

BSE SENSEX
 39,113

S&P CNX
 11,691

CMP: INR610
TP: INR595 (-2%)
Neutral

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VOLTAS

Stock Info

Bloomberg	VOLT IN
Equity Shares (m)	331
M.Cap.(INRb)/(USDb)	201.7 / 2.9
52-Week Range (INR)	642 / 471
1, 6, 12 Rel. Per (%)	4/-2/7
12M Avg Val (INR M)	853
Free float (%)	69.7

Financials Snapshot (INR b)

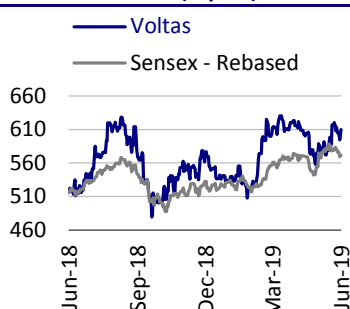
Y/E Mar	2019	2020E	2021E
Net Sales	71.2	75.2	82.0
EBITDA	6.1	7.3	8.4
PAT	5.2	5.8	6.8
EPS (INR)	15.7	17.4	20.5
Gr. (%)	-9.2	10.8	18.0
BV/Sh (INR)	124.2	137.5	153.1
RoE (%)	13.0	13.3	14.1
RoCE (%)	14.2	14.1	14.9
P/E (x)	38.6	34.8	29.5
P/BV (x)	4.9	4.4	4.0

Shareholding pattern (%)

As On	Mar-19	Dec-18	Mar-18
Promoter	30.3	30.3	30.3
DII	35.1	33.3	29.7
FII	13.7	14.6	19.6
Others	20.9	21.8	20.5

FII Includes depository receipts

Stock Performance (1-year)



RAC witnesses strong start to FY20

UCP margins to stabilize at 11-12%, earmarks INR5b capex for new facility

We met management of Voltas (VOLT) to understand the industry trends and the company's progress in its various segments and projects. Key takeaways:

- Room AC (RAC) industry witnesses a strong start to FY20:** After remaining weak over the last two years, RAC industry demand picked up strongly in April/May this year, helping VOLT to normalize inventory in the system. Demand was strong across regions (north, south and west) over the last two months, although it appears to have calmed down in the southern and western region in June.
- UCP margin to sustain at 11-12% levels:** UCP EBIT margin shrank to a six-year low of 10.3% in FY19 due to difficulties in taking price hikes, intensifying competition, high RM cost and the prevailing import duty on compressors and completely built units (CBUs). However, with RAC demand witnessing signs of revival beginning this fiscal, VOLT expects the UCP margin to settle around 11-12% on a sustainable basis.
- Plans capex of INR5b to cater to southern/western demand:** VOLT is coming up with a new facility in Tirupati, Andhra Pradesh, which will manufacture molding for room ACs, air coolers and commercial refrigeration. The new facility will come up in two phases with capex of INR5b spread over the next five years (~INR1b annually). The company expects the factory to be operational in 2HFY20.
- Arcelik JV facility on track to be operational by Dec'19:** After the commercial launch of its products, Volt-Beko has been able to cover 50%-55% of the VOLT distribution network in the metro region and intends to capture the remaining by the start of next summer. Volt-Beko now has presence in major multi-brand outlets like Vijay Sales, Kohinoor, Vivek and Great Eastern. It has also established ~100 exclusive business outlets, majorly in the second and third tier cities. Both partners have committed USD100m toward the JV. Currently, Volt-Beko products are imported, but a new facility is likely to be ready by Dec'19 to manufacture refrigerators, washing machines, microwave ovens and dishwashers. Thereafter, VOLT expects sales to pick up meaningfully.
- Government orders – primary driver for Projects segment:** Ordering is primarily driven by the government's rural electrification and urban infrastructure projects (including the metro rail and modernization of airports, hospitals and educational institutions). However, private capex is yet to see any significant on-the-ground revival. Orders in the Middle East are being supported by the Emirates, where capex plans are robust. As of now, VOLT does not plan to participate in the tender process for the Qatar FIFA 2022 World Cup order, given the embargo status. The company expects margins to be stable at 7.0-7.5% for its current order backlog of INR50b. 40% of the order book is from rural electrification, 30-40% from urban infra and the balance 20-30% from the traditional HVAC system.

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- **Valuation and view:** We maintain our **Neutral** rating on the stock, given expensive valuations. We value the company on an SOTP basis with a target price of INR595 (UCP business at 35x FY21E EPS; EMP and Engineered Products business at 15x FY21E EPS).

Exhibit 1: SOTP valuation

Name of segment	Mar'21 EPS	Multiple	Value/Share
Unitary Cooling Products	11.1	35.0	390
Engineered Products Services	2.3	15.0	35
Electro Mechanical Products(incl. non allocable)	8.2	15.0	122
<i>Less: BEKO JV loss</i>	<i>(1.0)</i>	DCF	49
Total	20.5		595

Exhibit 2: Operating matrix

INR M	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Order Book	36,120	38,930	39,140	43,210	50,620	49,760	50,445	53,476
Domestic	20,200	20,220	25,441	30,247	35,434	34,832	35,311	37,433
International	15,920	18,710	13,699	12,963	15,186	14,928	15,133	16,043
YoY (%)	-2.9	7.8	0.5	10.4	17.1	-1.7	1.4	6.0
Order Inflows	22,410	22,380	22,500	27,850	34,440	35,129	36,885	40,574
Segmental Revenues								
Electro mechanical projects	26,924	22,085	28,288	26,550	28,450	36,191	36,200	37,543
Engineering Products	4,482	3,601	3,706	3,318	3,099	3,117	3,272	3,436
Unitary Cooling products	20,524	25,105	25,209	30,469	32,260	31,555	35,342	40,643
Others	730	1,040	-6	-9	235	378	378	378
Total Revenues	52,660	51,831	57,198	60,328	64,044	71,241	75,193	82,000
EMP, % YoY	-15.8	-18.0	28.1	-6.1	7.2	27.2	0.0	3.7
Engg Products, % YoY	4.0	-19.7	2.9	-10.5	-6.6	0.6	5.0	5.0
UCP, % YoY	11.8	22.3	0.4	20.9	5.9	-2.2	12.0	15.0
Segmental PBIT								
Electro mechanical projects	-396	231	550	849	1,854	2,773	2,896	3,003
Engineering Products	1,414	1,081	1,127	956	992	1,051	1,047	1,100
Unitary Cooling products	2,567	3,491	3,381	4,403	4,749	3,254	3,888	4,877
Total PBIT	3,592	4,874	5,058	6,208	7,595	7,077	7,831	8,980
Segmental PBIT, %								
Electro mechanical projects	-1.5	1.0	1.9	3.2	6.5	7.7	8.0	8.0
Engineering Products	31.6	30.0	30.4	28.8	32.0	33.7	32.0	32.0
Unitary Cooling products	12.5	13.9	13.4	14.5	14.7	10.3	11.0	12.0
Total PBIT	6.8	9.4	8.8	10.3	11.9	9.9	10.4	11.0
EPS (INR/sh)	6.8	10.2	10.8	15.6	17.3	15.7	17.4	20.5
NWC (Days)	52.5	40.7	40.8	35.5	42.0	66.3	63.0	63.8
EPS Composition (INR/sh)								
Electro mechanical projects	-1.6	-0.1	0.8	3.6	4.3	7.7	7.6	8.2
Engineering Products	2.7	2.4	2.4	2.0	2.1	2.2	2.2	2.3
Unitary Cooling products	5.7	7.9	7.7	10.0	10.8	7.4	8.8	11.1

Financials and valuations

Income Statement						(INR Million)
Y/E March	2017	2018	2019	2020E	2021E	
Total Revenues	60,328	64,044	71,241	75,193	82,000	
Change (%)	5	6	11	6	9	
Raw Materials	42,359	45,675	52,622	54,740	59,286	
Staff Cost	6,184	5,867	6,419	6,740	7,279	
Other Expenses	5,994	5,875	6,083	6,420	7,001	
EBITDA	5,791	6,626	6,117	7,293	8,434	
% of Total Revenues	9.6	10.3	8.6	9.7	10.3	
Other Income	1,998	1,741	1,863	1,729	1,804	
Depreciation	245	244	240	272	310	
Interest	160	119	330	258	78	
Exceptional Items	11	6	-118	0	0	
PBT	7,395	8,011	7,292	8,493	9,851	
Tax	2,004	2,270	1,635	2,262	2,665	
Rate (%)	27	28	22	27	27	
Adjusted PAT	5,174	5,724	5,197	5,757	6,794	
Extra-ordinary Income (net)	0	0	0	0	0	
Reported PAT	5,185	5,730	5,079	5,757	6,794	
Change (%)	36	11	-11	13	18	
Adj. Consolidated PAT	5,174	5,724	5,197	5,757	6,794	
Change (%)	47	11	-9	11	18	

Balance Sheet						(INR Million)
Y/E March	2017	2018	2019	2020E	2021E	
Share Capital	331	331	331	331	331	
Reserves	32,735	38,721	40,769	45,144	50,307	
Net Worth	33,066	39,052	41,100	45,475	50,638	
Minority Interest	285	317	348	348	348	
Loans	1,709	1,423	3,147	1,147	147	
Deferred Tax Liability	(198)	(46)	(993)	(993)	(993)	
Capital Employed	34,863	40,746	43,601	45,976	50,139	
Gross Fixed Assets	5,165	5,262	6,684	7,684	8,684	
Less: Depreciation	2,889	3,013	3,253	3,525	3,835	
Net Fixed Assets	2,276	2,248	3,430	4,158	4,849	
Capital WIP	6	41	157	157	157	
Investments	22,679	27,536	23,859	23,859	23,859	
Goodwill	723	723	-	-	-	
Curr. Assets	38,808	42,370	46,715	49,939	56,127	
Inventory	9,070	8,130	10,907	11,512	12,554	
Debtors	14,541	15,703	18,330	18,541	20,219	
Cash & Bank Balance	3,314	2,837	3,211	4,827	6,932	
Loans & Advances	935	1,218	116	123	134	
Current Liab. & Prov.	29,628	32,172	30,560	32,136	34,851	
Creditors	19,946	21,765	23,745	25,062	27,331	
Other Liabilities	9,682	10,408	6,815	7,074	7,520	
Net Current Assets	9,180	10,198	16,155	17,802	21,275	
Application of Funds	34,863	40,746	43,601	45,976	50,139	

Financials and valuations

Ratios

Y/E March	2017	2018	2019	2020E	2021E
Basic (INR)	15.6	17.3	15.7	17.4	20.5
Adj. EPS	15.6	17.3	15.7	17.4	20.5
Cash EPS	16.4	18.0	16.4	18.2	21.5
Book Value	100.0	118.0	124.2	137.5	153.1
DPS	3.5	4.0	3.1	3.5	4.1
Payout (incl. Div. Tax.)	25.9	26.8	24.0	24.0	24.0

Valuation (x)

P/E	38.8	35.1	38.6	34.8	29.5
Cash P/E	37.1	33.6	36.9	33.3	28.2
EV/EBITDA	34.3	30.1	32.8	27.0	23.0
EV/Sales	3.3	3.1	2.8	2.6	2.4
Price/Book Value	6.1	5.1	4.9	4.4	4.0
Dividend Yield (%)	0.6	0.7	0.5	0.6	0.7

Profitability Ratios (%)

RoE	18.1	15.9	13.0	13.3	14.1
RoCE	16.8	15.5	14.2	14.1	14.9
RoIC	42.5	46.5	34.1	30.7	32.6

Turnover Ratios

Debtors (Days)	88.0	89.5	93.9	90.0	90.0
Inventory (Days)	54.9	46.3	55.9	55.9	55.9
Creditors. (Days)	120.7	124.0	121.7	121.7	121.7
Asset Turnover (x)	1.7	1.6	1.6	1.6	1.6

Leverage Ratio

Debt/Equity (x)	0.1	0.0	0.1	0.0	0.0
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Cash Flow Statement

Y/E March	2017	2018	2019	2020E	2021E
PBT before EO Items	7,384	8,005	7,410	8,493	9,851
Add : Depreciation	245	268	240	272	310
Interest	-	-	-	-	-
Less : Direct Taxes Paid	(2,004)	(2,270)	(1,635)	(2,262)	(2,665)
(Inc)/Dec in WC	533	(1,495)	(8,979)	(505)	(1,760)
CF from Operations	6,168	4,508	(2,965)	5,998	5,735
(Inc)/Dec in FA	(302)	(252)	(814)	(1,000)	(1,000)
Free Cash Flow	5,866	4,257	(3,779)	4,998	4,735
Investment in liquid assets	(3,221)	(4,857)	3,677	-	-
CF from Investments	(3,523)	(5,109)	2,863	(1,000)	(1,000)
(Inc)/Dec in Debt	(998)	1,666	1,724	(2,000)	(1,000)
Less : Interest Paid	-	-	-	-	-
Dividend Paid	(1,337)	(1,534)	(1,247)	(1,382)	(1,631)
CF from Fin. Activity	(1,217)	132	476	(3,382)	(2,631)
Inc/Dec of Cash	1,428	(469)	374	1,616	2,104
Add: Beginning Balance	1,877	3,305	2,837	3,211	4,827
Closing Balance	3,309	2,837	3,211	4,827	6,932

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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