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Rating	Accumulate
Price	Rs593
Target Price	Rs702
Implied Upside	18.4%
Sensex	34,006
Nifty	10,455

(Prices as on February 09, 2018)

#### Trading data

Market Cap. (Rs bn)	196.2
Shares o/s (m)	330.7
3M Avg. Daily value (Rs m)	909.5

#### Major shareholders

Promoters	30.64%
Foreign	19.99%
Domestic Inst.	28.72%
Public & Other	20.65%

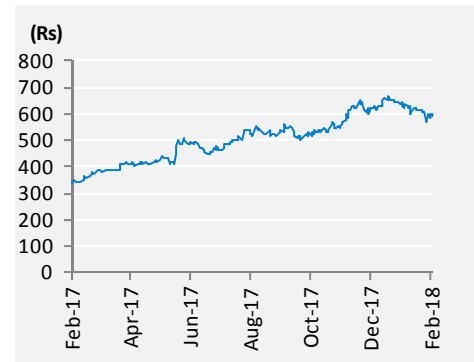
#### Stock Performance

(%)	1M	6M	12M
Absolute	(8.5)	12.5	73.0
Relative	(7.2)	5.5	53.0

#### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	18.9	20.4	-7.6
2020	21.8	23.1	-5.7

#### Price Performance (RIC: VOLT.BO, BB: VOLT IN)



Source: Bloomberg

Voltas reported PAT of Rs1bn (up 23% YoY) in Q3FY18 led by better margin in MEP/UCP segment and strong growth in Unitary Cooling Products segment. With improved quality of order book, the company is looking at delivering EBIT margin of ~6% (3.2% in FY17) in MEP segment in FY18. GCC countries continue to indicate a slow pickup in economic activity, mainly tied to the upcoming Mega Events in the geography. Voltas has adopted a cautious approach towards risk mitigated order booking looking at the political instability in Qatar. In the domestic market, government's focus on stepping up infrastructure and Voltas' strategy to broaden horizon in areas like urban infrastructure & transportation, electrical distribution, water treatment is helping support growth.

The quarter witnessed a pre-buying in room AC segment due to changes in energy efficiency norms for fixed speed air-conditioners from 1st January 2018. Voltas maintained its No. 1 position in the Unitary Cooling Products business with a market share of 23.7% at Multi-Brand Outlets. Voltas has ramped up its product basket, with the right mix in the energy efficiency segment which are being well received in the market. The share of inverter ACs has gone up to 17% of Split AC sales (was 15% in Q2FY18). The launch of products from Arcelik JV is expected in H2CY18 as company will get their product basket ready with the right products in terms of quality and variety. We remain positive on Voltas over medium to long term, given the improving margin profile of fresh orders, strong consumer business franchise, and structural growth in Room AC segment given the low penetration, healthy balance sheet and cash flow. We maintain 'Accumulate' with revised TP of Rs702 (previous Rs670) as we roll forward to March'20 earnings.

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#### Key financials (Y/e March)

	2017	2018E	2019E	2020E
Revenues (Rs m)	60,328	69,109	78,942	90,992
Growth (%)	5.5	14.6	14.2	15.3
EBITDA (Rs m)	5,791	6,704	7,736	8,917
PAT (Rs m)	5,296	5,779	6,241	7,208
EPS (Rs)	16.0	17.5	18.9	21.8
Growth (%)	50.7	9.1	8.0	15.5
Net DPS (Rs)	4.0	4.3	4.7	5.6

#### Profitability & Valuation

	2017	2018E	2019E	2020E
EBITDA margin (%)	9.6	9.7	9.8	9.8
RoE (%)	18.5	16.5	15.9	16.4
RoCE (%)	17.4	15.9	15.8	16.2
EV / sales (x)	3.2	2.8	2.4	2.1
EV / EBITDA (x)	33.6	28.8	24.5	21.1
PE (x)	37.0	33.9	31.4	27.2
P / BV (x)	5.9	5.3	4.7	4.2
Net dividend yield (%)	0.7	0.7	0.8	0.9

Source: Company Data; PL Research

- **Strong Revenue beat in MEP/UCP segment:** Voltas reported sales of Rs13.75bn, up 16.5% YoY (PLe: Rs13bn). Sales for MEP/Engineering products & services/Unitary Cooling Products grew by 7.2%/-13.9%/32% YoY respectively. EBITDA was up 33.3% YoY at Rs1.18bn (PLe: Rs1.05bn), also EBITDA margins were up by 110bps YoY to 8.6%. PAT was up 23% YoY to Rs1.0bn (PLe: Rs1.07bn).
- **MEP business –focus on profitability:** MEP segment revenue, up 7.2% YoY, reported EBIT margin of 7.1%, (up 320bps YoY). Strong margin in MEP was on account of better quality carry forward orders and efficient execution. Order book for the MEP segment was up by 15.6% YoY to Rs48.5bn. The company has significantly revamped order procurement and commercial support systems to **ensure better quality order book and is confident of ~6% EBIT margin in MEP segment for FY18.** Better project selection, execution and cost management have led to improvement in performance.
- The situation in GCC countries indicates a slow pickup in economic activity, mainly tied to the upcoming Mega Events in the geography. Projects spend relating to Expo 2020 has now started picking up with projects being awarded to main contractors. Voltas has adopted a cautious approach towards suitably risk mitigated order booking looking at the political instability in Qatar.
- Company's strategy to focus on Government projects and continuous efforts to pick up good quality work has held the domestic business in good stead. It sees even more opportunities for company's scope of work in the recent announcements by the Govt. on infrastructure and electrification projects.
- **Liquidation of JV partner:** Carillion PLC, a UK Contractor, one of the JV partner of the Main Contractor in the Dubai and Oman projects has filed for liquidation. Voltas does not foresee a material risk to its dues under these contracts but may experience some delays in receiving certifications and payments. Total contract assets of these projects are around Rs1.8bn. Both the projects are moving and execution is not hampered.
- **UCP – focusing on inverters:** Revenue for the UCP segment was up ~32% YoY to Rs5.4bn in a seasonally lean quarter. The quarter witnessed a pre-buying due to changes in energy efficiency norms for fixed speed air-conditioners from 1st January 2018. Management highlighted that with some pre buying, channel will be sitting on stock and hence strong summer will be important as Q4FY18 sales. The room AC market was up 7% YoY in Q3FY18 and 14% in 9MFY18. Voltas has ramped up its product basket, with the right mix in the energy efficiency segment which is well received in the market. With these products and allied marketing initiatives and wider product placements, company is improving its market share. Share of inverter ACs has gone up to 17% of Split AC sales (was 15% in Q2FY18). Despite intense competition and aggressive pricing, **Voltas continued to sustain its No. 1 position in the Room Air-Conditioner market (at Multi-Brand outlets) with a market share of 23.7% (was 23% in Q2).**

- **New Product Launch:** Voltas has launched India's first Window AC with Inverter Technology and will be competitively priced. The company witnessed a 50% growth in the air cooler sales as the shift from the unorganized to organized has been growing and it is now 4<sup>th</sup> in the segment.
- **NEW Consumer JV:** As regards the JV with Arcelik, it shall begin operations by H2CY18. The launch has been delayed to H2 as the company wants to be sure it enters the market with right products in terms of quality and variety. The sourcing would be done from Arcelik abroad and will be launched all over India. This provides the Company an opportunity to expand the established 'Voltas' brand and tap into India's growing consumer durables market. The current market size of the consumer durable market in India is ~Rs350bn (20mn units). The industry is expected to grow at 10-12% per annum. Voltas expects to reach a market share of 10% in a reasonable time frame.
- **Outlook and Valuation:** The stock is trading at 27.2x FY20E earnings. We remain positive on Voltas over medium/long, given improving margin profile of fresh orders, strong consumer business franchise, healthy balance sheet and cash flow and structural growth in Room AC segment given the low penetration. We maintain 'Accumulate' with a revised TP of Rs702 (previous Rs670) as we roll forward to March'20 earnings.

**Exhibit 1: Q3FY18 Result Overview (Rs m)**

Y/e March	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY19	9MFY18	9MFY17	YoY gr. (%)
<b>Net Sales</b>	13,747	11,805	16.5	10,367	43,560	39,977	9.0
<b>Expenditure</b>							
Raw Material	9,675	8,175	18.3	7,042	30,664	27,507	11.5
<i>% of Net Sales</i>	<i>70.4</i>	<i>69.3</i>		<i>67.9</i>	<i>70.4</i>	<i>68.8</i>	
Personnel Cost	1,503	1,478	1.6	1,453	4,433	4,700	(5.7)
<i>% of Net Sales</i>	<i>10.9</i>	<i>12.5</i>		<i>14.0</i>	<i>10.2</i>	<i>11.8</i>	
Others	1,383	1,262	9.6	1,016	4,297	4,199	2.3
<i>% of Net Sales</i>	<i>10.1</i>	<i>10.7</i>		<i>9.8</i>	<i>9.9</i>	<i>10.5</i>	
<b>Total Expenditure</b>	<b>12,561</b>	<b>10,915</b>	<b>15.1</b>	<b>9,510</b>	<b>39,394</b>	<b>36,406</b>	<b>8.2</b>
<b>EBITDA</b>	<b>1,186</b>	<b>890</b>	<b>33.3</b>	<b>857</b>	<b>4,166</b>	<b>3,572</b>	<b>16.6</b>
<i>Margin (%)</i>	<i>8.6</i>	<i>7.5</i>		<i>8.3</i>	<i>9.6</i>	<i>8.9</i>	
Other income	170	597	(71.4)	512	1,232	1,612	(23.6)
Depreciation	61	60	1.8	61	183	188	(2.9)
<b>EBIT</b>	<b>1,296</b>	<b>1,427</b>	<b>(9.2)</b>	<b>1,308</b>	<b>5,215</b>	<b>4,996</b>	<b>4.4</b>
Interest	19	22	(12.9)	22	76	103	(26.2)
<b>PBT</b>	<b>1,277</b>	<b>1,405</b>	<b>(9.1)</b>	<b>1,287</b>	<b>5,140</b>	<b>4,893</b>	<b>5.0</b>
Total Taxes	301	437	(31.1)	343	1,370	1,509	(9.2)
<i>ETR (%)</i>	<i>23.6</i>	<i>31.1</i>		<i>26.6</i>	<i>26.7</i>	<i>30.8</i>	
<b>PAT</b>	<b>976</b>	<b>968</b>	<b>0.8</b>	<b>944</b>	<b>3,769</b>	<b>3,384</b>	<b>11.4</b>
Reported PAT	976	968	0.8	944	3,769	3,384	11.4
Share of Profit /Loss of associate	29	(152)		10	19	(200)	(109.6)
<b>Net Profit</b>	<b>1,004</b>	<b>816</b>	<b>23.1</b>	<b>954</b>	<b>3,766</b>	<b>3,164</b>	<b>19.0</b>
Other Comprehensive income	102	(134)		444	1,010	491	
<b>Total Comprehensive income</b>	<b>1,106</b>	<b>681</b>	<b>62.4</b>	<b>1,398</b>	<b>4,796</b>	<b>3,655</b>	<b>31.2</b>

Source: Company Data, PL Research

**Exhibit 2: Q2FY18 Segmental overview (Rs m)**

Y/e March	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY19	9MFY18	9MFY17	YoY gr. (%)
<b>Revenue</b>							
Electro-mechanical projects & services	7,534	7,026	7.2	5,575	19,717	18,260	8.0
<i>% of total Revenue</i>	<i>55.2</i>	<i>58.8</i>		<i>54.0</i>	<i>45.2</i>	<i>45.5</i>	
Engineering products & services	695	807	(13.9)	666	2,265	2,250	0.7
<i>% of total Revenue</i>	<i>5.1</i>	<i>6.8</i>		<i>6.5</i>	<i>5.2</i>	<i>5.6</i>	
Unitary Cooling products	5,422	4,111	31.9	4,078	21,616	19,609	10.2
<i>% of total Revenue</i>	<i>39.7</i>	<i>34.4</i>		<i>39.5</i>	<i>49.6</i>	<i>48.9</i>	
<b>Total</b>	<b>13,650</b>	<b>11,942</b>	<b>14.3</b>	<b>10,317</b>	<b>43,590</b>	<b>40,113</b>	<b>8.7</b>
<b>EBIT</b>							
Electro-mechanical projects & services	534	273	95.8	303	1,189	373	219.0
Engineering products & services	211	200	5.2	275	743	697	6.7
Unitary Cooling products	705	434	62.2	508	2,918	2,622	11.3
<b>Total</b>	<b>1,449</b>	<b>908</b>	<b>59.7</b>	<b>1,086</b>	<b>4,851</b>	<b>3,691</b>	<b>31.4</b>
<b>EBIT Margin (%)</b>							
Electro-mechanical projects & services	7.1	3.9		5.4	6.0	2.0	
Engineering products & services	30.3	24.8		41.3	32.8	31.0	
Unitary Cooling products	13.0	10.6		12.4	13.5	13.4	

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2017	2018E	2019E	2020E
<b>Net Revenue</b>	<b>60,328</b>	<b>69,109</b>	<b>78,942</b>	<b>90,992</b>
Raw Material Expenses	42,359	49,759	56,839	65,514
Gross Profit	17,969	19,351	22,104	25,478
Employee Cost	6,184	7,187	7,500	8,826
Other Expenses	5,994	5,460	6,868	7,734
<b>EBITDA</b>	<b>5,791</b>	<b>6,704</b>	<b>7,736</b>	<b>8,917</b>
Depr. & Amortization	245	300	315	330
Net Interest	160	—	—	—
Other Income	1,998	1,795	1,894	2,088
<b>Profit before Tax</b>	<b>7,384</b>	<b>8,199</b>	<b>9,315</b>	<b>10,676</b>
Total Tax	2,089	2,460	3,074	3,468
<b>Profit after Tax</b>	<b>5,296</b>	<b>5,739</b>	<b>6,241</b>	<b>7,208</b>
Ex-Od items / Min. Int.	—	40	—	—
<b>Adj. PAT</b>	<b>5,296</b>	<b>5,779</b>	<b>6,241</b>	<b>7,208</b>
<b>Avg. Shares O/S (m)</b>	<b>330.7</b>	<b>330.7</b>	<b>330.7</b>	<b>330.7</b>
<b>EPS (Rs.)</b>	<b>16.0</b>	<b>17.5</b>	<b>18.9</b>	<b>21.8</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2017	2018E	2019E	2020E
C/F from Operations	4,830	3,621	5,351	4,447
C/F from Investing	(738)	(294)	(300)	(300)
C/F from Financing	(2,110)	(3,388)	(1,826)	(2,155)
Inc. / Dec. in Cash	1,982	(61)	3,226	1,992
Opening Cash	1,699	3,132	3,070	6,296
Closing Cash	3,132	3,070	6,296	8,288
FCFF	5,650	3,361	5,050	3,985
FCFE	4,759	1,652	5,050	3,985

**Key Financial Metrics**

Y/e March	2017	2018E	2019E	2020E
<b>Growth</b>				
Revenue (%)	5.5	14.6	14.2	15.3
EBITDA (%)	33.8	15.8	15.4	15.3
PAT (%)	50.7	9.1	8.0	15.5
EPS (%)	50.7	9.1	8.0	15.5
<b>Profitability</b>				
EBITDA Margin (%)	9.6	9.7	9.8	9.8
PAT Margin (%)	8.8	8.4	7.9	7.9
RoCE (%)	17.4	15.9	15.8	16.2
RoE (%)	18.5	16.5	15.9	16.4
<b>Balance Sheet</b>				
Net Debt : Equity	—	(0.1)	(0.2)	(0.2)
Net Wrkng Cap. (days)	(6)	(5)	(5)	4
<b>Valuation</b>				
PER (x)	37.0	33.9	31.4	27.2
P / B (x)	5.9	5.3	4.7	4.2
EV / EBITDA (x)	33.6	28.8	24.5	21.1
EV / Sales (x)	3.2	2.8	2.4	2.1
<b>Earnings Quality</b>				
Eff. Tax Rate	28.3	30.0	33.0	32.5
Other Inc / PBT	27.1	21.9	20.3	19.6
Eff. Depr. Rate (%)	4.3	5.0	5.0	5.0
FCFE / PAT	89.9	28.6	80.9	55.3

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2017	2018E	2019E	2020E
Shareholder's Funds	33,173	37,034	41,419	46,600
Total Debt	1,709	—	—	—
Other Liabilities	285	314	345	380
<b>Total Liabilities</b>	<b>35,168</b>	<b>37,348</b>	<b>41,765</b>	<b>46,980</b>
Net Fixed Assets	2,190	2,184	2,170	2,140
Goodwill	815	826	826	826
Investments	22,679	22,679	22,679	22,679
Net Current Assets	9,124	11,298	15,729	20,974
Cash & Equivalents	3,314	3,070	6,296	8,288
Other Current Assets	35,437	39,517	45,125	53,885
Current Liabilities	29,628	31,290	35,692	41,199
Other Assets	361	361	361	361
<b>Total Assets</b>	<b>35,168</b>	<b>37,348</b>	<b>41,765</b>	<b>46,979</b>

**Quarterly Financials (Rs m)**

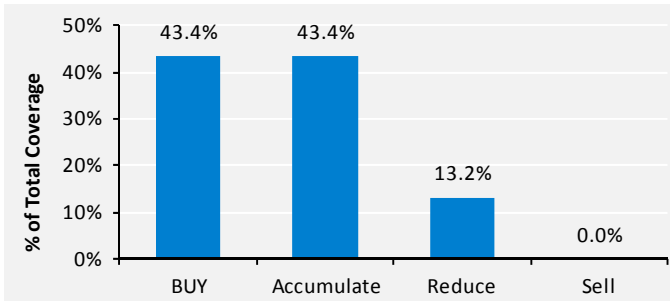
Y/e March	Q4FY17	Q1FY18	Q2FY18	Q3FY18
<b>Net Revenue</b>	<b>20,351</b>	<b>19,446</b>	<b>10,367</b>	<b>13,747</b>
<b>EBITDA</b>	<b>2,219</b>	<b>2,123</b>	<b>857</b>	<b>1,186</b>
% of revenue	10.9	10.9	8.3	8.6
Depr. & Amortization	56	61	61	61
Net Interest	58	35	22	19
Other Income	386	550	512	170
<b>Profit before Tax</b>	<b>2,493</b>	<b>2,596</b>	<b>1,287</b>	<b>1,277</b>
Total Tax	496	727	343	301
<b>Profit after Tax</b>	<b>1,991</b>	<b>1,836</b>	<b>954</b>	<b>1,004</b>
<b>Adj. PAT</b>	<b>1,989</b>	<b>1,816</b>	<b>954</b>	<b>1,004</b>

Source: Company Data, PL Research.

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<b>Accumulate</b>	:	Outperformance to Sensex over 12-months
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<b>Trading Sell</b>	:	Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	:	No specific call on the stock
<b>Under Review (UR)</b>	:	Rating likely to change shortly

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