

September 19, 2019

## Analyst Meet Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		HOLD	
Target Price	609		609	
Sales (Rs. m)	78,457	87,383	78,457	87,383
% Chng.	-	-	-	-
EBITDA (Rs. m)	7,297	9,044	7,297	9,044
% Chng.	-	-	-	-
EPS (Rs.)	16.1	20.6	16.1	20.6
% Chng.	-	-	-	-

### Key Financials - Consolidated

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	64,044	71,241	78,457	87,383
EBITDA (Rs. m)	6,626	6,117	7,297	9,044
Margin (%)	10.3	8.6	9.3	10.4
PAT (Rs. m)	5,718	5,197	5,327	6,815
EPS (Rs.)	17.3	15.7	16.1	20.6
Gr. (%)	10.7	(9.1)	2.5	27.9
DPS (Rs.)	3.5	4.0	4.0	4.1
Yield (%)	0.6	0.6	0.6	0.6
RoE (%)	15.9	13.0	12.5	14.5
RoCE (%)	21.6	18.3	19.2	21.4
EV/Sales (x)	3.2	2.8	2.5	2.2
EV/EBITDA (x)	30.5	32.1	27.2	21.7
PE (x)	36.5	40.2	39.2	30.6
P/BV (x)	5.3	5.1	4.7	4.2

### Key Data

### VOLT.BO | VOLT IN

52-W High / Low	Rs.663 / Rs.471
Sensex / Nifty	36,564 / 10,841
Market Cap	Rs.209bn / \$ 2,930m
Shares Outstanding	331m
3M Avg. Daily Value	Rs.1602.4m

### Shareholding Pattern (%)

Promoter's	30.30
Foreign	12.99
Domestic Institution	35.89
Public & Others	20.82
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	4.9	4.4	9.0
Relative	7.2	8.8	11.2

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## No triggers on the horizon

*Voltas Analyst meet indicated cautious demand scenario post positive start to UCP in FY20 as continuing slowdown in the economy can negatively impact festive season sales. The management has maintained annual margin guidance of 11% in UCP. With no presence in key product segments (Direct Cool refrigerator & Semi-automatic Washing Machines) Voltbek is unlikely to make any major inroads this festival season. It is expected to remain in an investment phase over the next 3-4 years given expenses on distribution, branding and stiff competition in white goods market. We estimate the JV to report loss of ~Rs1.5bn/Rs1.2bn in FY20/21. MEP business is focusing on domestic projects in Rural Electrification and Urban Infra as return of NDA Govt is likely to retain continuity in policies. We estimate 14.5% EPS CAGR over FY19-21 and value the stock at 28x June21 EPS. Maintain Hold with a target price of Rs609.*

**Voltas-Beko JV has a long road ahead:** Launched only in H2FY19, Voltas-Beko JV (Voltbek) stands to miss out on festival season sales for a second consecutive year as it has no presence in the direct cool refrigerators (70% of market) and semi-automatic washing machines (50% of market). Voltbek envisages leveraging on Voltas's brand presence and sales & distribution network. Arcelik will contribute in technology, R&D, global sourcing capabilities and wide product range. Envisaging better growth opportunities from tier II/III towns, Voltas now sells full range of Voltas products (incl Voltbek) through ~156 EBOs. The JV is banking on starting production (Dec 2019) of direct cool refrigerators (1mn units) and twin tub semi-automatic washing machine (1mn units) to fully exploit the distribution reach of Voltas in next season. Although Voltas has targeted Rs100bn sales by 2025 with at least 10% market share in each category, we remain cautious on Voltas's 2<sup>nd</sup> entry in the white goods space given mass market focus and tough competition from well entrenched players like Whirlpool, Samsung, LG, Godrej and Haier.

**Slowdown in economy can impact festive season sales:** RAC industry started FY20 on a positive note given strong demand due to harsh summer and low base of 1Q19. However, with the baggage of two consecutive years of poor summers, the industry resisted taking any price hike prior to the start of the season. Voltas shall look to selectively take price hikes post Diwali on select SKUs/regions. Onam season sales were impacted by floods; however, the management is witnessing some uptick in demand. Although RAC demand has been relatively immune to the slowdown in economy and liquidity squeeze, continuation of difficult economic conditions can negatively impact festive season sales. Voltas remains hopeful of commissioning the first phase (Rs2.5bn) of the new AC & related products plant at Tirupati (Rs5bn) in two years. The new unit will enable better & quicker reach to western & southern markets.

**Order inflow in coming quarters key to EMPS growth:** With the return of NDA government, Voltas remains optimistic on resumption of government spending on rural electrification and urban infrastructure which form 2/3<sup>rd</sup> of the domestic order book (Rs29bn). Voltas expects huge opportunities in **1) Rural Electrification 2) Metro projects 3) Airport infrastructure and 4) Water management** (non-portable and sewage treatment). Pace of order inflow in the coming quarters remains the key to growth of EMPS segment. The international projects business continues to undergo a difficult phase and is not a focus area. Voltas continues to selectively bid for orders.

**Exhibit 1: PAT to grow at CAGR of 14.5% over FY19-21**

Y/E March (Rs mn)	FY18	FY19	FY20E	FY21E
<b>Net Sales</b>	<b>64,044</b>	<b>71,241</b>	<b>78,457</b>	<b>87,383</b>
<i>Change (%)</i>	<i>6.2</i>	<i>11.2</i>	<i>10.1</i>	<i>11.4</i>
Raw Materials	45675	52622	57509	63178
Gross Profit	<b>18369</b>	<b>18618</b>	<b>20948</b>	<b>24205</b>
<i>Margin (%)</i>	<i>28.7</i>	<i>26.1</i>	<i>26.7</i>	<i>27.7</i>
Operating Expenses	11742	12501	13652	15161
<b>EBITDA</b>	<b>6,626</b>	<b>6,117</b>	<b>7,297</b>	<b>9,044</b>
<i>Change (%)</i>	<i>16.9</i>	<i>-7.7</i>	<i>19.3</i>	<i>24.0</i>
<i>Margin (%)</i>	<i>10.3</i>	<i>8.6</i>	<i>9.3</i>	<i>10.4</i>
Depreciation	244	240	313	401
Int. and Fin. Charges	119	330	299	294
Other Income	1,741	1,863	1,846	2,055
<b>Profit before Taxes</b>	<b>8,005</b>	<b>7,410</b>	<b>8,531</b>	<b>10,403</b>
<i>Change (%)</i>	<i>8.4</i>	<i>-7.4</i>	<i>15.1</i>	<i>21.9</i>
<i>Margin (%)</i>	<i>12.5</i>	<i>10.4</i>	<i>10.9</i>	<i>11.9</i>
Tax	2,172	2,200	2,303	2,809
Deferred Tax	98	-564	85	104
<i>Tax Rate (%)</i>	<i>28.4</i>	<i>22.1</i>	<i>28.0</i>	<i>28.0</i>
<b>Profit before share of JV/MI</b>	<b>5,735</b>	<b>5,775</b>	<b>6,142</b>	<b>7,490</b>
<i>Change (%)</i>	<i>6.6</i>	<i>0.7</i>	<i>6.4</i>	<i>21.9</i>
<i>Margin (%)</i>	<i>9.0</i>	<i>8.1</i>	<i>7.8</i>	<i>8.6</i>
Share of JV/Associate	38	-518.2	-750.0	-600.0
Minority Interest	55	59.7	65.0	75.0
<b>Adjusted PAT</b>	<b>5,718</b>	<b>5,197</b>	<b>5,327</b>	<b>6,815</b>
<i>Change (%)</i>	<i>10.7</i>	<i>-9.1</i>	<i>2.5</i>	<i>27.9</i>
<i>Margin (%)</i>	<i>8.9</i>	<i>7.3</i>	<i>6.8</i>	<i>7.8</i>
Exceptional/Prior Period inc	6	-118	-430	0
<b>Reported PAT</b>	<b>5,724</b>	<b>5,079</b>	<b>4,897</b>	<b>6,815</b>

Source: Company, PL

**Exhibit 2: Segment Wise Sales break up (Rs mn)**

Y/E March	FY18	FY19	FY20E	FY21E
Electro-Mechanical Projects & Services	28,452	36,191	35,827	38,608
<i>Change (%)</i>	<i>7.2</i>	<i>27.2</i>	<i>(1.0)</i>	<i>7.8</i>
Engineering Products & Services	3,099	3,117	3,366	3,635
<i>Change (%)</i>	<i>(6.6)</i>	<i>0.6</i>	<i>8.0</i>	<i>8.0</i>
Unitary Cooling Products	32,261	31,556	38,813	44,635
<i>Change (%)</i>	<i>5.9</i>	<i>(2.2)</i>	<i>23.0</i>	<i>15.0</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>78,457</b>	<b>87,383</b>
YoY gr. (%)	6.2	11.2	10.1	11.4
Cost of Goods Sold	45,675	52,622	57,509	63,178
Gross Profit	18,369	18,618	20,948	24,205
Margin (%)	28.7	26.1	26.7	27.7
Employee Cost	5,867	6,419	6,983	7,690
Other Expenses	4,850	4,971	5,531	6,117
<b>EBITDA</b>	<b>6,626</b>	<b>6,117</b>	<b>7,297</b>	<b>9,044</b>
YoY gr. (%)	16.9	(7.7)	19.3	24.0
Margin (%)	10.3	8.6	9.3	10.4
Depreciation and Amortization	244	240	313	401
<b>EBIT</b>	<b>6,383</b>	<b>5,877</b>	<b>6,983</b>	<b>8,643</b>
Margin (%)	10.0	8.2	8.9	9.9
Net Interest	119	330	299	294
Other Income	1,741	1,863	1,846	2,055
<b>Profit Before Tax</b>	<b>8,005</b>	<b>7,410</b>	<b>8,531</b>	<b>10,403</b>
Margin (%)	12.5	10.4	10.9	11.9
Total Tax	2,270	1,635	2,389	2,913
Effective tax rate (%)	28.4	22.1	28.0	28.0
<b>Profit after tax</b>	<b>5,735</b>	<b>5,775</b>	<b>6,142</b>	<b>7,490</b>
Minority interest	55	60	65	75
Share Profit from Associate	38	(518)	(750)	(600)
<b>Adjusted PAT</b>	<b>5,718</b>	<b>5,197</b>	<b>5,327</b>	<b>6,815</b>
YoY gr. (%)	10.7	(9.1)	2.5	27.9
Margin (%)	8.9	7.3	6.8	7.8
Extra Ord. Income / (Exp)	6	(118)	(430)	-
<b>Reported PAT</b>	<b>5,724</b>	<b>5,079</b>	<b>4,897</b>	<b>6,815</b>
YoY gr. (%)	10.6	(11.3)	(3.6)	39.2
Margin (%)	8.9	7.1	6.2	7.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,724	5,079	4,897	6,815
<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>15.7</b>	<b>16.1</b>	<b>20.6</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>5,766</b>	<b>8,453</b>	<b>9,654</b>
Tangibles	4,638	5,120	7,777	8,933
Intangibles	624	646	676	721
<b>Acc: Dep / Amortization</b>	<b>3,013</b>	<b>3,059</b>	<b>3,372</b>	<b>3,773</b>
Tangibles	2,486	2,502	2,776	3,135
Intangibles	528	557	596	638
<b>Net fixed assets</b>	<b>2,248</b>	<b>2,707</b>	<b>5,081</b>	<b>5,881</b>
Tangibles	2,152	2,618	5,001	5,798
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	14,959	17,022
Net Deferred tax assets	46	993	993	993
Other Non-Current Assets	917	1,558	1,618	1,658
<b>Current Assets</b>				
Investments	4,876	12,357	10,857	12,757
Inventories	8,130	10,907	11,698	12,161
Trade receivables	15,703	18,032	20,299	22,608
Cash & Bank Balance	2,837	3,211	2,810	2,825
Other Current Assets	13,565	10,994	11,522	11,730
<b>Total Assets</b>	<b>73,097</b>	<b>75,220</b>	<b>81,837</b>	<b>89,742</b>
<b>Equity</b>				
Equity Share Capital	331	331	331	331
Other Equity	38,721	40,769	44,074	49,258
<b>Total Network</b>	<b>39,052</b>	<b>41,100</b>	<b>44,405</b>	<b>49,588</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	873	847	941	1,049
Other non current liabilities	10	7	7	7
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,423	3,147	3,138	3,058
Trade payables	21,764	23,745	25,592	27,798
Other current liabilities	9,525	5,962	7,275	7,688
<b>Total Equity &amp; Liabilities</b>	<b>73,096</b>	<b>75,220</b>	<b>81,837</b>	<b>89,742</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	8,005	7,410	8,531	10,403
Add. Depreciation	244	240	313	401
Add. Interest	119	330	299	294
Less Financial Other Income	1,741	1,863	1,846	2,055
Add. Other	(2,150)	(2,030)	(785)	(598)
Op. profit before WC changes	6,218	5,950	8,357	10,501
Net Changes-WC	(473)	(6,456)	(518)	(547)
Direct tax	(2,492)	(2,708)	(2,389)	(2,913)
<b>Net cash from Op. activities</b>	<b>3,253</b>	<b>(3,214)</b>	<b>5,451</b>	<b>7,041</b>
Capital expenditures	(331)	(804)	(2,687)	(1,202)
Interest / Dividend Income	159	411	-	-
Others	(1,820)	4,320	(1,275)	(3,899)
<b>Net Cash from Inv. activities</b>	<b>(1,992)</b>	<b>3,927</b>	<b>(3,961)</b>	<b>(5,100)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(287)	1,724	-	-
Dividend paid	(1,407)	(1,577)	(1,592)	(1,632)
Interest paid	(120)	(329)	(299)	(294)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(1,814)</b>	<b>(182)</b>	<b>(1,891)</b>	<b>(1,926)</b>
<b>Net change in cash</b>	<b>(553)</b>	<b>531</b>	<b>(401)</b>	<b>15</b>
Free Cash Flow	2,922	(4,019)	2,764	5,840

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
<b>Net Revenue</b>	<b>14,214</b>	<b>14,918</b>	<b>20,628</b>	<b>26,540</b>
YoY gr. (%)	37.1	8.5	0.7	23.6
Raw Material Expenses	10,300	10,906	15,790	19,802
Gross Profit	3,914	4,012	4,838	6,738
Margin (%)	27.5	26.9	23.5	25.4
<b>EBITDA</b>	<b>1,085</b>	<b>1,157</b>	<b>1,443</b>	<b>2,912</b>
YoY gr. (%)	26.7	1.3	(43.0)	19.7
Margin (%)	7.6	7.8	7.0	11.0
Depreciation / Depletion	60	62	59	77
<b>EBIT</b>	<b>1,026</b>	<b>1,095</b>	<b>1,384</b>	<b>2,835</b>
Margin (%)	7.2	7.3	6.7	10.7
Net Interest	64	132	106	44
Other Income	461	548	572	433
<b>Profit before Tax</b>	<b>1,423</b>	<b>1,511</b>	<b>1,849</b>	<b>3,224</b>
Margin (%)	10.0	10.1	9.0	12.1
Total Tax	331	304	239	917
Effective tax rate (%)	23.2	20.1	12.9	28.4
<b>Profit after Tax</b>	<b>1,092</b>	<b>1,206</b>	<b>1,611</b>	<b>2,307</b>
Minority interest	35	(28)	21	11
Share Profit from Associates	(22)	(308)	(193)	(214)
<b>Adjusted PAT</b>	<b>1,035</b>	<b>927</b>	<b>1,396</b>	<b>2,082</b>
YoY gr. (%)	9.3	(6.8)	(28.1)	13.2
Margin (%)	7.3	6.2	6.8	7.8
Extra Ord. Income / (Exp)	-	(118)	-	(430)
<b>Reported PAT</b>	<b>1,035</b>	<b>809</b>	<b>1,396</b>	<b>1,652</b>
YoY gr. (%)	9.3	(18.7)	(27.5)	(10.2)
Margin (%)	7.3	5.4	6.8	6.2
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,035</b>	<b>809</b>	<b>1,396</b>	<b>1,652</b>
Avg. Shares O/s (m)	331	331	331	331
<b>EPS (Rs)</b>	<b>3.1</b>	<b>2.8</b>	<b>4.2</b>	<b>6.3</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Per Share(Rs)</b>				
EPS	17.3	15.7	16.1	20.6
CEPS	18.0	16.4	17.1	21.8
BVPS	118.1	124.3	134.3	149.9
FCF	8.8	(12.1)	8.4	17.7
DPS	3.5	4.0	4.0	4.1
<b>Return Ratio(%)</b>				
RoCE	21.6	18.3	19.2	21.4
ROIC	15.3	17.1	15.6	18.0
RoE	15.9	13.0	12.5	14.5
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.2)	(0.3)	(0.2)	(0.3)
Net Working Capital (Days)	12	27	30	29
<b>Valuation(x)</b>				
PER	36.5	40.2	39.2	30.6
P/B	5.3	5.1	4.7	4.2
P/CEPS	35.0	38.4	37.0	28.9
EV/EBITDA	30.5	32.1	27.2	21.7
EV/Sales	3.2	2.8	2.5	2.2
Dividend Yield (%)	0.6	0.6	0.6	0.6

Source: Company Data, PL Research

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


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Aug-19	Hold	609	601
2	04-Jul-19	Accumulate	584	635
3	20-Jun-19	HOLD	584	610
4	10-May-19	HOLD	584	580
5	05-Apr-19	Accumulate	600	609
6	15-Feb-19	Accumulate	600	522
7	07-Jan-19	Accumulate	658	542
8	09-Nov-18	Accumulate	658	540
9	05-Oct-18	Accumulate	658	516

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,522	1,479
2	Avenue Supermarts	Hold	1,338	1,359
3	Britannia Industries	Accumulate	3,068	2,602
4	Colgate Palmolive	Reduce	1,159	1,275
5	Crompton Greaves Consumer Electricals	BUY	297	225
6	Dabur India	Hold	437	444
7	Emami	Accumulate	386	310
8	Future Retail	BUY	512	395
9	GlaxoSmithKline Consumer Healthcare	Hold	7,972	7,473
10	Havells India	Reduce	566	661
11	Hindustan Unilever	Accumulate	1,816	1,690
12	ITC	BUY	367	265
13	Jubilant FoodWorks	BUY	1,459	1,153
14	Kansai Nerolac Paints	Accumulate	479	434
15	Marico	Hold	357	363
16	Nestle India	Hold	10,900	12,004
17	Pidilite Industries	Accumulate	1,301	1,290
18	Titan Company	BUY	1,173	1,047
19	Voltas	Hold	609	601

**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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