

May 10, 2019

## Q4FY19 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		ACCUMULATE	
Target Price	584		600	
Sales (Rs. m)	77,505	86,288	80,424	88,845
% Chng.	(3.6)	(2.9)		
EBITDA (Rs. m)	7,208	9,060	8,042	8,885
% Chng.	(10.4)	2.0		
EPS (Rs.)	16.1	20.8	19.2	21.8
% Chng.	(16.5)	(4.6)		

### Key Financials

	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	64,044	71,241	77,505	86,288
EBITDA (Rs. m)	6,626	12,200	7,208	9,060
Margin (%)	10.3	17.1	9.3	10.5
PAT (Rs. m)	5,718	9,417	5,312	6,880
EPS (Rs.)	17.3	28.5	16.1	20.8
Gr. (%)	10.7	64.7	(43.6)	29.5
DPS (Rs.)	3.5	4.0	4.0	4.2
Yield (%)	0.6	0.7	0.7	0.7
RoE (%)	15.9	23.5	12.4	14.5
RoCE (%)	21.6	28.2	19.1	21.4
EV/Sales (x)	2.9	2.5	2.4	2.1
EV/EBITDA (x)	28.0	14.7	25.3	20.0
PE (x)	33.6	20.4	36.1	27.9
P/BV (x)	4.9	4.7	4.3	3.8

### Key Data

VOLT.BO | VOLT IN

52-W High / Low	Rs.642 / Rs.471
Sensex / Nifty	37,463 / 11,279
Market Cap	Rs.192bn/ \$ 2,748m
Shares Outstanding	331m
3M Avg. Daily Value	Rs.1730.7m

### Shareholding Pattern (%)

Promoter's	30.30
Foreign	13.67
Domestic Institution	34.69
Public & Others	21.34
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(4.9)	7.6	(3.6)
Relative	(2.1)	1.0	(9.3)

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## EMPS orders, JV losses a drag: downgrade to HOLD

**We are downgrading our rating from Accumulate to Hold following 16.5% and 4.6% cut in FY20 & FY21 EPS on account of 1) estimate loss of Rs750mn and Rs600mn in FY20 and FY21 due to increased spends on brand building and distribution in Voltas-Beko JV to establish itself in highly competitive white goods market 2) low growth of EMPS in FY20 due to poor order inflow and 3) limited pricing power in RAC market due to rising competition**

**Voltas is focusing on consolidating its leadership (YTD market share gain of 180bps to 23.9%) and look at margin expansion mainly through cost optimization in 1) launch of new technology products in AC with rising share of inverter AC 2) expected savings in logistics and distribution costs post starting of Tirupati unit 3) increased local sourcing. We expect EMPS order inflow to improve in Middle East given firm crude prices, the benefit of which will accrue in FY21. Although Voltas-Beko JV will improve the effectiveness of distribution with full range of white goods, initial expenses on revamp and brand building will increase losses in JV to est Rs1.5bn in FY20 and Rs1.2bn in FY21. We estimate 15.9% EPS CAGR over FY19-21 and value the stock at 28x FY21. We downgrade to Hold with a target price of Rs584. Sharper recovery in EMPS and lower losses in Voltas Beko is a key risk to our call.**

**Sales growth flat at 0.7% / Adj PAT down by 28%:** Revenues grew by 0.7% YoY to Rs20.6bn as 12% YoY increase in EMP segment revenues was offset by 6% de-growth in UCP revenues. Input cost pressure, depreciating INR & increase in customs duty led to a 330bps YoY decline in gross margin to 23.5%. Absolute EBITDA was down by 43% to Rs1.4bn while margins declined 540bps YoY to 7%. Adj PAT declined by 28% YoY to Rs1.4bn despite 31% increase in other income to Rs572mn & lower tax outlay (12.9% vs 31.4%) which was partially offset by 144% increase in finance cost to Rs106mn & Rs193mn share of loss in JV.

**EMP/UCP segment EBIT down 34%/43% respectively:** EMP segment recorded 12% YoY growth in revenues to Rs9.8bn while EMP EBIT declined by 34% YoY to Rs441mn with margins falling by 310bps to 4.5%. UCP segment revenues de grew by 6% to Rs10bn. UCP EBIT declined 43% to Rs1bn while margins contracted 680bps YoY to 10.4%. Cumulative impact of depreciating INR, rise in custom duty & inability to pass on higher costs has impacted margins. Engineering products & services segment revenues were down 5% YoY to Rs785mn while EBIT grew by 10% YoY to Rs274mn. EBIT margins expanded by 510bps to 34.9%.

**Concall Takeaways:** 1) RAC industry de-grew 3% in FY19 However, witnessing strong demand in the current summer season 2) Price hikes to be taken selectively on certain SKUs & regions as competition intensity continues to remain high 3) Rating change unlikely to come into effect by January 2020 4) YTD RAC market share at 23.9% (180bps increase YoY), 5) Voltas's AC and related products unit in Tirupati (cost of Rs5bn) will enable better & quicker reach to western & southern markets will come up by end of 2020. 6) Although initial feedback for Voltbek has been positive, JV will be in investment mode for next 3 years 7) Electro-mechanical Projects (EMPS) order book at Rs50bn. EMPS will focus on government infrastructure & electrification projects. 8) Voltbek product range widened with launch of 31/17/1 SKUs in Refrigerators/ Washing Machines /Dishwasher's.

**Exhibit 1: Q4FY19 Result Overview (Rs m): Sales growth flat at 0.7%; UCP segment, JV loss drag profitability down**

Y/e March	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	FY19	FY18	YoY gr. (%)
<b>Net Sales</b>	<b>20,628</b>	<b>20,484</b>	<b>0.7</b>	<b>14,918</b>	<b>71,241</b>	<b>64,044</b>	<b>11.2</b>
<b>Expenditure</b>							
Operating & Manufacturing Expenses	15,790	15,011	5.2	10,906	52,622	45,675	15.2
<i>% of Net Sales</i>	<i>76.5</i>	<i>73.3</i>		<i>73.1</i>	<i>73.9</i>	<i>71.3</i>	
Gross Profit	4,838	5,472	-11.6	4,012	18,618	18,369	1.4
<i>% of Net Sales</i>	<i>23.5</i>	<i>26.7</i>		<i>26.9</i>	<i>26.1</i>	<i>28.7</i>	
Personnel Cost	1,664	1,434	16.0	1,601	6,419	5,867	9.4
<i>% of Net Sales</i>	<i>8.1</i>	<i>7.0</i>		<i>10.7</i>	<i>9.0</i>	<i>9.2</i>	
Other Expenses	1,732	1,507	14.9	1,254	6,083	5,875	3.5
<i>% of Net Sales</i>	<i>8.4</i>	<i>7.4</i>		<i>8.4</i>	<i>8.5</i>	<i>9.2</i>	
Total Expenditure	19,185	17,952	6.9	13,761	65,124	57,417	13.4
<b>EBITDA</b>	<b>1,443</b>	<b>2,532</b>	<b>-43.0</b>	<b>1,157</b>	<b>6,117</b>	<b>6,626</b>	<b>-7.7</b>
<i>Margin (%)</i>	<i>7.0</i>	<i>12.4</i>		<i>7.8</i>	<i>8.6</i>	<i>10.3</i>	
Other income	572	438	30.6	548	1,863	1,741	7.0
Depreciation	59	61	-2.3	62	240	244	-1.5
<b>EBIT</b>	<b>1,956</b>	<b>2,909</b>	<b>-32.8</b>	<b>1,643</b>	<b>7,740</b>	<b>8,124</b>	<b>-4.7</b>
Interest	106	43	144.9	132	330	119	176.7
<b>PBT</b>	<b>1,849</b>	<b>2,865</b>	<b>-35.5</b>	<b>1,511</b>	<b>7,410</b>	<b>8,005</b>	<b>-7.4</b>
Total Taxes	239	900	-73.5	304	1,635	2,270	-28.0
<i>ETR (%)</i>	<i>12.9</i>	<i>31.4</i>		<i>20.1</i>	<i>22.1</i>	<i>28.4</i>	
Share of JV/Associates	-193	-10		-308	-518	38	
Minority Interest	21	15	38.3	-28	60	55	8.5
<b>PAT</b>	<b>1,396</b>	<b>1,940</b>	<b>-28.1</b>	<b>927</b>	<b>5,197</b>	<b>5,718</b>	<b>-9.1</b>
Exceptional Items	0	-14		-118	-118	6	
<b>Reported PAT</b>	<b>1,396</b>	<b>1,927</b>	<b>-27.5</b>	<b>809</b>	<b>5,079</b>	<b>5,724</b>	<b>-11.3</b>

Source: Company, PL

**Exhibit 2: Segmental breakup (Rs m): EMPS EBIT down by 34%%, UCP EBIT declines by 43%**

Y/e March	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	FY19	FY18	YoY gr. (%)
<b>Revenues</b>							
Electro-Mechanical Projects & Services	9,760	8,735	11.7	8,752	36,191	28,452	27.2
Engineering Products & Services	785	834	-6.0	832	3,117	3,099	0.6
Unitary Cooling Products	9,976	10,645	-6.3	5,259	31,556	32,261	-2.2
<b>EBIT</b>							
Electro-Mechanical Projects & Services	441	665	-33.7	692	2,773	1,854	49.6
<i>EBIT margin (%)</i>	<i>4.5</i>	<i>7.6</i>		<i>7.9</i>	<i>7.7</i>	<i>6.5</i>	
Engineering Products & Services	274	249	10.1	219	1,051	992	5.9
<i>EBIT margin (%)</i>	<i>34.9</i>	<i>29.8</i>		<i>26.4</i>	<i>33.7</i>	<i>32.0</i>	
Unitary Cooling Products	1,037	1,830	-43.4	447	3,254	4,749	-31.5
<i>EBIT margin (%)</i>	<i>10.4</i>	<i>17.2</i>		<i>8.5</i>	<i>10.3</i>	<i>14.7</i>	

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Net Revenues</b>	<b>64,044</b>	<b>71,241</b>	<b>77,505</b>	<b>86,288</b>
YoY gr. (%)	6.2	11.2	8.8	11.3
Cost of Goods Sold	45,675	52,622	56,579	62,127
Gross Profit	18,369	18,618	20,926	24,161
Margin (%)	28.7	26.1	27.0	28.0
Employee Cost	5,867	6,419	6,975	7,593
Other Expenses	4,850	-	5,542	6,126
<b>EBITDA</b>	<b>6,626</b>	<b>12,200</b>	<b>7,208</b>	<b>9,060</b>
YoY gr. (%)	16.9	84.1	(40.9)	25.7
Margin (%)	10.3	17.1	9.3	10.5
Depreciation and Amortization	244	240	337	430
<b>EBIT</b>	<b>6,383</b>	<b>11,960</b>	<b>6,871</b>	<b>8,630</b>
Margin (%)	10.0	16.8	8.9	10.0
Net Interest	119	330	312	306
Other Income	1,741	-	1,951	2,168
<b>Profit Before Tax</b>	<b>8,005</b>	<b>11,630</b>	<b>8,509</b>	<b>10,493</b>
Margin (%)	12.5	16.3	11.0	12.2
Total Tax	2,270	1,635	2,383	2,938
Effective tax rate (%)	28.4	14.1	28.0	28.0
<b>Profit after tax</b>	<b>5,735</b>	<b>9,995</b>	<b>6,127</b>	<b>7,555</b>
Minority interest	55	60	65	75
Share Profit from Associate	38	(518)	(750)	(600)
<b>Adjusted PAT</b>	<b>5,718</b>	<b>9,417</b>	<b>5,312</b>	<b>6,880</b>
YoY gr. (%)	10.7	64.7	(43.6)	29.5
Margin (%)	8.9	13.2	6.9	8.0
Extra Ord. Income / (Exp)	6	(118)	-	-
<b>Reported PAT</b>	<b>5,724</b>	<b>9,299</b>	<b>5,312</b>	<b>6,880</b>
YoY gr. (%)	10.6	62.5	(42.9)	29.5
Margin (%)	8.9	13.1	6.9	8.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,724	9,299	5,312	6,880
<b>Equity Shares O/s (m)</b>	<b>331</b>	<b>331</b>	<b>331</b>	<b>331</b>
<b>EPS (Rs)</b>	<b>17.3</b>	<b>28.5</b>	<b>16.1</b>	<b>20.8</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>5,262</b>	<b>5,960</b>	<b>8,647</b>	<b>9,849</b>
Tangibles	4,638	5,308	7,964	9,121
Intangibles	624	653	683	728
<b>Acc: Dep / Amortization</b>	<b>3,013</b>	<b>3,253</b>	<b>3,590</b>	<b>4,020</b>
Tangibles	2,486	2,690	2,987	3,375
Intangibles	528	564	603	645
<b>Net fixed assets</b>	<b>2,248</b>	<b>2,707</b>	<b>5,057</b>	<b>5,829</b>
Tangibles	2,152	2,618	4,977	5,746
Intangibles	96	89	80	83
Capital Work In Progress	41	157	157	157
Goodwill	723	723	723	723
Non-Current Investments	23,014	12,544	17,663	20,206
Net Deferred tax assets	46	993	993	993
Other Non-Current Assets	917	1,558	1,786	1,864
<b>Current Assets</b>				
Investments	4,876	12,357	10,857	11,357
Inventories	8,130	10,907	11,556	12,008
Trade receivables	15,703	18,032	20,052	22,324
Cash & Bank Balance	2,837	3,211	1,415	2,486
Other Current Assets	13,565	10,994	13,828	14,296
<b>Total Assets</b>	<b>73,097</b>	<b>75,220</b>	<b>85,196</b>	<b>93,457</b>
<b>Equity</b>				
Equity Share Capital	331	331	331	331
Other Equity	38,721	40,769	44,488	49,696
<b>Total Networkth</b>	<b>39,052</b>	<b>41,100</b>	<b>44,819</b>	<b>50,027</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	873	847	1,008	1,122
Other non current liabilities	10	7	7	7
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,423	3,147	3,100	3,020
Trade payables	21,764	23,745	25,460	27,647
Other current liabilities	9,525	5,962	10,323	11,081
<b>Total Equity &amp; Liabilities</b>	<b>73,096</b>	<b>75,220</b>	<b>85,196</b>	<b>93,457</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	8,005	7,410	8,509	10,493
Add. Depreciation	244	240	337	430
Add. Interest	119	330	312	306
Less Financial Other Income	1,741	-	1,951	2,168
Add. Other	(2,150)	(4,410)	(578)	(628)
Op. profit before WC changes	6,218	3,569	8,581	10,600
Net Changes-WC	(473)	(2,344)	454	(434)
Direct tax	(2,492)	(1,635)	(2,383)	(2,938)
<b>Net cash from Op. activities</b>	<b>3,253</b>	<b>(410)</b>	<b>6,653</b>	<b>7,229</b>
Capital expenditures	(331)	(815)	(2,687)	(1,202)
Interest / Dividend Income	159	-	-	-
Others	(1,820)	3,677	(3,858)	(2,979)
<b>Net Cash from Inv. activities</b>	<b>(1,992)</b>	<b>2,863</b>	<b>(6,544)</b>	<b>(4,180)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(287)	-	-	-
Dividend paid	(1,407)	(1,592)	(1,592)	(1,672)
Interest paid	(120)	(330)	(312)	(306)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(1,814)</b>	<b>(1,922)</b>	<b>(1,905)</b>	<b>(1,978)</b>
<b>Net change in cash</b>	<b>(553)</b>	<b>531</b>	<b>(1,796)</b>	<b>1,071</b>
Free Cash Flow	2,922	(1,224)	3,966	6,027

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

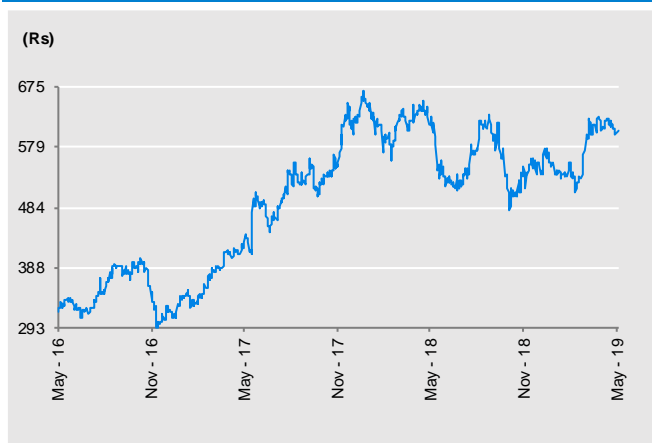
Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
<b>Net Revenue</b>	<b>21,481</b>	<b>14,214</b>	<b>14,918</b>	<b>20,628</b>
YoY gr. (%)	10.5	37.1	8.5	0.7
Raw Material Expenses	15,626	10,300	10,906	15,790
Gross Profit	5,855	3,914	4,012	4,838
Margin (%)	27.3	27.5	26.9	23.5
<b>EBITDA</b>	<b>2,432</b>	<b>1,085</b>	<b>1,157</b>	<b>1,443</b>
YoY gr. (%)	(3.9)	(55.4)	6.6	24.8
Margin (%)	11.3	7.6	7.8	7.0
Depreciation / Depletion	59	60	62	59
<b>EBIT</b>	<b>2,373</b>	<b>1,026</b>	<b>1,095</b>	<b>1,384</b>
Margin (%)	11.0	7.2	7.3	6.7
Net Interest	27	64	132	106
Other Income	282	461	548	572
<b>Profit before Tax</b>	<b>2,627</b>	<b>1,423</b>	<b>1,511</b>	<b>1,849</b>
Margin (%)	12.2	10.0	10.1	9.0
Total Tax	762	331	304	239
Effective tax rate (%)	29.0	23.2	20.1	12.9
<b>Profit after Tax</b>	<b>1,866</b>	<b>1,092</b>	<b>1,206</b>	<b>1,611</b>
Minority interest	31	35	(28)	21
Share Profit from Associates	5	(22)	(308)	(193)
<b>Adjusted PAT</b>	<b>1,839</b>	<b>1,035</b>	<b>927</b>	<b>1,396</b>
YoY gr. (%)	0.2	9.3	(6.8)	(28.1)
Margin (%)	8.6	7.3	6.2	6.8
Extra Ord. Income / (Exp)	-	-	(118)	-
<b>Reported PAT</b>	<b>1,839</b>	<b>1,035</b>	<b>809</b>	<b>1,396</b>
YoY gr. (%)	(0.9)	9.3	(18.7)	(27.5)
Margin (%)	8.6	7.3	5.4	6.8
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,839</b>	<b>1,035</b>	<b>809</b>	<b>1,396</b>
Avg. Shares O/s (m)	331	331	331	-
<b>EPS (Rs)</b>	<b>5.6</b>	<b>3.1</b>	<b>2.8</b>	<b>-</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Per Share(Rs)</b>				
EPS	17.3	28.5	16.1	20.8
CEPS	18.0	29.2	17.1	22.1
BVPS	118.1	124.3	135.5	151.2
FCF	8.8	(3.7)	12.0	18.2
DPS	3.5	4.0	4.0	4.2
<b>Return Ratio(%)</b>				
RoCE	21.6	28.2	19.1	21.4
ROIC	15.3	38.4	14.6	17.0
RoE	15.9	23.5	12.4	14.5
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.2)	(0.3)	(0.2)	(0.2)
Net Working Capital (Days)	12	27	29	28
<b>Valuation(x)</b>				
PER	33.6	20.4	36.1	27.9
P/B	4.9	4.7	4.3	3.8
P/CEPS	32.2	19.9	34.0	26.2
EV/EBITDA	28.0	14.7	25.3	20.0
EV/Sales	2.9	2.5	2.4	2.1
Dividend Yield (%)	0.6	0.7	0.7	0.7

Source: Company Data, PL Research

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


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	17-May-18	Accumulate	652	584
2	11-Jun-18	Accumulate	652	558
3	21-Jun-18	Accumulate	624	523
4	10-Jul-18	Accumulate	624	526
5	10-Aug-18	Accumulate	658	621
6	5-Oct-18	Accumulate	658	516
7	9-Nov-18	Accumulate	658	540
8	7-Jan-19	Accumulate	658	542
9	15-Feb-19	Accumulate	600	522
10	5-Apr-19	Accumulate	600	609

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,433	1,386
2	Avenue Supermarts	Reduce	1,270	1,449
3	Britannia Industries	Accumulate	3,145	2,783
4	Colgate Palmolive	Hold	1,258	1,227
5	Crompton Greaves Consumer Electricals	BUY	272	232
6	Dabur India	Hold	430	382
7	Emami	Accumulate	484	412
8	Future Retail	BUY	554	446
9	GlaxoSmithKline Consumer Healthcare	Hold	8,139	6,996
10	Hindustan Unilever	Hold	1,764	1,694
11	ITC	BUY	362	295
12	Jubilant FoodWorks	Accumulate	1,458	1,418
13	Kansai Nerolac Paints	Accumulate	464	419
14	Marico	Hold	351	340
15	Nestle India	Accumulate	10,828	10,981
16	Pidilite Industries	Accumulate	1,163	1,287
17	Titan Company	BUY	1,264	1,089
18	Voltas	Accumulate	600	609

**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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