

Staring at single-digit growth in near term

We met the Voltas management for an update on its growth outlook and the key takeaways are as follows: a) While unseasonal rains continued to play havoc, a favourable base and market share gains may help maintain single-digit volume growth. b) The company hiked prices by 2-5% from mid-May'18 to counter rising commodity prices and a depreciating INR (40-45% import content in room ACs). c) Consumer durables products under the Voltbek JV are slated to be launched during the festive season in 2HFY19; these would be imported in CKD form for the first 18 months. d) An increase in the share of rural electrification (RE) projects to 35-40% of Voltas' order book is likely to reduce its average execution cycle, while the launch of DDUGJY scheme phase-2 should keep inflows strong in FY19-20. e) EMP margins are likely to sustain at 7-7.5% over FY19-20 as management remains cautious when bidding for new orders in the Middle East, despite a pick-up in tendering activity. We maintain BUY with an SOTP-based TP of INR 680, implying 30x FY20E EPS.

- Muted volume growth as weather plays havoc:** The room air-conditioner industry has seen muted volumes this summer as unseasonal rains dampened consumer demand in several large markets, in which dealers refrained from restocking prior to the monsoon (usually a slack period for room AC sales). However, we believe a favourable base (1QFY18: 1.3%) and market share gains may keep volume growth in single digits.
- To tackle the inverter AC segment with more fervour; price hikes rolled out:** Inverter ACs constituted 30% of total AC sales for Voltas in 4QFY18 vs. 5% in 4QFY17. However, this share was lower than industry-level sales of 40-45%, with LG being the largest player offering 100% of its ACs in the inverter range. Management guided that it will align its offerings with industry share of inverter ACs, thus increasing the share of inverter ACs to 40-50% by summer 2019. Voltas rolled out 2-5% price hikes in mid-May on select models to counter increasing commodity prices (steel and copper) and a depreciating INR (40-45% import content in room ACs). However, we believe increased promotional activities to offset the impact of higher prices could keep margins under check.
- Set to launch other durables in the festive season:** Under the Voltbek Home Appliances (49% JV), Voltas is set to launch refrigerators, washing machines, microwave ovens and dishwashers during the festive season (2HFY19). These units will be imported in CKD form, until the manufacturing unit is set up in Gujarat (land acquisition has commenced).
- EMP segment seeing improved execution cycle and profitability:** EMP order book saw healthy growth of 17% in FY18, but management highlighted that the increased share of rural electrification projects (35-40% of OB) is likely to reduce the average execution cycle, while the launch of DDUGJY phase-2 is likely to keep inflows strong in FY19-20. Also, operating margins are expected to sustain at 7-7.5%.
- Maintain BUY with a TP of INR 680:** While we expect muted volumes in the near term, we believe a 18% YTD correction in the stock price offers an attractive entry point as structural growth drivers remain intact. Maintain BUY with an SOTP-based TP of INR 680.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	680
Upside/(Downside)	31.7%
Previous Price Target	680
Change	0.0%

Key Data – VOLT IN

Current Market Price	INR516
Market cap (bn)	INR170.9/US\$2.5
Free Float	63%
Shares in issue (mn)	330.9
Diluted share (mn)	330.9
3-mon avg daily val (mn)	INR1,001.6/US\$14.6
52-week range	675/440
Sensex/Nifty	35,287/10,710
INR/US\$	68.4

Price Performance

%	1M	6M	12M
Absolute	-6.4	-18.5	8.9
Relative*	-7.6	-21.8	-3.4

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	56,930	59,706	63,568	72,976	84,116
Sales Growth (%)	10.7	4.9	6.5	14.8	15.3
EBITDA	4,061	5,168	6,150	7,168	8,556
EBITDA Margin (%)	7.1	8.7	9.7	9.8	10.2
Adjusted Net Profit	3,670	5,082	5,720	6,450	7,585
Diluted EPS (INR)	11.1	15.4	17.3	19.5	22.9
Diluted EPS Growth (%)	5.0	38.5	12.5	12.8	17.6
ROIC (%)	28.2	37.5	45.1	46.8	49.3
ROE (%)	13.8	16.6	16.2	16.0	16.5
P/E (x)	47.0	33.9	30.1	26.7	22.7
P/B (x)	6.1	5.2	4.6	4.0	3.5
EV/EBITDA (x)	42.7	33.1	27.2	22.8	18.5
Dividend Yield (%)	0.4	0.5	0.6	0.6	0.7

Source: Company data, JM Financial. Note: Valuations as of 19/Jun/2018

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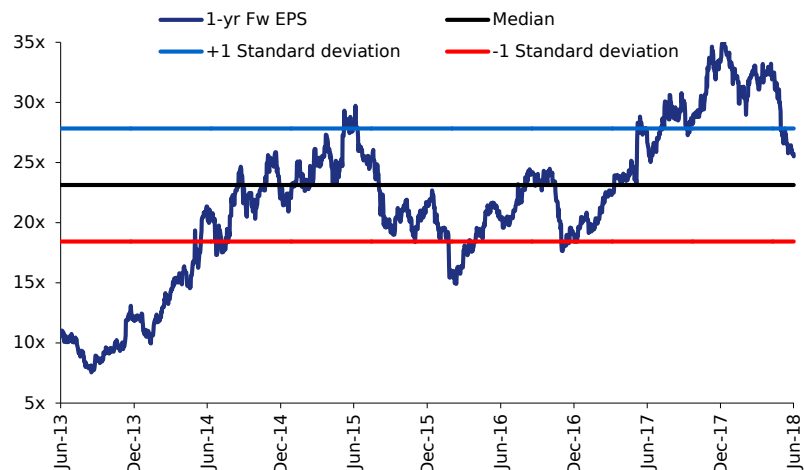
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Exhibit 1. SOTP Valuation

	FY20E Revenue	FY20E EBIT	Unallocable exp	Adj EBIT	Tax	FY20E PAT	Target PE	Value per share (INR)
Electro-mechanical Projects	37,701	2,828	834	1,993	33%	1336	18	75
Engineering Products and Services	3,750	1,125	83	1,042	30%	729	18	40
Unitary Cooling Products	42,665	6,186	944	5,242	30%	3670	35	385
SOTP Value (INR)	84,116	10,139	1,861	8,278		5,735		500
Add: Voltbek JV Value								60
Target Price (INR)								560
Cash and investments per share (INR)								120
Fair Value (INR)								680

Source: Company, JM Financial

Exhibit 2. PER Band



Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement						(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E	
Net Sales	56,930	59,706	63,568	72,976	84,116	
Sales Growth	10.7%	4.9%	6.5%	14.8%	15.3%	
Other Operating Income	0	0	0	0	0	
Total Revenue	56,930	59,706	63,568	72,976	84,116	
Cost of Goods Sold/Op. Exp	40,871	42,359	45,675	52,543	60,564	
Personnel Cost	6,351	6,184	5,867	6,161	6,592	
Other Expenses	5,646	5,994	5,875	7,105	8,405	
EBITDA	4,061	5,168	6,150	7,168	8,556	
EBITDA Margin	7.1%	8.7%	9.7%	9.8%	10.2%	
EBITDA Growth	9.4%	27.3%	19.0%	16.5%	19.4%	
Depn. & Amort.	263	244	244	266	278	
EBIT	3,798	4,924	5,907	6,902	8,278	
Other Income	1,635	2,621	2,217	2,418	2,664	
Finance Cost	158	160	119	120	120	
PBT before Excep. & Forex	5,275	7,384	8,005	9,200	10,822	
Excep. & Forex Inc./Loss(-)	289	11	6	0	0	
PBT	5,565	7,395	8,011	9,200	10,822	
Taxes	1,696	2,088	2,270	2,760	3,247	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	-2	217	17	-10	-10	
Reported Net Profit	3,871	5,090	5,724	6,450	7,585	
Adjusted Net Profit	3,670	5,082	5,720	6,450	7,585	
Net Margin	6.4%	8.5%	9.0%	8.8%	9.0%	
Diluted Share Cap. (mn)	330.9	330.9	330.9	330.9	330.9	
Diluted EPS (INR)	11.1	15.4	17.3	19.5	22.9	
Diluted EPS Growth	5.0%	38.5%	12.5%	12.8%	17.6%	
Total Dividend + Tax	797	936	1,191	1,271	1,390	
Dividend Per Share (INR)	2.3	2.6	3.0	3.2	3.5	

Source: Company, JM Financial

Cash Flow Statement						(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E	
Profit before Tax	5,275	7,384	8,005	9,200	10,822	
Depn. & Amort.	221	-1	244	266	278	
Net Interest Exp. / Inc. (-)	0	0	0	0	0	
Inc (-) / Dec in WCcap.	-507	533	-573	-1,247	-1,537	
Others	291	-206	-11	10	10	
Taxes Paid	-1,800	-1,976	-2,270	-2,760	-3,247	
Operating Cash Flow	3,481	5,734	5,394	5,469	6,327	
Capex	-428	60	-294	-300	-300	
Free Cash Flow	3,053	5,794	5,100	5,169	6,027	
Inc (-) / Dec in Investments	-4,089	-3,221	0	0	0	
Others	0	0	0	0	0	
Investing Cash Flow	-4,516	-3,160	-294	-300	-300	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-797	-936	-1,191	-1,271	-1,390	
Inc / Dec (-) in Loans	1,422	-998	0	0	0	
Others	-41	819	0	0	0	
Financing Cash Flow	584	-1,114	-1,191	-1,271	-1,390	
Inc / Dec (-) in Cash	-452	1,459	3,909	3,899	4,637	
Opening Cash Balance	2,306	1,855	3,314	7,223	11,122	
Closing Cash Balance	1,855	3,314	7,223	11,122	15,759	

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E	
Shareholders' Fund	28,111	33,066	37,599	42,779	48,974	
Share Capital	331	331	331	331	331	
Reserves & Surplus	27,780	32,735	37,268	42,448	48,643	
Preference Share Capital	0	0	0	0	0	
Minority Interest	267	285	285	285	285	
Total Loans	2,707	1,709	1,709	1,709	1,709	
Def. Tax Liab. / Assets (-)	-310	-198	-198	-198	-198	
Total - Equity & Liab.	30,775	34,863	39,396	44,575	50,771	
Net Fixed Assets	3,063	3,004	3,055	3,090	3,111	
Gross Fixed Assets	5,218	5,165	5,465	5,765	6,065	
Intangible Assets	723	723	723	723	723	
Less: Depn. & Amort.	2,890	2,889	3,133	3,398	3,677	
Capital WIP	13	6	0	0	0	
Investments	19,458	22,679	22,679	22,679	22,679	
Current Assets	35,863	38,807	45,712	55,308	66,690	
Inventories	7,247	9,070	9,579	10,996	12,675	
Sundry Debtors	13,672	14,541	15,674	17,994	20,741	
Cash & Bank Balances	1,855	3,314	7,223	11,122	15,759	
Loans & Advances	935	935	1,045	1,200	1,383	
Other Current Assets	12,153	10,947	12,191	13,995	16,132	
Current Liab. & Prov.	27,609	29,628	32,050	36,500	41,709	
Current Liabilities	17,488	19,946	20,022	23,033	26,549	
Provisions & Others	10,122	9,682	12,028	13,468	15,160	
Net Current Assets	8,253	9,180	13,662	18,807	24,981	
Total - Assets	30,775	34,863	39,396	44,576	50,771	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Margin	6.4%	8.5%	9.0%	8.8%	9.0%
Asset Turnover (x)	2.0	1.8	1.7	1.7	1.8
Leverage Factor (x)	1.1	1.1	1.1	1.1	1.0
RoE	13.8%	16.6%	16.2%	16.0%	16.5%

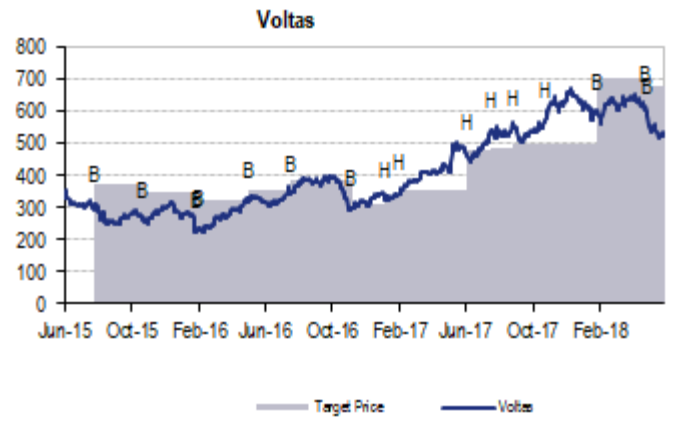
Key Ratios					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
BV/Share (INR)	85.0	99.9	113.6	129.3	148.0
ROIC	28.2%	37.5%	45.1%	46.8%	49.3%
ROE	13.8%	16.6%	16.2%	16.0%	16.5%
Net Debt/Equity (x)	0.0	0.0	-0.1	-0.2	-0.3
P/E (x)	47.0	33.9	30.1	26.7	22.7
P/B (x)	6.1	5.2	4.6	4.0	3.5
EV/EBITDA (x)	42.7	33.1	27.2	22.8	18.5
EV/Sales (x)	3.0	2.9	2.6	2.2	1.9
Debtor days	88	89	90	90	90
Inventory days	46	55	55	55	55
Creditor days	121	133	127	128	128

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
14-Aug-15	Buy	375	
10-Nov-15	Buy	350	-6.7
16-Feb-16	Buy	321	-8.3
17-Feb-16	Buy	326	1.6
19-May-16	Buy	354	8.5
4-Aug-16	Buy	383	8.2
21-Nov-16	Buy	308	-19.5
24-Jan-17	Hold	338	9.7
17-Feb-17	Hold	354	4.7
20-Jun-17	Hold	478	35.3
4-Aug-17	Hold	485	1.4
14-Sep-17	Hold	500	3.1
10-Nov-17	Hold	500	0.0
13-Feb-18	Buy	700	40.0
11-May-18	Buy	700	0.0
17-May-18	Buy	680	-2.9

Recommendation History



APPENDIX I

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