

November 9, 2018

## Q2FY19 Result Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	658		658	
Sales (Rs. m)	70,961	81,437	70,961	81,437
% Chng.			-	-
EBITDA (Rs. m)	6,670	8,307	6,670	8,307
% Chng.			-	-
EPS (Rs.)	17.1	20.9	17.1	20.9
% Chng.			-	-

### Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. m)	60,328	64,044	70,961	81,437
EBITDA (Rs. m)	5,669	6,626	6,670	8,307
Margin (%)	9.4	10.3	9.4	10.2
PAT (Rs. m)	5,188	5,773	5,646	6,908
EPS (Rs.)	15.7	17.5	17.1	20.9
Gr. (%)	42.4	11.3	(2.2)	22.3
DPS (Rs.)	4.1	4.0	4.3	5.2
Yield (%)	0.8	0.7	0.8	1.0
RoE (%)	17.0	16.0	13.8	15.2
RoCE (%)	16.5	17.0	15.0	17.0
EV/Sales (x)	2.9	2.7	2.4	2.1
EV/EBITDA (x)	30.9	26.0	25.5	20.3
PE (x)	34.4	31.0	31.6	25.9
P/BV (x)	5.4	4.6	4.2	3.7

### Key Data

### VOLT.BO | VOLT IN

52-W High / Low	Rs.675 / Rs.471
Sensex / Nifty	34,951 / 10,524
Market Cap	Rs.179bn/ \$ 2,447m
Shares Outstanding	331m
3M Avg. Daily Value	Rs.1684.99m

### Shareholding Pattern (%)

Promoter's	30.65
Foreign	15.92
Domestic Institution	31.95
Public & Others	21.49
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	6.7	(12.1)	(1.6)
Relative	4.9	(12.2)	(5.1)

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## MEP leads growth, UCP under pressure

*Voltas has given cautiously optimistic outlook with strong topline in EMP segment while UCP remains under pressure due to poor season and impact of higher costs and INR depreciation. Although Voltas has retained market leadership in UCP, limited pricing power will curtail margin expansion from current levels of 11-12%. Although it is looking at reducing the proportion of imported components, medium term outlook depends upon next season and INR-USD. Better quality of orders, effective execution, improving economic activity in GCC countries will lead to increased opportunities in MEP helping maintain the margins in 7-8% range. Although white goods launch under the brand Voltas-Beko is positive, it needs considerable scale up and investment before it starts contributing positively. We estimate 10% PAT CAGR over FY18-20. Maintain Accumulate with target price of Rs658 (31.5x FY20 EPS)*

**Concall Takeaways:** 1) RAC industry de-grew 6% in H1FY19 on account of poor summer season, unseasonal rains in September and subdued Onam festival due to floods in Kerala. 2) RAC current inventory is 2-2.5 months' vs normalized levels of 1-1.5 months 3) Inverter ACs now account for 40% of spilt AC sales 4) Increase in input costs and customs duty hike will continue putting pressure on margins as scope for price hikes remains limited 5) Increase in capital employed in UCP segment is due to higher inventory which was funded by liquidating mutual fund investments and utilizing overdraft facilities 6) looking to invest in own moulds for IDU, increase share of local sourcing and indigenizing components for inverter ACs for import reduction 7) CBUs most affected by customs duty hike 8) Electro-mechanical Projects (EMP) order book – Domestic Rs28.5bn (up 5% QoQ) and International Rs20.4bn (up 6.5% QoQ) 9) EMP to focus on government infrastructure and electrification projects 10) Launched extensive range of refrigerators, washing machines and microwave ovens under Voltas-Beko brand in a phased manner through multi brand outlets 11) Products currently being imported from China, Turkey and Thailand.

**Sales up 37%, lower tax rate helps PAT grow by 12%:** Revenues grew by 37.1% YoY to Rs14.2bn led by 61.7% YoY increase in EMP segment revenues. Input cost pressure and a depreciating INR led to a ~450bps YoY decline in gross margin to 27.5%. However, ~200bps decline in employee cost and other expense curtailed EBITDA margin erosion to 80bps YoY at 7.6%. EBITDA increased by 24.8% to Rs1.09bn. A near 200% increase in interest expense offset by 340bps decline in tax rate enabled PAT to grow at 12.2% YoY to Rs1.07bn.

**EMP segment EBIT up 150%, UCP EBIT declines 45.3%:** EMP segment recorded 61.7% YoY growth in revenues to Rs9bn. Better quality of orders and efficient execution enabled EMP EBIT to grow by 150.6% YoY to Rs759mn with margins expansion of ~300bps to 8.4%. UCP segment revenues grew 8.2% to Rs4.41bn. On account of rising inputs cost and depreciating rupee EBIT declined 45.3% to Rs278mn while margins contracted ~620bps YoY to 6.3%. Engineering products & services segment revenues grew 9.4% YoY to Rs729mn with EBIT growing 5.4% YoY to Rs290mn. EBIT margins contracted 150bps to 39.8% as the textile industry continues to remain under pressure.

**Exhibit 1: Q2FY19 Result Overview (Rs m)**

Y/e March	Q2FY19	Q2FY18	YoY gr. (%)	Q1FY19	FY19E	FY18	YoY gr. (%)
<b>Net Sales</b>	<b>14,214</b>	<b>10,367</b>	<b>37.1</b>	<b>21,481</b>	<b>70,961</b>	<b>64,044</b>	<b>10.8</b>
<b>Expenditure</b>							
Raw Material	10,300	7,042	46.3	15,626	51,092	45,675	11.9
<i>% of Net Sales</i>	<i>72.5</i>	<i>67.9</i>		<i>72.7</i>	<i>72.0</i>	<i>71.3</i>	
Personnel Cost	1,723	1,453	18.6	1,431	6,741	5,867	14.9
<i>% of Net Sales</i>	<i>12.1</i>	<i>14.0</i>		<i>6.7</i>	<i>9.5</i>	<i>9.2</i>	
Others	1,105	1,003	10.2	1,992	6,457	5,875	9.9
<i>% of Net Sales</i>	<i>7.8</i>	<i>9.7</i>		<i>9.3</i>	<i>9.1</i>	<i>9.2</i>	
Total Expenditure	13,128	9,498	38.2	19,049	64,291	57,417	12.0
<b>EBITDA</b>	<b>1,085</b>	<b>870</b>	<b>24.8</b>	<b>2,432</b>	<b>6,670</b>	<b>6,626</b>	<b>0.7</b>
<i>Margin (%)</i>	<i>7.6</i>	<i>8.4</i>		<i>11.3</i>	<i>9.4</i>	<i>10.3</i>	
Other income	461	499	(7.7)	282	1,826	1,741	4.9
Depreciation	60	61	(2.3)	59	310	244	27.4
<b>EBIT</b>	<b>1,487</b>	<b>1,308</b>	<b>13.7</b>	<b>2,655</b>	<b>8,186</b>	<b>8,124</b>	<b>0.8</b>
Interest	64	22	197.2	27	120	119	0.7
<b>PBT</b>	<b>1,423</b>	<b>1,287</b>	<b>10.6</b>	<b>2,627</b>	<b>8,066</b>	<b>8,005</b>	<b>0.8</b>
Total Taxes	331	343	(3.5)	762	2,420	2,270	6.6
<i>ETR (%)</i>	<i>23.2</i>	<i>26.6</i>		<i>29.0</i>	<i>30.0</i>	<i>28.4</i>	
<b>PAT</b>	<b>1,092</b>	<b>944</b>	<b>15.7</b>	<b>1,866</b>	<b>5,646</b>	<b>5,735</b>	<b>(1.5)</b>
<b>Reported PAT</b>	<b>1,092</b>	<b>944</b>	<b>15.7</b>	<b>1,866</b>	<b>5,646</b>	<b>5,735</b>	<b>(1.5)</b>
Extra Ordinary	-	-		-	-	6	
Share of Profit /Loss of associate	(22)	10		5	-	38	(100.0)
<b>Net Profit</b>	<b>1,070</b>	<b>954</b>	<b>12.2</b>	<b>1,871</b>	<b>5,646</b>	<b>5,773</b>	<b>(2.2)</b>

Source: Company, PL

**Exhibit 2: Q2FY19 Result Overview (Rs m)**

Y/e March	Q2FY19	Q2FY18	YoY gr. (%)	Q1FY19	QoQ gr. (%)
<b>Revenue</b>					
Electro-mechanical projects & services	9,015	5,575	61.7	8,664	4.1
<i>% of total Revenue</i>	<i>63.7</i>	<i>54.0</i>		<i>40.6</i>	
Engineering products & services	729	666	9.4	772	(5.6)
<i>% of total Revenue</i>	<i>5.2</i>	<i>6.5</i>		<i>3.6</i>	
Unitary Cooling products	4,410	4,078	8.2	11,911	(63.0)
<i>% of total Revenue</i>	<i>31.2</i>	<i>39.5</i>		<i>55.8</i>	
<b>Total</b>	<b>14,147</b>	<b>10,317</b>	<b>37.1</b>	<b>21,344</b>	<b>(33.7)</b>
<b>EBIT</b>					
Electro-mechanical projects & services	759	303	150.6	881	(13.8)
Engineering products & services	290	275	5.4	268	8.3
Unitary Cooling products	278	508	(45.3)	1,493	(81.4)
<b>Total</b>	<b>1,327</b>	<b>1,086</b>	<b>22.2</b>	<b>2,641</b>	<b>(49.8)</b>
<b>EBIT Margin (%)</b>					
Electro-mechanical projects & services	8.4	5.4	3.0	10.2	
Engineering products & services	39.8	41.3	-1.5	34.7	
Unitary Cooling products	6.3	12.4	-6.2	12.5	

Source: Company, PL

**Exhibit 3: Refrigerators**



Source: Company, PL

**Exhibit 4: Washing machines**



Source: Company, PL

**Exhibit 5: Microwave**

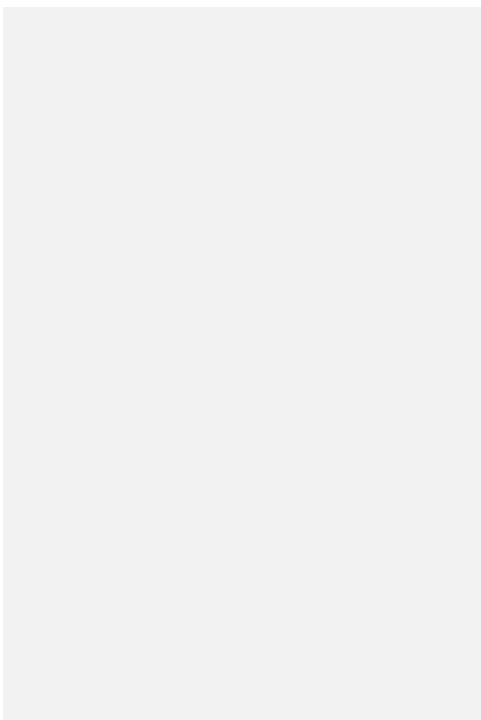


Source: Company, PL

**Exhibit 6: Dishwasher**



Source: Company, 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>70,961</b>	<b>81,437</b>
YoY gr. (%)	5.5	6.2	10.8	14.8
Cost of Goods Sold	42,359	45,675	51,092	58,634
Gross Profit	17,969	18,369	19,869	22,802
Margin (%)	29.8	28.7	28.0	28.0
Employee Cost	6,184	5,867	6,741	7,899
Other Expenses	6,116	5,875	6,457	6,596
<b>EBITDA</b>	<b>5,669</b>	<b>6,626</b>	<b>6,670</b>	<b>8,307</b>
YoY gr. (%)	30.9	16.9	0.7	24.5
Margin (%)	9.4	10.3	9.4	10.2
Depreciation and Amortization	245	244	310	325
<b>EBIT</b>	<b>5,424</b>	<b>6,383</b>	<b>6,360</b>	<b>7,981</b>
Margin (%)	9.0	10.0	9.0	9.8
Net Interest	160	119	120	120
Other Income	2,120	1,741	1,826	2,007
<b>Profit Before Tax</b>	<b>7,384</b>	<b>8,005</b>	<b>8,066</b>	<b>9,868</b>
Margin (%)	12.2	12.5	11.4	12.1
Total Tax	2,004	2,270	2,420	2,961
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>5,646</b>	<b>6,908</b>
Minority interest	-	-	-	-
Share Profit from Associate	(193)	38	-	-
<b>Adjusted PAT</b>	<b>5,188</b>	<b>5,773</b>	<b>5,646</b>	<b>6,908</b>
YoY gr. (%)	42.4	11.3	(2.2)	22.3
Margin (%)	8.6	9.0	8.0	8.5
Extra Ord. Income / (Exp)	11	6	-	-
<b>Reported PAT</b>	<b>5,199</b>	<b>5,779</b>	<b>5,646</b>	<b>6,908</b>
YoY gr. (%)	32.2	11.2	(2.3)	22.3
Margin (%)	8.6	9.0	8.0	8.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,199	5,779	5,646	6,908
<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>17.1</b>	<b>20.9</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	22,801	22,822
Net Deferred tax assets	198	46	46	46
Other Non-Current Assets	724	917	743	848
<b>Current Assets</b>				
Investments	1,995	4,876	4,876	4,876
Inventories	9,070	8,130	9,721	10,040
Trade receivables	14,541	15,703	18,469	21,196
Cash & Bank Balance	3,314	2,837	5,323	6,955
Other Current Assets	10,223	13,565	9,580	10,994
<b>Total Assets</b>	<b>64,796</b>	<b>73,097</b>	<b>75,433</b>	<b>81,734</b>
<b>Equity</b>				
Equity Share Capital	331	331	331	331
Other Equity	32,735	38,721	42,716	47,603
<b>Total Network</b>	<b>33,066</b>	<b>39,052</b>	<b>43,047</b>	<b>47,934</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	914	873	993	977
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	21,386	22,311
Other current liabilities	8,766	9,525	8,124	8,629
<b>Total Equity &amp; Liabilities</b>	<b>64,796</b>	<b>73,097</b>	<b>75,433</b>	<b>81,734</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	7,203	8,005	8,066	9,868
Add. Depreciation	245	244	310	325
Add. Interest	160	119	120	120
Less Financial Other Income	2,120	1,741	1,826	2,007
Add. Other	(2,008)	1,740	1,826	2,007
Op. profit before WC changes	5,600	10,107	10,322	12,321
Net Changes-WC	500	(1,138)	(1,518)	(3,281)
Direct tax	(1,819)	(2,270)	(2,420)	(2,961)
<b>Net cash from Op. activities</b>	<b>4,281</b>	<b>6,699</b>	<b>6,384</b>	<b>6,079</b>
Capital expenditures	(229)	(221)	(300)	(300)
Interest / Dividend Income	303	-	-	-
Others	(813)	(1,741)	(1,826)	(2,007)
<b>Net Cash from Inv. activities</b>	<b>(738)</b>	<b>(1,962)</b>	<b>(2,126)</b>	<b>(2,307)</b>
Issue of share cap. / premium	0	-	-	-
Debt changes	(998)	(287)	-	-
Dividend paid	(939)	(1,548)	(1,652)	(2,021)
Interest paid	(173)	(119)	(120)	(120)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(2,110)</b>	<b>(1,954)</b>	<b>(1,772)</b>	<b>(2,141)</b>
<b>Net change in cash</b>	<b>1,433</b>	<b>2,783</b>	<b>2,486</b>	<b>1,632</b>
Free Cash Flow	4,024	6,478	6,084	5,779

Source: Company Data, PL Research

**Key Financial Metrics**

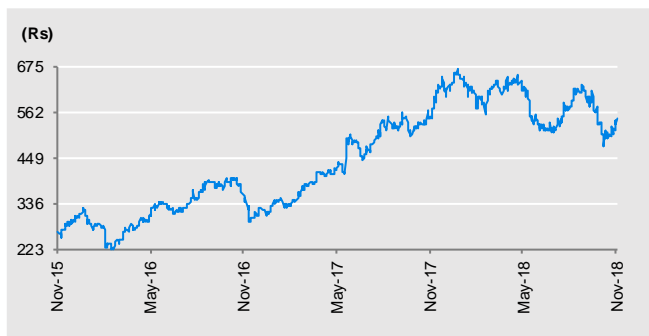
Y/e Mar	FY17	FY18	FY19E	FY20E
<b>Per Share(Rs)</b>				
EPS	15.7	17.5	17.1	20.9
CEPS	16.4	18.2	18.0	21.9
BVPS	100.0	118.1	130.2	144.9
FCF	12.2	19.6	18.4	17.5
DPS	4.1	4.0	4.3	5.2
<b>Return Ratio(%)</b>				
RoCE	16.5	17.0	15.0	17.0
ROIC	14.4	15.3	13.8	15.9
RoE	17.0	16.0	13.8	15.2
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.2)
Net Working Capital (Days)	22	12	35	40
<b>Valuation(x)</b>				
PER	34.4	31.0	31.6	25.9
P/B	5.4	4.6	4.2	3.7
P/CEPS	14.3	15.8	15.7	19.0
EV/EBITDA	30.9	26.0	25.5	20.3
EV/Sales	2.9	2.7	2.4	2.1
Dividend Yield (%)	0.8	0.7	0.8	1.0

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
<b>Net Revenue</b>	<b>13,747</b>	<b>20,484</b>	<b>21,481</b>	<b>14,214</b>
YoY gr. (%)	16.5	0.7	10.5	37.1
Raw Material Expenses	9,675	15,011	15,626	10,300
Gross Profit	4,072	5,472	5,855	3,914
Margin (%)	29.6	26.7	27.3	27.5
<b>EBITDA</b>	<b>1,186</b>	<b>2,532</b>	<b>2,432</b>	<b>1,085</b>
YoY gr. (%)	36.4	113.4	(3.9)	(55.4)
Margin (%)	8.6	12.4	11.3	7.6
Depreciation / Depletion	61	61	59	60
<b>EBIT</b>	<b>1,125</b>	<b>2,471</b>	<b>2,373</b>	<b>1,026</b>
Margin (%)	8.2	12.1	11.0	7.2
Net Interest	19	43	27	64
Other Income	170	438	282	461
<b>Profit before Tax</b>	<b>1,277</b>	<b>2,865</b>	<b>2,627</b>	<b>1,423</b>
Margin (%)	9.3	14.0	12.2	10.0
Total Tax	301	900	762	331
Effective tax rate (%)	23.6	31.4	29.0	23.2
<b>Profit after Tax</b>	<b>976</b>	<b>1,966</b>	<b>1,866</b>	<b>1,092</b>
Minority interest	-	-	-	-
Share Profit from Associates	29	(10)	5	(22)
<b>Adjusted PAT</b>	<b>1,004</b>	<b>1,942</b>	<b>1,871</b>	<b>1,070</b>
YoY gr. (%)	23.1	(3.1)	0.6	12.2
Margin (%)	7.3	9.5	8.7	7.5
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,004</b>	<b>1,942</b>	<b>1,871</b>	<b>1,070</b>
YoY gr. (%)	23.1	(3.1)	(0.5)	12.2
Margin (%)	7.3	9.5	8.7	7.5
Other Comprehensive Income	102	624	548	-
<b>Total Comprehensive Income</b>	<b>1,106</b>	<b>2,566</b>	<b>2,418</b>	<b>1,070</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	10-Nov-17	Accumulate	649	571
2	10-Jan-18	Accumulate	690	649
3	12-Feb-18	Accumulate	702	593
4	26-Feb-18	Accumulate	702	581
5	13-Apr-18	Accumulate	702	638
6	17-May-18	Accumulate	652	584
7	11-Jun-18	Accumulate	652	558
8	21-Jun-18	Accumulate	624	523
9	10-Jul-18	Accumulate	624	526
10	10-Aug-18	Accumulate	658	621

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,300	1,138
2	Avenue Supermarts	Reduce	1,286	1,412
3	Britannia Industries	Accumulate	6,588	5,625
4	Colgate Palmolive	Hold	1,157	1,102
5	Crompton Greaves Consumer Electricals	BUY	276	195
6	Dabur India	Hold	427	385
7	Emami	Accumulate	521	402
8	Future Retail	BUY	613	443
9	GlaxoSmithKline Consumer Healthcare	Hold	8,520	7,119
10	Hindustan Unilever	Hold	1,703	1,570
11	ITC	BUY	364	281
12	Jubilant FoodWorks	Accumulate	1,395	1,193
13	Kansai Nerolac Paints	Accumulate	474	387
14	Marico	BUY	377	320
15	Nestle India	Accumulate	11,129	9,569
16	Pidilite Industries	Accumulate	1,121	959
17	Titan Company	BUY	1,115	777

**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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