

BSE SENSEX  
37,752

S&P CNX  
11,342

**CMP: INR618**

**TP: INR590(-5%)**

**Neutral**

# VOLTAS

### Stock Info

Bloomberg	VOLT IN
Equity Shares (m)	331
52-Week Range (INR)	204.6 / 2.9
1, 6, 12 Rel. Per (%)	665 / 471
M.Cap. (INR b)	13/5/-15
Avg Val, INRm	876
Free float (%)	69.7

### Financials Snapshot (INR b)

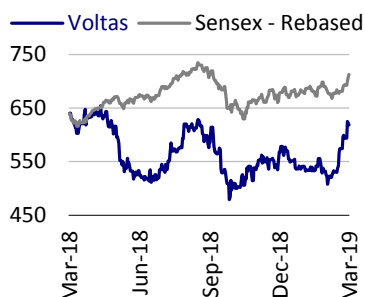
Y/E Mar	2019E	2020E	2021E
Net Sales	72.8	79.4	88.2
EBITDA	6.8	7.6	8.9
PAT	5.1	5.8	6.9
EPS (INR)	15.4	17.5	20.9
Gr. (%)	-11.1	14.1	19.4
BV/Sh (INR)	129.1	142.0	157.3
RoE (%)	12.7	12.9	14.0
RoCE (%)	13.3	13.3	14.3
P/E (x)	38.2	34.2	28.7
P/BV (x)	4.6	4.2	3.8

### Shareholding pattern (%)

As On	Dec-18	Sep-18	Dec-17
Promoter	30.3	30.3	30.3
DII	33.3	32.3	29.1
FII	14.6	15.9	20.0
Others	21.8	21.5	20.7

FII Includes depository receipts

### Stock Performance (1-year)



## Room AC industry to post double-digit growth in FY20

**UCP margins to sustain at 11-12%, earmarked INR5b capex for new facility**

**We recently met management of Voltas (VOLT). Key takeaways:**

- Expect Room AC industry to grow at 10% for FY20:** Voltas expects the Room AC industry to register double-digit growth in FY20 on back of a pick-up in demand in certain pockets of the country. VOLT expects volumes to increase in March- April (post the festive season of Holi). While the southern region has seen a surge in demand (Kerala witnessed demand pick-up), the northern region is yet to see any meaningful demand growth. Inventory levels have started to recede and primary channel filling has increased.
- UCP to see INR5b capex to meet southern/western market demand:** VOLT has earmarked capex of INR5b for a new facility in Tirupati, Andhra Pradesh, which will manufacture molding for Room ACs, air coolers and commercial refrigeration. The new facility will come up in phases with the INR5b capex spread over the next five years; annual capex will be in the range of INR1b. VOLT expects the factory to start in 2H 2020.
- UCP margins to settle around 11-12% on sustainable basis:** VOLT expects UCP margins to settle around 11-12% on sustainable basis, despite its inability to take price hikes given the subdued demand, INR depreciation and increase in competition, raw material cost, and import duty on compressors and completely built units (CBUs). EBIT margins for 9MFY19 for the UCP segment stood at 9.1%. For Volt to achieve its EBIT margin guidance of 11-12% in FY19, the company will need its EBIT margins in 4QFY19 to be around 15-16%. 4Q margins for VOLT over the last five years stood at an average of 16.9%.
- The Arcelik JV facility to be operational by Dec'19:** Post the commercial launch of its products, VoltBeko is currently available in select metro cities and in exclusive brand outlets established in Tier-II cities (Bokaro, Ranchi, etc.). The initial capital commitment to the JV is USD100m by both partners. Currently, VoltBeko products are imported, but the new facility should be ready by Dec'19 to manufacture refrigerators, washing machines, microwave ovens and dishwashers. Post commencement of the new facility, VOLT expects sales to pick up meaningfully.
- Government orders — the primary driver for Projects' segment:** Ordering is primarily driven by the government's rural electrification and urban infrastructure projects. Key end-markets are seeing an uptick, including the metro rail and the modernization of airports, hospitals and educational institutions. However, private capex remains weak and is yet to see any significant on-the-ground revival. Orders in the Middle East are being

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supported by Emirates, which has robust capex plans (driven by Emirates' 7-year Vision document). Currently, VOLT intends to refrain from participating in the tender process for Qatar's FIFA 2022 world cup order, given the embargo status. VOLT expects margins to be stable at 7.0-7.5% for its current order backlog of INR50b.

- **Valuation and View:** We maintain our **Neutral** rating given VOLT's expensive valuations, near-term demand and margin-related headwinds in the core UCP business. We value the company on SOTP basis with price target of INR590 (UCP business at 35x FY21E EPS; EMP and Engineered Products business at 15x FY21E EPS).

**Exhibit 1: SOTP valuation**

Name of segment	Mar-21	Multiple	Value/Share
Unitary Cooling Products	13.1	35	459
Engineered Products Services	2.3	15	35
Electro Mechanical Products(incl. non allocable)	6.2	15	96
<b>Total</b>	<b>21.0</b>		<b>590</b>

**Exhibit 2: Operating matrix**

INR M	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Order Book</b>	<b>39,140</b>	<b>43,210</b>	<b>50,620</b>	<b>52,375</b>	<b>56,419</b>	<b>61,629</b>
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	32,905	37,841	43,517
Others	0	0	0	0	0	0
<b>Total Revenues</b>	<b>57,088</b>	<b>65,626</b>	<b>80,352</b>	<b>94,789</b>	<b>94,789</b>	<b>94,789</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%
UCP, % YoY	0.4%	20.9%	5.9%	2.0%	15.0%	15.0%
<b>Segmental PBIT</b>						
Electro mechanical projects	550	849	1,854	3,252	3,010	3,250
Engineering Products	1,127	956	992	1,042	1,094	1,149
Unitary Cooling products	3,381	4,403	4,749	4,014	4,919	5,788
<b>Total PBIT</b>	<b>5,058</b>	<b>6,208</b>	<b>7,595</b>	<b>8,308</b>	<b>9,024</b>	<b>10,187</b>
<b>Segmental PBIT, %</b>						
Electro mechanical projects	1.9	3.2	6.5	9.0	8.0	8.0
Engineering Products	30.4	28.8	32.0	32.0	32.0	32.0
Unitary Cooling products	13.4	14.5	14.7	12.2	13.0	13.3
<b>Total PBIT</b>	<b>8.9</b>	<b>9.5</b>	<b>9.5</b>	<b>8.8</b>	<b>9.5</b>	<b>10.7</b>
EPS (INR/sh)	11.0	15.4	17.3	15.7	17.5	20.9
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>15.7</b>	<b>17.5</b>	<b>20.9</b>
Electro mechanical projects	1.0	2.7	4.5	4.5	4.2	5.5
Engineering Products	2.4	2.8	2.0	2.1	2.2	2.3
Unitary Cooling products	7.7	10.0	10.8	9.1	11.2	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>72,754</b>	<b>79,353</b>	<b>88,200</b>
Change (%)	10	5	6	14	9	11
Raw Materials	40,871	42,359	45,675	53,539	58,526	65,394
Staff Cost	6,351	6,184	5,867	6,535	6,829	7,137
Other Expenses	5,646	5,994	5,875	5,885	6,439	6,746
<b>EBITDA</b>	<b>4,330</b>	<b>5,791</b>	<b>6,626</b>	<b>6,795</b>	<b>7,558</b>	<b>8,923</b>
% of Total Revenues	7.6	9.6	10.3	9.3	9.5	10.1
Other Income	1,367	1,998	1,741	1,666	1,672	1,564
Depreciation	264	245	244	253	306	400
Interest	158	160	119	341	226	80
Exceptional Items	289	11	6	-118	0	0
<b>PBT</b>	<b>5,275</b>	<b>7,395</b>	<b>8,011</b>	<b>7,750</b>	<b>8,697</b>	<b>10,007</b>
Tax	0	2,089	2,270	2,203	2,435	2,802
Rate (%)	0	28	28	28	28	28
<b>Adjusted PAT</b>	<b>3,642</b>	<b>5,114</b>	<b>5,779</b>	<b>5,167</b>	<b>5,882</b>	<b>7,005</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>5,167</b>	<b>5,882</b>	<b>7,005</b>
Change (%)	2	30	13	-11	14	19
<b>Adj. Consolidated PAT</b>	<b>3,931</b>	<b>5,114</b>	<b>5,724</b>	<b>5,087</b>	<b>5,802</b>	<b>6,925</b>
Change (%)	16	30	12	-11	14	19

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	42,411	46,657	51,724
<b>Net Worth</b>	<b>28,111</b>	<b>33,066</b>	<b>39,052</b>	<b>42,742</b>	<b>46,988</b>	<b>52,055</b>
<b>Minority Intetest</b>	<b>267</b>	<b>285</b>	<b>317</b>	<b>734</b>	<b>1,014</b>	<b>1,114</b>
Loans	2,707	1,709	1,423	5,423	1,423	1,423
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>48,973</b>	<b>49,679</b>	<b>55,026</b>
Gross Fixed Assets	5,218	5,165	5,262	5,513	7,513	9,513
Less: Depreciation	2,890	2,889	3,013	3,267	3,573	3,973
<b>Net Fixed Assets</b>	<b>2,327</b>	<b>2,276</b>	<b>2,248</b>	<b>2,247</b>	<b>3,940</b>	<b>5,540</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>54,805</b>	<b>55,206</b>	<b>61,286</b>
Inventory	7,247	9,070	8,130	9,236	10,073	11,196
Debtors	13,672	14,541	15,703	17,839	19,456	21,626
Cash & Bank Balance	1,855	3,314	2,837	9,895	6,223	6,842
Loans & Advances	935	935	1,218	1,384	1,510	1,678
<b>Current Liab. &amp; Prov.</b>	<b>27,610</b>	<b>29,628</b>	<b>32,172</b>	<b>38,337</b>	<b>40,727</b>	<b>44,059</b>
Creditors	17,488	19,946	21,764	23,728	24,793	26,348
Other Liabilities	10,122	9,682	10,408	14,609	15,934	17,711
<b>Net Current Assets</b>	<b>8,253</b>	<b>9,180</b>	<b>10,198</b>	<b>16,468</b>	<b>14,480</b>	<b>17,227</b>
<b>Application of Funds</b>	<b>30,775</b>	<b>34,863</b>	<b>40,747</b>	<b>48,974</b>	<b>49,679</b>	<b>55,026</b>

## Financials and Valuations

### Ratios

Y/E March	2016	2017	2018	2019E	2020E	2021E
<b>Basic (INR)</b>	11.9	15.5	17.3	15.4	17.5	20.9
<b>Adj EPS</b>	11.9	15.5	17.3	15.4	17.5	20.9
Cash EPS	12.7	16.2	18.0	16.1	18.5	22.1
Book Value	85.0	100.0	118.0	129.1	142.0	157.3
DPS	2.6	3.5	4.0	3.6	4.0	4.8
Payout (incl. Div. Tax.)	27.1	26.2	26.8	26.8	26.8	26.8

### Valuation (x)

P/E	56.1	40.1	35.8	39.3	35.3	29.5
Cash P/E	52.3	38.2	34.3	37.5	33.5	27.9
EV/EBITDA	47.4	35.0	30.7	29.4	26.4	22.3
EV/Sales	3.6	3.4	3.2	2.8	2.5	2.3
Price/Book Value	7.3	6.2	5.2	4.8	4.4	3.9
Dividend Yield (%)	0.4	0.6	0.6	0.6	0.7	0.8

### Profitability Ratios (%)

RoE	14.8	17.9	15.9	12.7	12.9	14.0
RoCE	13.9	16.5	15.3	13.3	13.3	14.3
RoIC	29.4	41.8	46.1	46.8	46.3	41.3

### 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	1.6	1.6

### Leverage Ratio

Debt/Equity (x)	0.1	0.1	0.0	0.1	0.0	0.0
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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	7,867	8,697	10,007
Add : Depreciation	264	245	244	253	306	400
Interest	-	-	-	-	-	-
Less : Direct Taxes Paid	(1,696)	(2,089)	(2,270)	(2,203)	(2,435)	(2,802)
(Inc)/Dec in WC	(537)	533	(1,496)	788	(1,683)	(2,129)
<b>CF from Operations</b>	<b>3,384</b>	<b>6,084</b>	<b>4,483</b>	<b>6,706</b>	<b>4,885</b>	<b>5,477</b>
(Inc)/Dec in FA	(213)	(302)	(252)	(252)	(2,000)	(2,000)
<b>Free Cash Flow</b>	<b>3,171</b>	<b>5,782</b>	<b>4,231</b>	<b>6,454</b>	<b>2,885</b>	<b>3,477</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>(3,523)</b>	<b>(3,174)</b>	<b>(2,252)</b>	<b>(3,000)</b>	<b>(3,000)</b>
(Inc)/Dec in Debt	1,491	(998)	(286)	4,000	(4,000)	-
Less : Interest Paid	-	-	-	-	-	-
Dividend Paid	(988)	(1,337)	(1,534)	(1,396)	(1,557)	(1,858)
<b>CF from Fin. Activity</b>	<b>4,650</b>	<b>(1,157)</b>	<b>(1,821)</b>	<b>2,604</b>	<b>(5,557)</b>	<b>(1,858)</b>
<b>Inc/Dec of Cash</b>	<b>(699)</b>	<b>1,404</b>	<b>(511)</b>	<b>7,058</b>	<b>(3,672)</b>	<b>619</b>
Add: Beginning Balance	2,516	1,817	3,221	2,837	9,895	6,223
<b>Closing Balance</b>	<b>1,855</b>	<b>3,225</b>	<b>2,710</b>	<b>9,895</b>	<b>6,223</b>	<b>6,842</b>

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

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