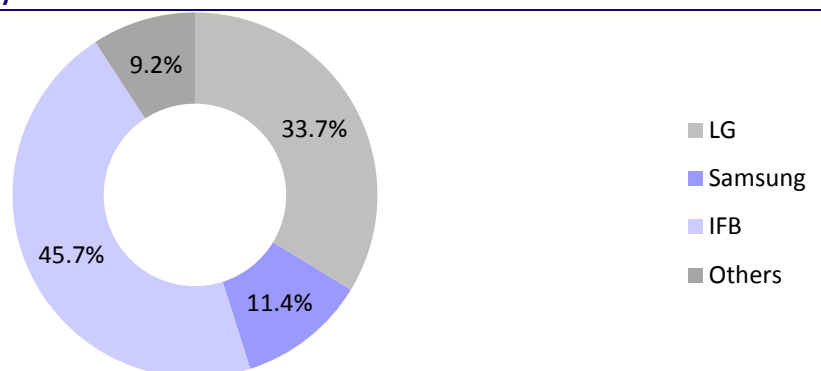
Source: Industry, MOSL

Exhibit 21: Market share by player in the Indian semi-automatic washing machine industry

Source: Industry, MOSL

Exhibit 22: Market share by players in the Indian fully-automatic top-load washing machine industry

Source: Industry, MOSL

Exhibit 23: Market share by player in the Indian fully-automatic front-load washing machine industry

Source: Industry, MOSL

Exhibit 24: Washing machine pricing across brands (6-7kgs, Semi-automatic top-load)

Brand	Price (INR/unit)
LG (6.5kgs)	9,999
Whirlpool(6kgs)	8,590
Godrej(6.2kgs)	8,290
Samsung 6.5kgs	9,999
Whirlpool(6.5kgs)	8,990

Source: Amazon, MOSL

Exhibit 25: Washing machine pricing across brands (7-8kgs, Semi-automatic top-load)

Brand	Price (INR/unit)
Whirlpool(7kgs)	8,990
Samsung(7.2kgs)	10,500
LG (7 kgs)	11,240
BPL (7.2kgs)	7,490
Mitashi (7kgs)	7,999
Whirlpool(7.5kgs)	10,240
LG (7.5kgs)	14,200

Source: Amazon, MOSL

Exhibit 26: Washing machine pricing across brands (8kgs and above, Semi-automatic top-load)

Brand	Price (INR/unit)
LG(8 kgs)	12,990
Whirlpool(8kgs)	11,490
Godrej (8kgs)	11,690
Samsung (8.5kgs)	13,890
Whirlpool(8.5kgs)	12,690
LG(8.5kgs)	14,200
LG (9 kgs)	15,990
Whirlpool(9.5kgs)	14,490
LG (10kgs)	17,750

Source: Amazon, MOSL

Exhibit 27: Washing machine pricing across brands (6-7kgs, Fully-automatic top-load)

Brand	Price (INR/unit)
Bosch(6.5kg)	15,490
LG(6.2kg)	15,590
BPL(6.2kg)	9,990
Whirlpool(6.2kg)	12,990
IFB(6.5kg)	15,250
Samsung(6.2kg)	15,090

Source: Amazon, MOSL

Exhibit 28: Washing machine pricing across brands (7-8kgs, Fully-automatic top-load)

Brand	Price (INR/unit)
Whirlpool(7kg)	21,990
Godrej(7kg)	14,699
LG (7kg)	21,990
Bosch(7kg)	18,990
IFB(7kg)	19,490
Samsung(7.2kg)	22,690
BPL(7.2kg)	11,190
Mitashi (7.5kg)	11,690
Whirlpool(7.5kg)	23,060

Source: Amazon, MOSL

Exhibit 29: Washing machine pricing across brands (8kgs and above, Fully-automatic top- load)

LG(8kg)	26,890
Whirlpool(8kg)	25,999
IFB(8kg)	30,990
Bosch(8kg)	26,600
LG(9kg)	30,490
Samsung(9kg)	30,900
IFB(9.5kg)	32,900
LG(10kg)	37,290
Whirlpool(10kg)	31,485
Bosch(10kg)	27,900

Source: Amazon, MOSL

Exhibit 30: Washing machine pricing across brands (6-7kg, Fully-automatic front-load)

Brand	Price (INR/unit)
Bosch(6kg)	19,999
LG (6kg)	25,490
IFB (6kg)	21,990
Godrej(6kgs)	21,190
Bosch(6.5kg)	24,990
Samsung (6.5kg)	24,899
IFB(6.5kgs)	29,399
LG(6.5kgs)	29,490

Source: Amazon, MOSL

Exhibit 31: Washing machine pricing across brands (7-8kg, Fully-automatic front-load)

Brand	Price (INR/unit)
Bosch(7kg)	28,990
IFB(7kg)	26,999
LG(7kg)	31,999
Godrej(7kgs)	23,990
BPL(7.5kg)	16,990

Source: Amazon, MOSL

Exhibit 32: Washing machine pricing across brands (8kg and above, Fully-automatic front- load)

Brand	Price (INR/unit)
IFB(8kgs)	32,990
Samsung(8kgs)	38,490
LG(8kgs)	41,990
IFB(8.5kgs)	40,880
Bosch(8kgs)	39,600
Samsung(9kgs)	58,270
LG(9kgs)	47,990

Source: Amazon, MOSL

Financials and Valuations

Income Statement						(INR Million)
Y/E March	2015	2016	2017	2018	2019E	2020E
Total Revenues	51,831	57,198	60,328	64,044	71,697	79,584
Change (%)	-2	10	5	6	12	11
Raw Materials	35,974	40,871	42,359	45,675	50,892	57,078
Staff Cost	5,899	6,351	6,184	5,867	6,535	6,829
Other Expenses	5,857	5,646	5,994	5,875	6,268	6,566
EBITDA	4,100	4,330	5,791	6,626	8,002	9,110
% of Total Revenues	7.9	7.6	9.6	10.3	11.2	11.4
Other Income	1,087	1,367	1,998	1,741	1,143	1,310
Depreciation	280	264	245	244	252	263
Interest	233	158	160	119	94	80
Exceptional Items	462	289	11	6	0	0
PBT	5,136	5,275	7,395	8,011	8,798	10,077
Tax	1,276	0	2,089	2,270	2,552	2,922
Rate (%)	25	0	28	28	29	29
Adjusted PAT	3,860	3,642	5,114	5,779	6,222	7,130
Extra-ordinary Income (net)	0	0	0	0	0	0
Reported PAT	3,860	3,931	5,114	5,779	6,222	7,130
Change (%)	57	2	30	13	8	15
Adj. Consolidated PAT	3,381	3,931	5,114	5,724	6,222	7,130
Change (%)	51	16	30	12	9	15

Balance Sheet						(INR Million)
Y/E March	2015	2016	2017	2018	2019E	2020E
Share Capital	331	331	331	331	331	331
Reserves	20,690	27,780	32,735	38,721	43,274	48,490
Net Worth	21,021	28,111	33,066	39,052	43,605	48,821
Minority Intetest	161	267	285	317	317	317
Loans	1,217	2,707	1,709	1,423	1,423	1,423
Deferred Tax Liability	(349)	(311)	(198)	(46)	(277)	(447)
Capital Employed	22,049	30,775	34,863	40,746	45,068	50,114
Gross Fixed Assets	4,114	5,218	5,165	5,262	5,396	5,597
Less: Depreciation	2,223	2,890	2,889	3,013	3,266	3,528
Net Fixed Assets	1,891	2,327	2,276	2,248	2,130	2,068
Capital WIP	44	13	6	41	-	-
Investments	10,939	19,458	22,679	27,536	29,536	30,536
Goodwill	798	723	723	723	723	723
Curr. Assets	34,844	35,863	38,808	42,370	50,595	57,952
Inventory	8,671	7,247	9,070	8,130	9,101	10,103
Debtors	21,051	13,672	14,541	15,703	17,579	19,513
Cash & Bank Balance	2,516	1,855	3,314	2,837	6,337	8,826
Loans & Advances	2,606	935	935	1,218	1,364	1,514
Current Liab. & Prov.	26,466	27,610	29,628	32,172	37,780	40,845
Creditors	15,414	17,488	19,946	21,764	23,383	24,865
Other Liabilities	11,051	10,122	9,682	10,408	14,397	15,980
Net Current Assets	8,378	8,253	9,180	10,198	12,815	17,107
Application of Funds	22,050	30,775	34,863	40,747	45,204	50,434

Financials and Valuations

Ratios

Y/E March	2015	2016	2017	2018	2019E	2020E
Basic (INR)	10.2	11.9	15.5	17.3	18.8	21.5
Adj EPS	10.2	11.9	15.5	17.3	18.8	21.5
Cash EPS	11.1	12.7	16.2	18.0	19.6	22.3
Book Value	63.6	85.0	100.0	118.0	131.7	147.5
DPS	2.3	2.6	3.5	4.0	4.3	5.0
Payout (incl. Div. Tax.)	23.3	27.1	26.2	26.8	26.8	26.8

Valuation (x)

P/E	22.6	45.1	32.2	28.8	26.4	23.1
Cash P/E	20.9	42.1	30.7	27.6	25.4	22.3
EV/EBITDA	18.3	38.2	28.1	24.6	19.9	17.2
EV/Sales	1.5	2.9	2.7	2.5	2.2	2.0
Price/Book Value	3.6	5.8	5.0	4.2	3.8	3.4
Dividend Yield (%)	1.0	0.5	0.7	0.8	0.9	1.0

Profitability Ratios (%)

RoE	17.2	14.8	18.0	15.9	15.1	15.4
RoCE	16.6	13.9	16.5	15.3	14.8	15.1
RoIC	28.1	29.4	41.8	46.1	54.7	60.0

Turnover Ratios

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

Leverage Ratio

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

Y/E March	2015	2016	2017	2018	2019E	2020E
PBT before EO Items	5,136	5,275	7,384	8,005	8,798	10,077
Add : Depreciation	280	264	245	244	252	263
Interest	233	-	-	-	-	-
Less : Direct Taxes Paid	(1,276)	(1,696)	(2,089)	(2,270)	(2,552)	(2,922)
(Inc)/Dec in WC	1,425	(537)	533	(1,496)	884	(1,803)
CF from Operations	5,798	3,384	6,084	4,483	7,383	5,615
(Inc)/Dec in FA	58	(213)	(213)	(213)	(213)	(213)
Free Cash Flow	5,856	3,171	5,871	4,270	7,170	5,402
Investment in liquid assets	(3,619)	(8,520)	(3,221)	(2,922)	(2,000)	(1,000)
CF from Investments	(3,561)	(8,733)	(3,434)	(3,135)	(2,213)	(1,213)
(Inc)/Dec in Debt	(1,412)	1,491	(998)	(286)	-	-
Less : Interest Paid	(233)	-	-	-	-	-
Dividend Paid	(894)	(988)	(1,337)	(1,534)	(1,669)	(1,913)
CF from Fin. Activity	(2,539)	4,650	(1,157)	(1,821)	(1,669)	(1,913)
Inc/Dec of Cash	(302)	(699)	1,493	(473)	3,501	2,489
Add: Beginning Balance	2,818	2,516	1,817	3,310	2,837	6,337
Closing Balance	2,516	1,855	3,314	2,837	6,337	8,826

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
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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