

BSE SENSEX  
36,432

S&P CNX  
10,952

**CMP: INR577 TP: INR600 (+4%)**

**Neutral**

## VOLTAS

### Stock Info

Bloomberg	VOLT IN
Equity Shares (m)	331
M.Cap.(INRb)/(USDb)	190.9 / 2.7
52-Week Range (INR)	675 / 471
1, 6, 12 Rel. Per (%)	1/9/-17
12M Avg Val (INR M)	917
Free float (%)	69.7

### Financials Snapshot (INR b)

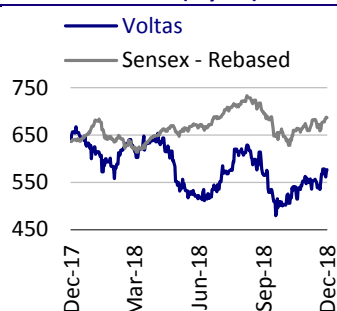
Y/E Mar	2018	2019E	2020E
Net Sales	64.0	72.1	78.6
EBITDA	6.6	7.4	8.3
Adj PAT	5.7	5.7	6.5
EPS(INR)	17.3	17.4	19.5
EPS Gr. (%)	11.9	0.4	12.5
BV/Sh. (INR)	118.0	130.7	145.0
RoE (%)	15.9	14.0	14.2
RoCE (%)	15.3	13.9	13.9
P/E (x)	33.4	33.2	29.5
P/BV (x)	4.9	4.4	4.0

### Shareholding pattern (%)

As On	Sep-18	Jun-18	Sep-17
Promoter	30.3	30.3	30.3
DII	32.3	32.7	28.6
FII	15.9	15.5	20.1
Others	21.5	21.6	21.0

FII Includes depository receipts

### Stock Performance (1-year)



## FY19 – a challenging year for Room AC segment

### Voltas-Beko facility to be ready by Dec'19

We met VOLT's management. Key takeaways from the meeting are as below:

#### UCP sales seen flattish in FY19

- Voltas' 1HFY19 room air-conditioner (AC) sales saw muted growth of 6% as a result of unseasonal rains and hailstorms across North and South India. Although, 3QFY19 sales witnessed a pick-up in the western region due to a rise in temperature, rest of India saw tepid sales given a seasonally weak quarter (3QFY18 was a very strong quarter for the UCP segment on inventory clearance done by VOLT as new Energy norms came into existence from Jan'18). Given that Voltas has two months inventory yet to be cleared from the system, the company anticipates FY19 to be flattish for the UCP segment.
- VOLT has been unable to take price hikes given (a) demand weakness in the Room AC segment, and (b) higher inventory prevailing in the system. Thus, margins are facing downward pressure on account of high competitive intensity, INR depreciation, and import duty hike in the segment.
- Voltas currently imports indoor units and compressors whereas outdoor units are assembled at its Pantnagar facility for requirements in the northern region. For rest of India, it is outsourced to domestic OEMs. by FY20, VOLT plans to manufacture its own molds for indoor units to de-risk its business model from Chinese imports.
- Voltas expects inverter AC share to stabilize around current levels (40-45% of the total Room AC sales) given that incremental growth is seen coming from tier-II/III cities where quality of electricity supply is still inferior as compared to tier-I cities. For VOLT, top 35 cities constitute 75% of the total volume.
- 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 increased distribution in tier-II/III cities. VOLT has ~15,000 touch points across the country.

### Arcelik JV facility to be up for manufacturing by Dec'19

- Post the commercial launch of its products, VoltBeko has been selectively available in metro cities and Exclusive Brand Outlets established in tier-II cities (Bokaro, Ranchi, etc.). VoltBeko products are available through its parent owned ecommerce portal 'Tata Cliq' and the company is in the process to tie up with other major ecommerce players.
- Currently, VoltBeko products are imported except for the twin-tub top-loading washing machine, which is sourced from domestic OEMs. VoltBeko factory should be ready by Dec'19 for manufacturing refrigerators, washing machines, microwave ovens and dishwashers. The initial capital commitment by the JV partners is INR6.5b, but as the manufacturing and distribution operations expand, the partners would infuse more equity capital in the JV.

- Current focus is on getting the peripheral ecosystem ready (sales network, after sales service network and dealer network) and then push the products through the existing Room AC distribution network. VOLT has existing distribution network of 15,000+ touch points, of which it plans to use 85% for its white goods products.
- VOLT expects product penetration to happen gradually. Products should be available at its existing distribution network for the Apr'19 season.
- VOLT expects the JV to attain break-even in the next 2-3 years and targets to reach INR100b revenue by 2025. It aims to rank amongst the top-3 players in the market.

#### Project segment – government orders the primary driver

- Ordering is primarily driven by rural electrification and urban infrastructure projects by the government. Key end markets are seeing an uptick, including metro rail, modernization of airports, 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 as of now intends to refrain from participating in the tenders for Qatar FIFA 2022 world cup orders given the current embargo. Current outstanding orders from Qatar stands at INR2b, which it intends to complete by Mar'19.
- Dubai Expo related ordering is now almost complete and it does not expect any further orders related to it in the future. VOLT has received orders for the Dubai Expo Convention Center.
- MEP segment margins are supported by INR depreciation and better margin rural electrification projects. VOLT expects margins to be stable at 7.0-7.5% for its current order backlog of INR50b.

#### Valuation and view

We cut our earnings by 3% for FY19 and FY20 to factor in lower sales in the UCP segment. We build in flattish growth from the UCP segment in FY19 versus our earlier estimate of 5% growth. We maintain our **Neutral** rating, with a revised SOTP-based price target of INR600 as we roll forward our target price to FY21 (UCP business at 35x FY21E EPS; EMP and Engineered Products business at 15x FY21E EPS).

#### Exhibit 1: Change in estimates

Description	New Estimate			Old Estimate		Change in estimate (%)	
	FY18	FY19	FY20	FY19	FY20	FY19	FY20
Sales	64,044	72,109	78,611	73,722	80,466	-2	-2
EBITDA	6,626	7,397	8,340	7,604	8,591	-3	-3
Margin (%)	10.3	10.3	10.6	10.3	10.7	-0.1	-0.1
PAT	5,718	5,746	6,466	5,895	6,647	-3	-3
EPS	17.3	17.4	19.5	17.8	20.1	-3	-3

Source: Company, MOSL

**Exhibit 2: Voltas SOTP valuation**

Name of segment	Mar-21	Multiple	Value/Share
Unitary Cooling Products	13.1	35	460
Engineered Products Services	2.5	15	37
Electro Mechanical Products	6.8	15	103
<b>Total</b>			<b>600</b>

Source: MOSL

**Exhibit 3: Operating matrix**

INR M	FY16	FY17	FY18	FY19E	FY20E	FY21E
Order Book	39,140	43,210	50,620	52,375	56,419	61,629
Domestic	25,441	30,247	35,434	36,663	39,493	43,140
International	13,699	12,963	15,186	15,713	16,926	18,489
YoY	3.6%	15.7%	9.6%	13.9%	13.9%	13.9%
<b>Order Inflows</b>	<b>22,500</b>	<b>27,850</b>	<b>34,440</b>	<b>37,884</b>	<b>41,672</b>	<b>45,840</b>
<b>Segmental Revenues</b>						
Electro mechanical projects	28,288	26,550	28,450	36,129	37,629	40,629
Engineering Products	3,706	3,318	3,099	3,254	3,417	3,588
Unitary Cooling products	25,209	30,469	32,260	32,260	37,099	42,664
Others	0	0	0	0	0	0
<b>Total Revenues</b>	<b>57,204</b>	<b>60,337</b>	<b>63,809</b>	<b>71,643</b>	<b>78,145</b>	<b>86,881</b>
EMP, % YoY	28.1%	-6.1%	7.2%	27.0%	4.2%	8.0%
Engg Products, % YoY	2.9%	-10.5%	-6.6%	5.0%	5.0%	5.0%
z	0.4%	20.9%	5.9%	0.0%	15.0%	15.0%
<b>Segmental PBIT</b>						
Electro mechanical projects	550	849	1,854	3,252	3,387	3,657
Engineering Products	1,127	956	992	1,107	1,162	1,220
Unitary Cooling products	3,381	4,403	4,749	4,129	5,008	5,760
<b>Total PBIT</b>	<b>5,058</b>	<b>6,208</b>	<b>7,595</b>	<b>8,488</b>	<b>9,557</b>	<b>10,637</b>
<b>Segmental PBIT, %</b>						
Electro mechanical projects	1.9	3.2	6.5	9.0	9.0	9.0
Engineering Products	30.4	28.8	32.0	34.0	34.0	34.0
Unitary Cooling products	13.4	14.5	14.7	12.8	13.5	13.5
<b>Total PBIT</b>	<b>8.9</b>	<b>9.5</b>	<b>9.5</b>	<b>9.0</b>	<b>10.1</b>	<b>11.2</b>
EPS (INR/sh)	11.0	15.4	17.3	17.4	19.5	22.0
NWC (Days)	40.8	35.5	42.0	33.0	38.0	43.0
<b>EPS Composition (INR/sh)</b>	<b>11.0</b>	<b>15.4</b>	<b>17.3</b>	<b>17.4</b>	<b>19.5</b>	<b>22.0</b>
Electro mechanical projects	1.0	2.7	4.5	5.9	5.8	6.4
Engineering Products	2.4	2.8	2.0	2.1	2.3	2.5
Unitary Cooling products	7.7	10.0	10.8	9.4	11.4	13.1

## Financials and valuations

Income Statement						(INR Million)
Y/E March	2016	2017	2018	2019E	2020E	2021E
<b>Total Revenues</b>	<b>57,198</b>	<b>60,328</b>	<b>64,044</b>	<b>72,109</b>	<b>78,611</b>	<b>87,347</b>
Change (%)	10	5	6	13	9	11
Raw Materials	40,871	42,359	45,675	51,908	56,875	64,022
Staff Cost	6,351	6,184	5,867	6,535	6,829	7,137
Other Expenses	5,646	5,994	5,875	6,268	6,566	6,880
<b>EBITDA</b>	<b>4,330</b>	<b>5,791</b>	<b>6,626</b>	<b>7,397</b>	<b>8,340</b>	<b>9,308</b>
% of Total Revenues	7.6	9.6	10.3	10.3	10.6	10.7
Other Income	1,367	1,998	1,741	1,243	1,380	1,501
Depreciation	264	245	244	252	263	273
Interest	158	160	119	184	226	192
Exceptional Items	289	11	6	0	0	0
<b>PBT</b>	<b>5,275</b>	<b>7,395</b>	<b>8,011</b>	<b>8,203</b>	<b>9,231</b>	<b>10,345</b>
Tax	0	2,089	2,270	2,297	2,585	2,896
Rate (%)	0	28	28	28	28	28
<b>Adjusted PAT</b>	<b>3,642</b>	<b>5,114</b>	<b>5,779</b>	<b>5,826</b>	<b>6,546</b>	<b>7,348</b>
Extra-ordinary Income (net)	0	0	0	0	0	0
<b>Reported PAT</b>	<b>3,931</b>	<b>5,114</b>	<b>5,779</b>	<b>5,826</b>	<b>6,546</b>	<b>7,348</b>
Change (%)	2	30	13	1	12	12
<b>Adj. Consolidated PAT</b>	<b>3,931</b>	<b>5,114</b>	<b>5,724</b>	<b>5,746</b>	<b>6,466</b>	<b>7,268</b>
Change (%)	16	30	12	0	13	12

Balance Sheet						(INR Million)
Y/E March	2016	2017	2018	2019E	2020E	2021E
Share Capital	331	331	331	331	331	331
Reserves	27,780	32,735	38,721	42,926	47,657	52,975
<b>Net Worth</b>	<b>28,111</b>	<b>33,066</b>	<b>39,052</b>	<b>43,257</b>	<b>47,988</b>	<b>53,306</b>
<b>Minority Intetest</b>	<b>267</b>	<b>285</b>	<b>317</b>	<b>317</b>	<b>317</b>	<b>317</b>
Loans	2,707	1,709	1,423	3,423	3,423	3,423
Deferred Tax Liability	(311)	(198)	(46)	74	254	434
<b>Capital Employed</b>	<b>30,775</b>	<b>34,863</b>	<b>40,746</b>	<b>47,071</b>	<b>51,982</b>	<b>57,480</b>
Gross Fixed Assets	5,218	5,165	5,262	5,475	5,688	5,901
Less: Depreciation	2,890	2,889	3,013	3,266	3,528	3,801
<b>Net Fixed Assets</b>	<b>2,327</b>	<b>2,276</b>	<b>2,248</b>	<b>2,209</b>	<b>2,159</b>	<b>2,100</b>
Capital WIP	13	6	41	-	-	-
Investments	19,458	22,679	27,536	29,536	30,536	31,536
Goodwill	723	723	723	723	723	723
<b>Curr. Assets</b>	<b>35,863</b>	<b>38,808</b>	<b>42,370</b>	<b>52,599</b>	<b>58,909</b>	<b>66,753</b>
Inventory	7,247	9,070	8,130	9,154	9,979	11,088
Debtors	13,672	14,541	15,703	17,680	19,275	21,416
Cash & Bank Balance	1,855	3,314	2,837	8,087	10,384	12,836
Loans & Advances	935	935	1,218	1,372	1,495	1,662
<b>Current Liab. &amp; Prov.</b>	<b>27,610</b>	<b>29,628</b>	<b>32,172</b>	<b>37,997</b>	<b>40,346</b>	<b>43,633</b>
Creditors	17,488	19,946	21,764	23,517	24,561	26,094
Other Liabilities	10,122	9,682	10,408	14,479	15,785	17,539
<b>Net Current Assets</b>	<b>8,253</b>	<b>9,180</b>	<b>10,198</b>	<b>14,602</b>	<b>18,563</b>	<b>23,121</b>
<b>Application of Funds</b>	<b>30,775</b>	<b>34,863</b>	<b>40,747</b>	<b>47,070</b>	<b>51,982</b>	<b>57,480</b>

## Financials and valuations

### Ratios

Y/E March	2016	2017	2018	2019E	2020E	2021E
<b>Basic (INR)</b>	11.9	15.5	17.3	17.4	19.5	22.0
<b>Adj EPS</b>	11.9	15.5	17.3	17.4	19.5	22.0
Cash EPS	12.7	16.2	18.0	18.1	20.3	22.8
Book Value	85.0	100.0	118.0	130.7	145.0	161.0
DPS	2.6	3.5	4.0	4.0	4.5	5.1
Payout (incl. Div. Tax.)	27.1	26.2	26.8	26.8	26.8	26.8

### Valuation (x)

P/E	52.7	37.6	33.6	33.4	29.7	26.4
Cash P/E	49.1	35.9	32.2	32.0	28.5	25.5
EV/EBITDA	44.5	32.9	28.8	25.3	22.2	19.6
EV/Sales	3.4	3.2	3.0	2.6	2.4	2.1
Price/Book Value	6.8	5.8	4.9	4.4	4.0	3.6
Dividend Yield (%)	0.4	0.6	0.7	0.7	0.8	0.9

### Profitability Ratios (%)

RoE	14.8	18.0	15.9	14.0	14.2	14.4
RoCE	13.9	16.5	15.3	13.9	13.9	14.0
RoIC	29.4	41.8	46.1	51.4	56.4	53.6

### Turnover Ratios

Debtors (Days)	87.2	88.0	89.5	89.5	89.5	89.5
Inventory (Days)	46.2	54.9	46.3	46.3	46.3	46.3
Creditors. (Days)	111.6	120.7	124.0	119.0	114.0	109.0
Asset Turnover (x)	1.9	1.7	1.6	1.5	1.5	1.5

### Leverage Ratio

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

Y/E March	2016	2017	2018	2019E	2020E	2021E
<b>PBT before EO Items</b>	5,275	7,384	8,005	8,203	9,231	10,345
Add : Depreciation	264	245	244	252	263	273
Interest	-	-	-	-	-	-
Less : Direct Taxes Paid	(1,696)	(2,089)	(2,270)	(2,297)	(2,585)	(2,896)
(Inc)/Dec in WC	(537)	533	(1,496)	846	(1,664)	(2,105)
<b>CF from Operations</b>	<b>3,384</b>	<b>6,084</b>	<b>4,483</b>	<b>7,005</b>	<b>5,244</b>	<b>5,615</b>
(Inc)/Dec in FA	(213)	(213)	(213)	(213)	(213)	(213)
<b>Free Cash Flow</b>	<b>3,171</b>	<b>5,871</b>	<b>4,270</b>	<b>6,792</b>	<b>5,031</b>	<b>5,402</b>
Investment in liquid assets	(8,520)	(3,221)	(2,922)	(2,000)	(1,000)	(1,000)
<b>CF from Investments</b>	<b>(8,733)</b>	<b>(3,434)</b>	<b>(3,135)</b>	<b>(2,213)</b>	<b>(1,213)</b>	<b>(1,213)</b>
(Inc)/Dec in Debt	1,491	(998)	(286)	2,000	-	-
Less : Interest Paid	-	-	-	-	-	-
Dividend Paid	(988)	(1,337)	(1,534)	(1,542)	(1,735)	(1,950)
<b>CF from Fin. Activity</b>	<b>4,650</b>	<b>(1,157)</b>	<b>(1,821)</b>	<b>458</b>	<b>(1,735)</b>	<b>(1,950)</b>
<b>Inc/Dec of Cash</b>	<b>(699)</b>	<b>1,493</b>	<b>(473)</b>	<b>5,250</b>	<b>2,297</b>	<b>2,452</b>
Add: Beginning Balance	2,516	1,817	3,310	2,837	8,087	10,384
<b>Closing Balance</b>	<b>1,855</b>	<b>3,314</b>	<b>2,837</b>	<b>8,087</b>	<b>10,384</b>	<b>12,836</b>

## NOTES

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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