March 19, 2019

Voltas Ltd (VOLTAS)

₹ 604

Leadership position remains intact…

Rating matrix		
Rating	:	Hold
Target	:	₹ 650
Target Period	:	12 months
Potential Upside	:	8%

What's changed?	
Target	Changed from ₹ 570 to ₹ 650
EPS FY19E	Unchanged
EPS FY20E	Changed from ₹ 21.9 to ₹ 20.3
EPS FY21E	Changed from ₹ 24.8 to ₹ 24.4
Rating	Unchanged

Key financials

₹ Crore	FY18	FY19E	FY20E	FY21E
Net Sales	6,404	7,347	8,114	9,094
EBITDA	662.6	693.9	850.1	964.4
Net Profit	577.9	510.7	669.9	807.5
EPS (₹)	17.5	15.4	20.3	24.4

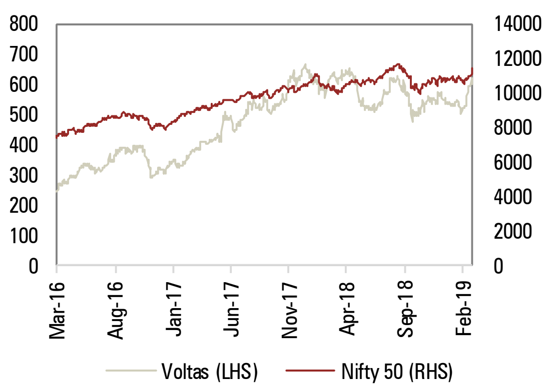
Valuation Summary

	FY18	FY19E	FY20E	FY21E
P/E	34.6	39.1	29.8	24.7
Target P/E	37.2	42.1	32.1	26.6
EV / EBITDA	29.2	28.3	22.9	20.3
P/BV	5.1	5.7	5.0	4.5
RoNW (%)	14.8	14.8	16.6	18.2
RoCE (%)	19.8	21.7	22.4	22.6
Mcap/sales	3.1	2.7	2.5	2.2

Stock Data

Particular	Amount
Market Capitalization (₹ Crore)	20,009.4
Total Debt (FY18) (₹ Crore)	142.3
Cash and Investments (FY18) (₹ Crore)	771.5
EV (₹ Crore)	19,380.2
52 week H/L	665 / 471
Equity capital (₹ Crore)	33.1
Face value (₹)	1.0

Price performance



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Voltas' UCP division performance remained flat in 9MFY19 owing to bad weather, subdued festive demand and a poor second summer. The overall RAC industry de-grew ~4% YoY in 9MFY19. Despite such challenging conditions, Voltas has maintained its leadership position with market share of 24%. With normal inventory of ACs at dealers level (1-1.5 months) and slight demand revival in southern regions, the management expects strong AC volume growth in FY20E. This along with rising contribution of inverter AC sales (inverter AC now contributes ~40% of total split AC sales) would restrict any sharp fall in EBIT margin (the management expects EBIT margin of ~11% in the UCP division, going forward, ~100 bps higher than reported EBIT margin during 9MFY19). We model revenue CAGR of ~14% in FY18-21E in the UCP segment led by volume CAGR of 11% during the same period. On the EMPS front, we slightly cut our revenue CAGR estimate from 14% to 11% in FY18-21E due to mainly focus on execution of quality orders.

Key takeaways from management meet

- The cooling industry faced a severe challenge during FY19 in terms of erratic weather conditions, high raw material prices and adverse currency movement
- Southern regions have witnessed good demand traction while demand from the northern region is yet to pick up (due to untimely rains in some part of the country)
- According to the IMD, weather conditions are likely to favour cooling products with rising mercury level from April onwards
- Inventory at dealer's level has been normalised at 1-1.5 months with a slight pick-up in demand from southern regions
- The production line for Voltas-Beko products is likely to commence operation from December 2019. It is likely to leverage ~85% of Voltas' dealers by FY20. Voltas dealer network has increased from ~11000 in FY15 to ~15000 currently
- Voltas has launched ~40-45 new air conditioner variants for the coming summer. This includes new launch of adjustable inverter AC, which allows the user to switch from 1.5 ton to 1 ton capacity
- Voltas' inverter AC sales to total AC sales are at ~40% against industry average of ~50%
- The company may take a price hike from April 2019 onwards depending on demand condition of air conditioners
- Voltas aims to maintain EBIT margin of UCP division at ~11%
- The company's EMPS segment is likely to record flattish growth in the near term owing to bidding of quality orders. It is likely to maintain EBIT margin of ~7-7.5% in the business

Rising contribution from premium products to support margin

We believe the lowest penetration of AC in India (among other white goods items) suggests the long-term growth story of Voltas will remain intact. However, in the premium product category, Voltas remained a slow entrant unlike LG that is now focusing only on inverter AC. We believe rising contribution of premium products (inverter AC) and stable raw material/currency movement would help in maintaining EBIT margin at ~11%, going forward. We maintain **HOLD** on Voltas with a revised target price of ₹ 650/share. Under our SOTP based valuation, we value the UCP segment by ascribing PE multiple of 35x FY21E earnings. We ascribe a PE multiple of 15x FY21E and 10x FY21E earning to EMPS and EPS segment, respectively.

Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	8,558.8	8,113.6	(5.2)	9,629.9	9,093.9	(5.6)	We slightly tweak our revenue estimates for FY20E-21E considering focus on execution of only quality orders in the EMPS segment
EBITDA	899.3	850.1	(5.5)	1,009.8	964.4	(4.5)	
EBITDA Mar(%)	10.5	10.5	-2bps	10.5	10.6	11bps	
PAT	722.7	669.9	(7.3)	819.5	807.5	(1.5)	
EPS (₹)	21.9	20.3	(7.3)	24.8	24.4	(1.4)	

Source: Company, ICICI Direct. Research

Assumptions

	Current				Earlier		Comments
	FY18	FY19E	FY20E	FY21E	FY20E	FY21E	
EMPS	7.2	28.4	2.1	3.6	11.5	3.9	We build revenue CAGR of 11% in FY18-21E for EMPS segment, considering focus on quality orders
EPS	-6.6	6.2	10.0	10.0	10.0	10.0	
UCP	5.9	2.8	18.8	20.3	21.7	21.5	We model UCP segment revenue CAGR of ~14% for FY18-21E led by ~11% volume CAGR in the RAC segment.

Source: Company, ICICI Direct. Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY18	FY19E	FY20E	FY21E
Net Sales	6,404.4	7,347.2	8,113.6	9,093.9
Expenses				
Raw Material Expenses	2,820.2	2,959.6	4,439.6	5,005.5
(inc)/Dec in stocks	105.4	-	-	-
Purchase of traded goods	1,641.9	2,375.7	1,237.2	1,331.2
Employee Expenses	586.7	667.9	781.7	845.9
Other expenses	587.5	650.1	805.0	946.8
Total Operating Expenditure	5,741.7	6,653.3	7,263.5	8,129.4
EBITDA	662.6	693.9	850.1	964.4
Other Income	174.1	138.6	124.0	117.7
Interest	11.9	21.7	22.8	24.0
PBDT	824.9	810.8	951.3	1,058.1
Depreciation	24.4	27.2	27.6	30.9
PBT before Exceptional Items	800.5	783.6	923.7	1,027.2
Less: Exceptional Items	(0.6)	11.7	-	-
Total Tax	227.0	225.8	266.0	322.0
PAT before MI	577.9	510.7	669.9	807.5
Minority Interest	-	-	-	-
PAT after MI	577.9	510.7	669.9	807.5
Profit from Associates	3.8	(35.4)	12.2	102.4
PAT	577.9	510.7	669.9	807.5
EPS	17.5	15.7	20.3	24.4

Source: Company, ICICI Direct Research

Cash flow statement				₹ Crore
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	577.9	510.7	669.9	807.5
Depreciation	24.4	27.2	27.6	30.9
Cash Flow before working capital cha	614.2	559.6	720.3	862.5
Net Increase in Current Assets	(367.3)	(627.2)	(553.5)	(679.7)
Net Increase in Current Liabilities	253.6	608.5	198.8	149.7
Net cash flow from operating Acti	500.5	540.9	365.7	332.4
Long term loans and advances	(19.3)	(13.5)	(11.0)	(14.0)
Other non current assets	(17.3)	(5.1)	(4.2)	(5.3)
Liquid Investments	(485.7)	200.0	100.0	100.0
(Purchase)/Sale of Fixed Assets	(25.1)	(40.0)	(50.0)	(50.0)
Others	19.1	-	-	-
Net Cash flow from Investing Acti	(528.3)	141.4	34.9	30.6
Proceeds/(Repament) loans	(28.7)	8.0	8.0	8.0
Total Outflow on account of dividend	(154.8)	(193.5)	(154.8)	(387.0)
Others	163.6	(734.5)	(22.8)	(24.0)
Net Cash flow from Financing Acti	(19.8)	(919.9)	(169.6)	(403.0)
Net Cash flow	(47.6)	(237.7)	230.9	(39.9)
Cash and Cash Equivalent at the begin	331.5	283.8	46.1	277.1
Cash	283.8	46.1	277.1	237.2

Source: Company, ICICI Direct Research

Balance sheet				₹ Crore
(Year-end March)	FY18	FY19E	FY20E	FY21E
Equity Capital	33.1	33.1	33.1	33.1
Reserve and Surplus	3,872.2	3,476.6	3,991.8	4,412.4
Total Shareholders funds	3,905.2	3,509.7	4,024.9	4,445.4
Total Debt	142.3	150.3	158.3	166.3
Deferred Tax Liability	13.2	13.2	13.2	13.2
Other Non Current Liabilities	1.0	1.0	1.0	1.0
Total Liability	4,093.5	3,706.0	4,229.2	4,657.8
Net Block	224.8	237.6	260.0	279.1
Total Fixed Assets	228.9	241.7	264.1	283.2
Other Investments	2,266.0	2,116.0	2,066.0	2,016.0
Goodwill on Consolidation	72.3	72.3	72.3	72.3
Deferred Tax Assets	17.8	17.8	17.8	17.8
Long term loans and advances	91.7	105.2	116.1	130.2
Other non current assets	34.9	40.1	44.2	49.6
Liquid Investments	487.6	437.6	387.6	337.6
Inventory	813.0	1,006.5	1,178.1	1,395.2
Debtors	1,570.3	1,791.5	2,000.6	2,242.3
Cash	283.8	46.1	277.1	237.2
Loans and Advances	4.8	5.5	6.1	6.8
Other Current Assets	1,438.6	1,650.4	1,822.6	2,042.8
Net Current Assets	894.3	675.3	1,260.9	1,751.2
Total Assets	4,093.5	3,705.9	4,229.2	4,657.8

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per Share Data				
EPS	17.5	15.4	20.3	24.4
Cash EPS	18.2	16.3	21.1	25.4
BV	118.1	106.1	121.7	134.4
DPS	4.7	5.9	4.7	11.7
Operating Ratios				
EBITDA margin	10.3	9.4	10.5	10.6
PAT margin	9.0	7.1	8.3	8.9
Return Ratios				
RoE	14.8	14.8	16.6	18.2
RoCE	19.8	21.7	22.4	22.6
RoIC	16.5	17.3	19.2	19.1
Valuation Ratios				
EV / EBITDA	29.2	28.3	22.9	20.3
P/E	34.6	39.1	29.8	24.7
EV / Net Sales	3.0	2.7	2.4	2.2
Sales / Equity	1.6	2.1	2.0	2.0
Market Cap / Sales	3.1	2.7	2.5	2.2
Price to Book Value	5.1	5.7	5.0	4.5
Turnover Ratios				
Asset turnover	1.6	2.0	1.9	2.0
Debtors Days	89.5	89.0	90.0	90.0
Creditors Days	124.0	130.0	122.0	110.0
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.6	1.5	1.6	1.8
Quick Ratio	1.2	1.2	1.3	1.4

Source: Company, ICICI Direct Research

ICICI Direct Research coverage universe (Consumer Discretionery)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹) FY18E	FY19E	FY20E	P/E (x) FY18E	FY19E	FY20E	EV/EBITDA (x) FY18E	FY19E	FY20E	RoCE (%) FY18E	FY19E	FY20E	RoE (%) FY18E	FY19E	FY20E
Asian Paints (ASIPAI)	1,443	1,600	Buy	138,384	21.9	24.3	28.7	66.0	59.3	55.8	41.6	35.4	30.1	31.6	32.6	34.1	24.4	24.8	25.5
Astral Polytecnik (ASTPOL)	1,132	1,250	Hold	13,747	14.7	16.0	22.3	77.2	70.7	50.7	43.6	37.2	28.2	22.9	21.8	24.6	17.2	15.0	17.5
Bajaj Electricals (BAJELE)	509	545	Hold	5,194	8.2	20.4	22.2	62.1	25.0	22.9	19.8	14.0	13.0	18.1	18.5	18.3	13.7	19.7	18.2
Havells India (HAVIND)	748	800	Buy	46,668	11.4	13.4	17.2	65.5	55.8	43.5	42.1	35.4	27.2	25.2	29.2	31.1	18.8	21.4	22.7
Kansai Nerolac (KANNER)	464	480	Buy	25,006	9.6	8.8	10.8	48.4	52.9	43.1	29.2	30.2	24.5	24.5	22.0	24.2	16.5	14.7	16.2
Pidilite Industries (PIDIND)	1,176	1,250	Buy	60,286	18.8	18.5	22.0	62.4	63.5	53.4	42.2	38.6	32.5	33.6	29.6	31.4	27.0	21.7	22.8
Essel Propack (ESSPRO)	118	120	Hold	3,708	5.5	5.8	6.7	21.3	20.4	17.5	8.9	8.3	7.2	18.0	17.4	19.3	15.2	14.6	15.8
Supreme Indus (SUPIND)	1,103	1,150	Buy	14,011	33.9	34.4	39.8	32.5	32.1	27.7	16.3	15.8	13.6	27.9	26.1	27.9	22.7	19.5	21.4
Symphony (SYMLIM)	1,320	1,110	Hold	9,234	27.5	18.8	25.9	48.0	70.2	51.1	37.7	52.5	35.2	41.3	25.5	34.5	31.5	22.6	29.9
V-Guard Ind (VGUARD)	215	205	Hold	9,152	3.1	3.3	4.2	68.6	64.8	51.2	43.9	41.9	32.8	23.7	24.0	26.0	17.7	18.2	19.8
Voltas Ltd (VOLTAS)	604	650	Hold	19,976	17.5	15.4	20.3	34.6	39.1	29.8	29.2	28.3	22.9	19.8	21.7	22.4	14.8	14.8	16.6
Time Techno (TIMTEC)	102	80	Hold	2,307	8.0	8.8	10.8	12.8	11.6	9.4	5.4	5.3	4.7	14.9	14.7	15.5	12.2	12.2	13.2

Source: Company, ICICI Direct Research

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