

June 20, 2018

## Management Meet Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	ACCUMULATE		ACCUULATE	
Target Price	624		652	
Sales (Rs.m)	70,392	80,782	71,607	82,179
% Chng.			(1.7)	(1.7)
EBITDA (Rs.m)	6,617	7,957	7,089	8,218
% Chng.			(6.7)	(3.2)
EPS (Rs.)	16.9	20.1	18.0	20.7
% Chng.			(6.1)	(2.9)

### Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. m)	60,328	64,044	70,392	80,782
EBITDA (Rs. m)	5,669	6,626	6,617	7,957
Margin (%)	9.4	10.3	9.4	9.9
PAT (Rs. m)	5,188	5,773	5,605	6,659
EPS (Rs.)	15.7	17.5	16.9	20.1
Gr. (%)	42.4	11.3	(2.9)	18.8
DPS (Rs.)	4.1	4.0	4.2	5.0
Yield (%)	0.8	0.8	0.8	1.0
RoE (%)	17.0	16.0	13.7	14.7
RoCE (%)	23.0	21.6	19.1	20.6
EV/Sales (x)	2.8	2.6	2.4	2.1
EV/EBITDA (x)	29.9	25.2	25.3	21.0
PE (x)	33.4	30.0	30.9	26.0
P/BV (x)	5.2	4.4	4.0	3.6

### Key Data

VOLT.BO | VOLT IN

52-W High / Low	Rs.675 / Rs.440
Sensex / Nifty	35,547 / 10,772
Market Cap	Rs.173bn/ \$ 2,539m
Shares Outstanding	331m
3M Avg. Daily Value	Rs.1928.82m

### Shareholding Pattern (%)

Promoter's	30.64
Foreign	19.58
Domestic Institution	29.33
Public & Others	20.45
Promoter Pledge (Rs bn)	

### Stock Performance (%)

	1M	6M	12M
Absolute	(5.3)	(18.1)	10.9
Relative	(7.2)	(22.2)	(2.3)

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## Structural story remains intact

We recently met the management of Voltas and the key take aways from the meeting are 1) Due to unseasonal rains and erratic weather, April was very weak for the Room AC (RAC) industry, while May has been better and June too saw some improvement 2) In March–May, Voltas had a relatively better performance than the industry (very low single-digit growth) 3) Commodity/currency are the key headwinds. To offset the same, the company has taken price hike of ~3% in select SKUs; however, to maintaining margins of 13%+ will be contingent of a pick up in volume during the year and the relative competitive intensity 4) Management highlighted that it has not lost market share and in fact has gained 30-40bps in FY18 5) Share of inverter in RAC sales has gone up to 30% in Q4FY18. Introduction of more SKUs and better promotions have led to fast ramp-up of Inverter AC sales 6) Voltas-Beko JV is on track to be launched in H2CY18 (around festive season) 7) Seeing huge opportunities in Rural Electrification, Urban Infra and Water in domestic MEP segment 8) In International market, Voltas currently operates only in UAE and Oman, given the political uncertainty in other countries 9) Looking at maintaining EBIT margin of 7-7.5% in MEP over the next 2-3 years.

While erratic weather has led to weak outlook for RAC in the near term, structural story remains intact. The stock has corrected ~21% over the last three months. In our view, the best time to accumulate Voltas is during phases of weak market conditions. 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 RAC segment, given the low penetration, healthy balance sheet and cash flow. We have cut our earnings for FY19/20 by ~5% to factor lower AC sales due to erratic weather and some margin pressure due to low volumes and commodity and currency headwinds. We maintain 'Accumulate' with revised TP of Rs624 (previous Rs650).

- **Unseasonal rainfall and weak summers hurt peak season sales:** RAC sales saw de-growth in April due to erratic weather conditions in North and South India. However, Voltas saw a contraction in April, outperformed the industry leading to market share gains. While May/June have seen a slight recovery, the market is still expected to be at best flat for the quarter and Voltas in March-May period has seen very low single digit growth. The company is hopeful of pick-up in demand from North India in June. Voltas has taken a price hike of ~3% across select SKUs to counter higher input prices (commodity and currency headwinds). The company highlighted that lower volume, input price pressure and increase in competition could put pressure on margins in the current year.
- While weather condition has led to weak market in the current season, structural story in RAC remains intact with urbanization, growing middle class, rising income levels, increasing awareness of energy efficiency, easy availability of finance and low penetration of ACs. Voltas continued to sustain its No. 1 position in the RAC market (at Multi-Brand outlets) with a market share of 22.1% and continue to gain market share even in weak and highly competitive market led by deep distribution and strong brand.

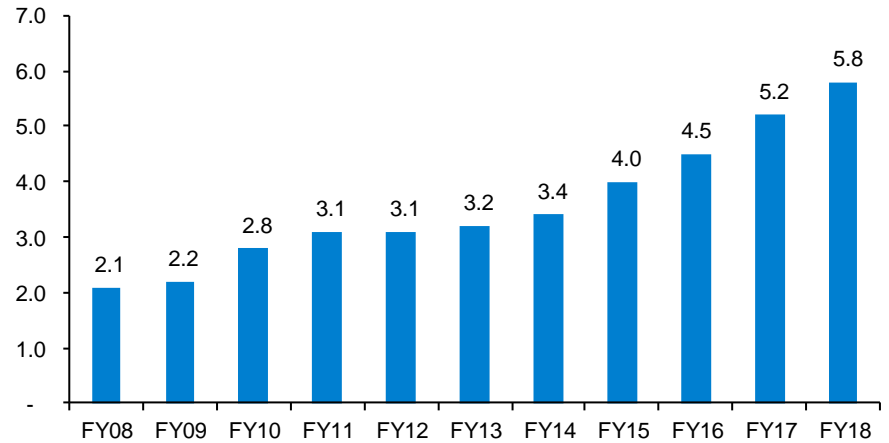
- **Inverter ACs – 30% of AC sales in Q4FY18:** Inverter ACs now constitute 30% of the RAC sales for Voltas against 5-10% a year back, driven by increase in SKUs and reduction in the price differential of Fixed speed and Inverter ACs. Voltas now is the number 2 player in the Inverter AC, gaining market share by **(i) Aggressive advertisement campaigns (ii) Introducing 40-45 SKUs, which is the largest in the market (iii) Better promotional activities like Easy EMI payment systems, Extended warranties etc.** Currently inverter ACs are 40% of RAC market. Voltas continues to focus on bringing inverters sales in line with market.
- **Voltas-Arcelik JV (Voltas-Beko) set to launch products in H2CY18:** Voltas' JV with Arçelik is expected to begin operations by H2CY18. The entity will launch refrigerators, washing machines, microwaves and other white goods/domestic appliances in a phased manner under the brand name of "Voltas-Beko". 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 consumer durable market in India is ~Rs350bn (20mn units). The industry is expected to grow at 10-12% per annum. Voltas expects to reach market share of 10% in reasonable time frame. The JV partners have invested US\$50mn as initial capital commitment and will invest further as and when required.
- **MEP segment:** The situation in GCC countries indicates a pick-up in economic activities, mainly related to the upcoming Mega Events in the geography. Project spend relating to Expo 2020 has now started picking up, with Voltas bagging a contract recently. Voltas has adopted a cautious approach towards suitably risk mitigated order booking. Due to political uncertainty, the company is currently picking up orders only from UAE and OMAN.
- Voltas' strategy to focus on Government projects and continuous efforts to pick up good quality work has held the domestic business in good stead. In domestic market, with the Government pushing the growth agenda, opportunities are increasing in rural electrification, water treatment and Smart City development. Besides, the division's core area of HVAC projects has benefited with projects in large buildings and in tunnel ventilation for Metro transportation.
- **Outlook and Valuation:** The stock is trading at 25.6x FY20E earnings. We remain positive on Voltas over medium/long term, given improving margin profile of fresh orders, strong consumer business franchise, healthy balance sheet and cash flow and structural growth in RAC segment, given the low penetration. ***We have cut our earnings for FY19/20 by ~5% to factor lower AC sales due to erratic weather and some margin pressure due to low volumes, commodity and currency headwinds. We maintain 'Accumulate' with revised TP of Rs624 (previous Rs652).***

Apart from occasional blips relating to weather, the market growing consistently

.....structural story of room ac growth remains intact given the urbanization, growing middle class, rising income levels, increasing awareness of energy efficiency, easy availability of finance and low penetration of AC

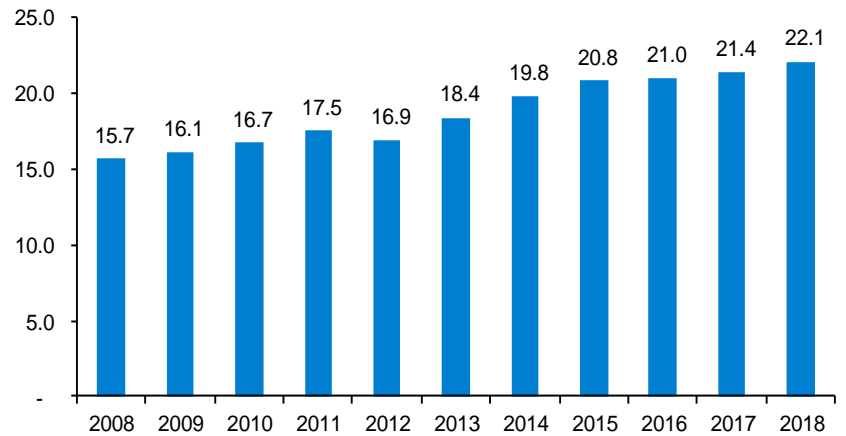
Voltas has consistently gained market share over last decade.

**Exhibit 1: AC Volumes over the years (mn units)**



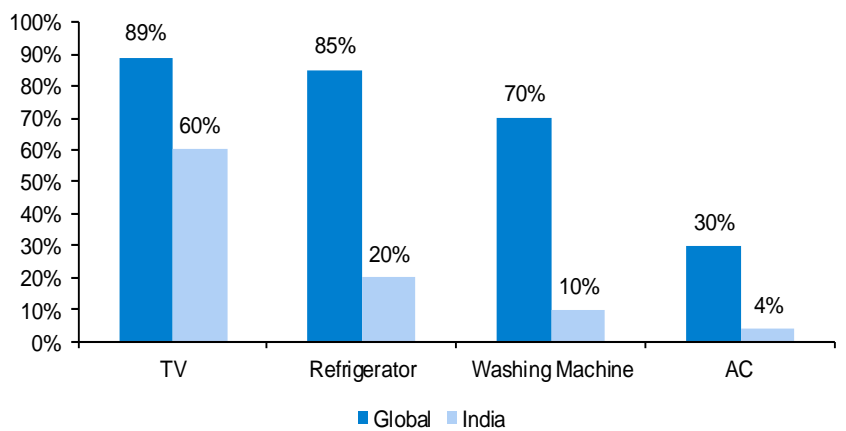
Source: Company, PL

**Exhibit 2: Voltas' Market Share over the years**



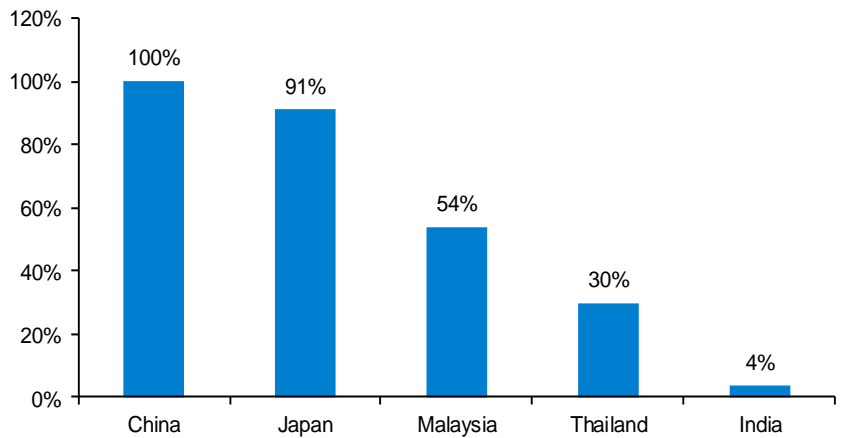
Source: Company, PL

**Exhibit 3: RAC is under-penetrated v/s other consumer durables; offers maximum headroom for growth**



Source: Industry, PL

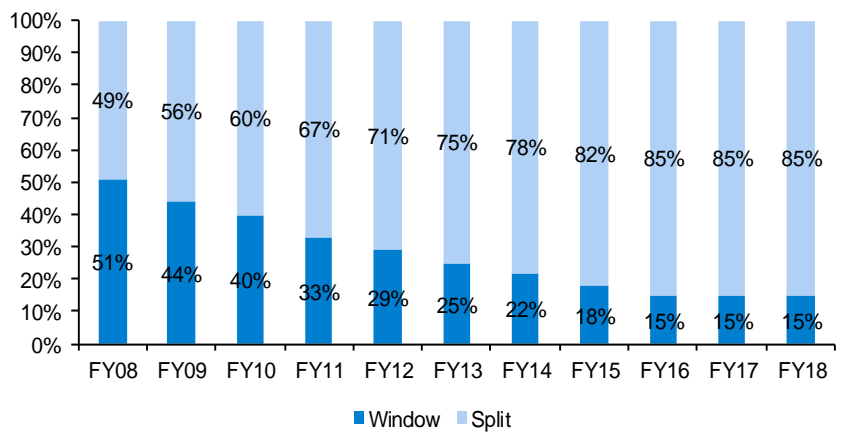
**Exhibit 4: RAC penetration in India is significantly below Global/Asian markets**



Source: Industry, PL

Significant ramp up in Inverters, should help do away with investor fear on Voltas lagging behind.

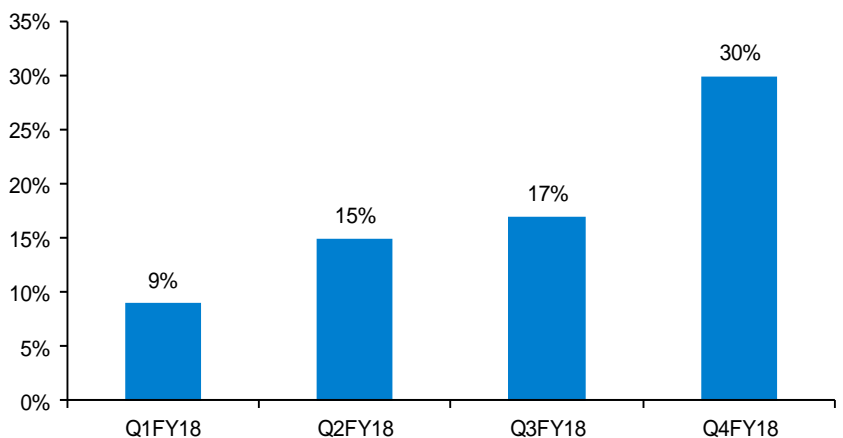
**Exhibit 5: Share between Window and Split AC**



Source: Company, PL

.....Working on bringing inverter sales in line with market

**Exhibit 6: Share of Inverter ACs as a % of AC sales**



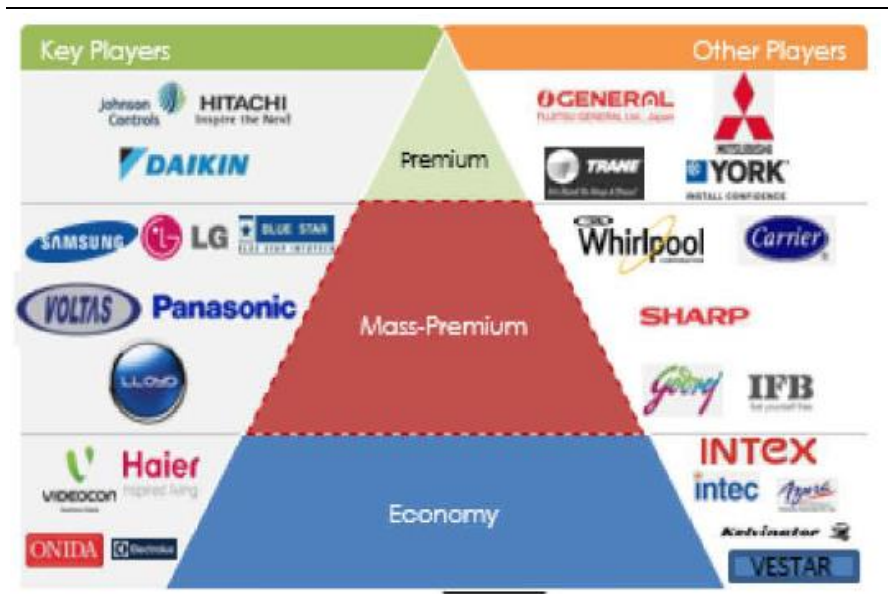
Source: Company, PL

**Exhibit 7: Inverter sales for key AC manufacturers v/s industry**

Description	% of total sales
Industry	40%
LG	100%
Voltas	20%
Daikin	>50%
Blue Star	40-45%
Hitachi	40-50%
Lloyd Electric	<10%

Source: Industry, PL

**Exhibit 8: Air conditioner market in India**



Source: Industry, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
<b>Net Revenues</b>	<b>60,328</b>	<b>64,044</b>	<b>70,392</b>	<b>80,782</b>
YoY gr. (%)	5.5	6.2	9.9	14.8
Cost of Goods Sold	42,359	45,675	50,683	58,163
Gross Profit	17,969	18,369	19,710	22,619
Margin (%)	29.8	28.7	28.0	28.0
Employee Cost	6,184	5,867	6,687	7,836
Other Expenses	6,116	5,875	6,406	6,826
<b>EBITDA</b>	<b>5,669</b>	<b>6,626</b>	<b>6,617</b>	<b>7,957</b>
YoY gr. (%)	30.9	16.9	(0.1)	20.3
Margin (%)	9.4	10.3	9.4	9.9
Depreciation and Amortization	245	244	310	325
<b>EBIT</b>	<b>5,424</b>	<b>6,383</b>	<b>6,307</b>	<b>7,632</b>
Margin (%)	9.0	10.0	9.0	9.4
Net Interest	160	119	120	120
Other Income	2,120	1,741	1,821	2,002
<b>Profit Before Tax</b>	<b>7,384</b>	<b>8,005</b>	<b>8,008</b>	<b>9,513</b>
Margin (%)	12.2	12.5	11.4	11.8
Total Tax	2,004	2,270	2,402	2,854
Effective tax rate (%)	27.1	28.4	30.0	30.0
<b>Profit after tax</b>	<b>5,380</b>	<b>5,735</b>	<b>5,605</b>	<b>6,659</b>
Minority interest	-	-	-	-
Share Profit from Associate	(193)	38	-	-
<b>Adjusted PAT</b>	<b>5,188</b>	<b>5,773</b>	<b>5,605</b>	<b>6,659</b>
YoY gr. (%)	42.4	11.3	(2.9)	18.8
Margin (%)	8.6	9.0	8.0	8.2
Extra Ord. Income / (Exp)	11	6	-	-
<b>Reported PAT</b>	<b>5,199</b>	<b>5,779</b>	<b>5,605</b>	<b>6,659</b>
YoY gr. (%)	32.2	11.2	(3.0)	18.8
Margin (%)	8.6	9.0	8.0	8.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,199	5,779	5,605	6,659
<b>Equity Shares O/s (m)</b>	<b>331</b>	<b>331</b>	<b>331</b>	<b>331</b>
<b>EPS (Rs)</b>	<b>15.7</b>	<b>17.5</b>	<b>16.9</b>	<b>20.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>4,571</b>	<b>4,787</b>	<b>5,087</b>	<b>5,387</b>
Tangibles	4,479	4,691	4,991	5,291
Intangibles	92	96	96	96
<b>Acc: Dep / Amortization</b>	<b>2,295</b>	<b>2,539</b>	<b>2,849</b>	<b>3,174</b>
Tangibles	2,295	2,539	2,849	3,174
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>2,276</b>	<b>2,248</b>	<b>2,238</b>	<b>2,213</b>
Tangibles	2,184	2,152	2,142	2,116
Intangibles	92	96	96	96
Capital Work In Progress	6	41	41	41
Goodwill	723	723	723	723
Non-Current Investments	20,867	23,009	22,800	22,821
Net Deferred tax assets	198	46	46	46
Other Non-Current Assets	724	917	737	841
<b>Current Assets</b>				
Investments	1,995	4,876	4,876	4,876
Inventories	9,070	8,130	12,536	14,386
Trade receivables	14,541	15,703	18,321	21,026
Cash & Bank Balance	3,314	2,837	2,488	2,437
Other Current Assets	10,223	13,565	9,503	10,906
<b>Total Assets</b>	<b>64,796</b>	<b>73,097</b>	<b>75,175</b>	<b>81,288</b>
<b>Equity</b>				
Equity Share Capital	331	331	331	331
Other Equity	32,735	38,721	42,687	47,399
<b>Total Network</b>	<b>33,066</b>	<b>39,052</b>	<b>43,018</b>	<b>47,729</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	914	873	985	969
Other non current liabilities	2	10	10	10
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,709	1,423	1,423	1,423
Trade payables	19,946	21,764	21,214	22,132
Other current liabilities	8,766	9,525	8,075	8,575
<b>Total Equity &amp; Liabilities</b>	<b>64,796</b>	<b>73,097</b>	<b>75,175</b>	<b>81,288</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	7,203	8,005	8,008	9,513
Add. Depreciation	245	244	310	325
Add. Interest	160	119	120	120
Less Financial Other Income	2,120	1,741	1,821	2,002
Add. Other	(2,008)	1,740	1,821	2,002
Op. profit before WC changes	5,600	10,107	10,259	11,960
Net Changes-WC	500	(1,138)	(4,325)	(4,788)
Direct tax	(1,819)	(2,270)	(2,402)	(2,854)
<b>Net cash from Op. activities</b>	<b>4,281</b>	<b>6,699</b>	<b>3,532</b>	<b>4,318</b>
Capital expenditures	(229)	(221)	(300)	(300)
Interest / Dividend Income	426	(1,741)	(1,821)	(2,002)
Others	(936)	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(738)</b>	<b>(1,962)</b>	<b>(2,121)</b>	<b>(2,302)</b>
Issue of share cap. / premium	0	-	-	-
Debt changes	(998)	(287)	-	-
Dividend paid	(939)	(1,548)	(1,640)	(1,948)
Interest paid	(173)	(119)	(120)	(120)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(2,110)</b>	<b>(1,954)</b>	<b>(1,760)</b>	<b>(2,068)</b>
<b>Net change in cash</b>	<b>1,433</b>	<b>2,783</b>	<b>(349)</b>	<b>(51)</b>
Free Cash Flow	4,024	6,478	3,232	4,018

Source: Company Data, PL Research

**Key Financial Metrics**

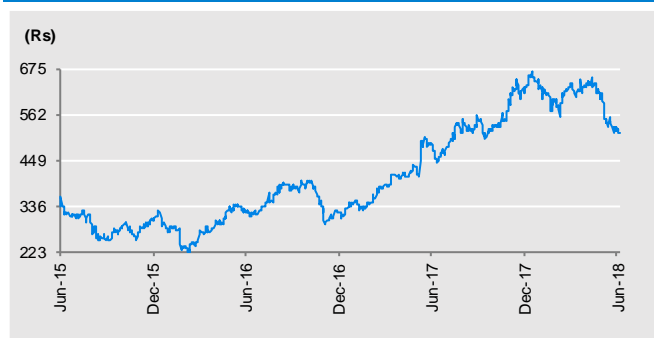
Y/e Mar	FY17	FY18	FY19E	FY20E
<b>Per Share(Rs)</b>				
CEPS	16.4	18.2	17.9	21.1
BVPS	100.0	118.1	130.1	144.3
FCF	12.2	19.6	9.8	12.2
DPS	4.1	4.0	4.2	5.0
<b>Return Ratio(%)</b>				
Core RoCE	19.7	21.3	18.0	19.3
RoCE	23.0	21.6	19.1	20.6
ROIC	8.7	9.1	8.8	9.8
RoE	17.0	16.0	13.7	14.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.1)	(0.1)
Net Working Capital (Days)	22	12	50	60
<b>Valuation(x)</b>				
PER	33.4	30.0	30.9	26.0
P/B	5.2	4.4	4.0	3.6
P/CEPS	16.4	18.2	17.9	21.1
EV/EBITDA	29.9	25.2	25.3	21.0
EV/Sales	2.8	2.6	2.4	2.1
Dividend Yield (%)	0.8	0.8	0.8	1.0

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY18	Q2FY18	Q3FY18	Q4FY18
<b>Net Revenue</b>	<b>19,446</b>	<b>10,367</b>	<b>13,747</b>	<b>20,484</b>
YoY gr. (%)	-	-	-	0.7
Raw Material Expenses	13,947	7,042	9,675	15,011
Gross Profit	5,500	3,325	4,072	5,472
Margin (%)	28.3	32.1	29.6	26.7
<b>EBITDA</b>	<b>2,123</b>	<b>857</b>	<b>1,186</b>	<b>2,532</b>
YoY gr. (%)	(4.0)	(59.6)	38.4	113.4
Margin (%)	10.9	8.3	8.6	12.4
Depreciation / Depletion	61	61	61	61
<b>EBIT</b>	<b>2,062</b>	<b>796</b>	<b>1,125</b>	<b>2,471</b>
Margin (%)	10.6	7.7	8.2	12.1
Net Interest	35	22	19	43
Other Income	550	512	170	438
<b>Profit before Tax</b>	<b>2,576</b>	<b>1,287</b>	<b>1,277</b>	<b>2,865</b>
Margin (%)	13.2	12.4	9.3	14.0
Total Tax	727	343	301	900
Effective tax rate (%)	28.2	26.6	23.6	31.4
<b>Profit after Tax</b>	<b>1,850</b>	<b>944</b>	<b>976</b>	<b>1,966</b>
Minority interest	23	-	-	-
Share Profit from Associates	10	10	29	(10)
<b>Adjusted PAT</b>	<b>1,836</b>	<b>954</b>	<b>1,004</b>	<b>1,942</b>
YoY gr. (%)	-	-	-	(3.1)
Margin (%)	9.4	9.2	7.3	9.5
Extra Ord. Income / (Exp)	20	-	-	-
<b>Reported PAT</b>	<b>1,856</b>	<b>954</b>	<b>1,004</b>	<b>1,942</b>
YoY gr. (%)	-	-	-	(3.1)
Margin (%)	9.5	9.2	7.3	9.5
Other Comprehensive Income	464	444	102	624
<b>Total Comprehensive Income</b>	<b>2,320</b>	<b>1,398</b>	<b>1,106</b>	<b>2,566</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jul-17	Accumulate	510	467
2	04-Aug-17	Accumulate	580	541
3	15-Sep-17	Accumulate	580	544
4	09-Oct-17	Accumulate	580	528
5	10-Nov-17	Accumulate	649	571
6	10-Jan-18	Accumulate	690	649
7	12-Feb-18	Accumulate	702	593
8	26-Feb-18	Accumulate	702	581
9	13-Apr-18	Accumulate	702	638
10	17-May-18	Accumulate	652	584

**Analyst Coverage Universe**

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Accumulate	1533	1270
2	Ashoka Buildcon	BUY	321	254
3	Bharat Electronics	BUY	157	119
4	BHEL	Reduce	90	84
5	Crompton Greaves Consumer Electricals	BUY	299	244
6	Cummins India	BUY	857	681
7	Engineers India	Accumulate	180	139
8	J.Kumar Infraprojects	BUY	365	271
9	Kalpataru Power Transmission	Accumulate	534	463
10	KEC International	BUY	425	379
11	KSB Pumps	Accumulate	925	906
12	Larsen & Toubro	BUY	1566	1378
13	Power Grid Corporation of India	Accumulate	231	210
14	RPP Infra Projects	BUY	379	253
15	Sadbhav Engineering	BUY	456	352
16	Siemens	Accumulate	1401	1128
17	Thermax	Accumulate	1247	1154
18	Voltas	Accumulate	652	584

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>BUY</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<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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We/I, Mr.Kunal Sheth- MBA , Mr.Shreyans Jain- CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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