

BSE SENSEX
41,010

S&P CNX
12,087

CMP: INR679

TP: INR785 (+16%)

Buy

VOLTAS

Stock Info

Bloomberg	VOLT IN
Equity Shares (m)	331
M.Cap.(INRb)/(USDb)	224.8 / 3.2
52-Week Range (INR)	725 / 502
1, 6, 12 Rel. Per (%)	-5/8/6
12M Avg Val (INR M)	873
Free float (%)	69.7

Financials Snapshot (INR b)

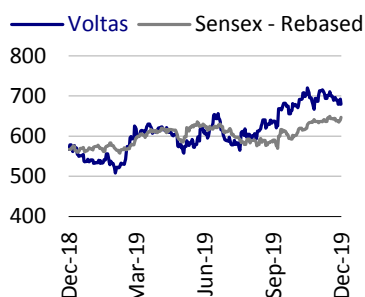
Y/E Mar	2019	2020E	2021E
Net Sales	71.2	80.2	91.0
EBITDA	6.1	8.3	9.9
PAT	5.2	6.6	8.1
EPS (INR)	15.7	20.0	24.6
Gr. (%)	-9.1	27.0	23.1
BV/Sh (INR)	124.2	137.2	154.4
RoE (%)	12.6	14.5	15.9
RoCE (%)	13.8	15.9	17.7
P/E (x)	43.3	34.1	27.7
P/BV (x)	5.5	5.0	4.4

Shareholding pattern (%)

As On	Sep-19	Jun-19	Sep-18
Promoter	30.3	30.3	30.3
DII	39.5	36.3	32.3
FII	10.2	13.0	15.9
Others	20.1	20.4	21.5

FII Includes depository receipts

Stock Performance (1-year)



RAC thriving in spite of intense competition

Project biz ordering outlook promising too; in-house Volt-Beko to roll out from Jan'20

- US-China trade war eases margin pressure on UCP segment:** According to Voltas' (VOLT) management, the company is benefiting from the fallout in the US-China trade war. Due to high inventory build-up in China, VOLT was able to avail high discounts, which more than offset the import duty increase. Thus, based on the present situation, it is confident of achieving an 11% EBIT margin in the UCP segment without any price hikes.
- New BEE norms not to be implemented in Jan'20:** The BEE rating change for air conditioners (ACs) is deferred by a year to Jan'21. However, industry has made representation that a continuous energy rating change does not make the desired impact as it results in price increases and consequently the shifting of customers to lower energy level products.
- Competition as severe as ever, key to focus on strengths:** With the latest announcement of Samsung eyeing a market leadership position in three years and a re-entry into window and non-inverter ACs, competitive concerns have resurfaced. However, there is a significant difference between the price points of VOLT and Samsung. We believe that any significant market share erosion for VOLT is unlikely, given its pricing strategy, strong procurement and distribution network. However, there is a long tail of AC brands and Samsung may be able to gain market share at the cost of these fringe players in the near term.
- Channel refilling to support growth in 2HFY20:** In the room AC business, VOLT has grown by 42% in 1HFY20 v/s industry's secondary sales growth of 33%. Further, market share for the company in room ACs stood at 24.4%. Management expects strong momentum in the AC business to continue in 2HFY20. We have built in 13.8% YoY growth in the UCP segment for 2HFY20, which is easily doable, in our view. Our confidence stems from (a) our expectation of inventory build-up at dealer level going into the summer season. Company level inventory is down from last year, and hence, channel refilling should support growth and (b) the favorable base for the next two quarters (4QFY20 in particular). For FY21, our UCP growth estimate is at 12%.
- EMP segment visibility robust with strong bid pipeline:** VOLT recorded strong order wins of INR26b (+125% YoY) in 2QFY20, led by (a) a large-sized order from Qatar and (b) strong order wins in the domestic market across the infrastructure, water, metro and rural electrification segments. Thus, order book jumped 38% YoY to INR65.7b, with the OB/rev ratio improving to 1.9x from 1.3x in 1QFY20. The company expects strong order wins in 3QFY20 as well, given its L1 position. It is eyeing strong growth from the water segment and metro/airports. Working capital continues to be stretched but has eased compared to three months ago.

- **Arcelik JV facility on track to be operational by Dec'19:** The factory is on scheduled to be operational by end-Dec'19 and ramp up production in Jan'20. Products would be visible on shelves by end-Jan. The company would start with direct cool refrigerator offerings and follow up with frost-free refrigerators and top load washing machines thereafter. It has worked extensively on aesthetics/designs and desires to be available across 30-35 SKUs. Continuous customer feedback would lead to further product introductions. In terms of pricing strategy, it aims to price refrigerators 3-5% lower than the premium brands of LG, Samsung and Whirlpool, but at a premium to Godrej.
- **Valuation view:** We value VOLT on an SOTP basis with a target price of INR785 (UCP business at 35x Sep'21E EPS; EMP and Engineered Products business at 15x Sep'21E EPS). Maintain **Buy**.

Exhibit 1: SOTP valuation

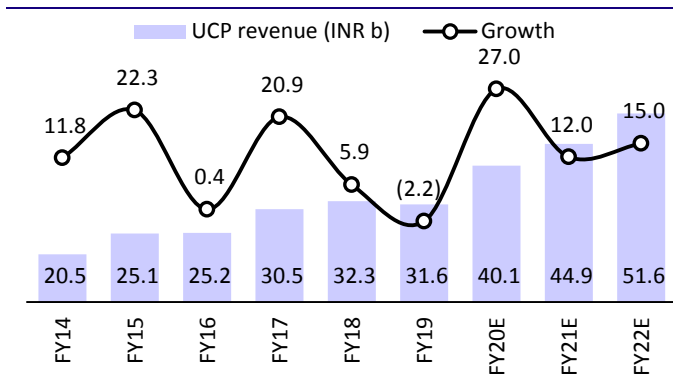
Name of segment	SEP'21 EPS	Multiple	Value/Share
Unitary Cooling Products	14.2	35.0	497
Engineered Products Services	2.4	15.0	36
Electro Mechanical Products(incl. non allocable)	11.9	15.0	178
<i>BEKO JV</i>	(1.6)	DCF	74
Total	26.8		785

Exhibit 2: Operating matrix

INR M	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Order Book	38,930	39,140	43,210	50,620	49,760	69,370	76,904	82,834
YoY	7.8%	0.5%	10.4%	17.1%	-1.7%	39.4%	10.9%	7.7%
Order Inflows	22,380	22,500	27,850	34,440	35,129	56,206	50,000	55,000
Segmental Revenues								
Electro mechanical projects	22,085	28,288	26,550	28,450	36,191	36,596	42,467	49,070
Engineering Products	3,601	3,706	3,318	3,099	3,117	3,210	3,306	3,405
Unitary Cooling products	25,105	25,209	30,469	32,260	31,555	40,075	44,884	51,616
Others	1,040	-6	-9	235	378	300	300	300
Total Revenues	51,831	57,198	60,328	64,044	71,241	80,180	90,957	1,04,392
EMP, % YoY	-18.0%	28.1%	-6.1%	7.2%	27.2%	1.1%	16.0%	15.5%
Engg Products, % YoY	-19.7%	2.9%	-10.5%	-6.6%	0.6%	3.0%	3.0%	3.0%
UCP, % YoY	22.3%	0.4%	20.9%	5.9%	-2.2%	27.0%	12.0%	15.0%
Segmental PBIT								
Electro mechanical projects	231	550	849	1,854	2,773	2,745	3,185	3,680
Engineering Products	1,081	1,127	956	992	1,051	1,027	1,058	1,090
Unitary Cooling products	3,491	3,381	4,403	4,749	3,254	5,009	5,835	6,710
Total PBIT	4,874	5,058	6,208	7,595	7,077	8,781	10,078	11,480
Segmental PBIT, %								
Electro mechanical projects	1.0	1.9	3.2	6.5	7.7	7.5	7.5	7.5
Engineering Products	30.0	30.4	28.8	32.0	33.7	32.0	32.0	32.0
Unitary Cooling products	13.9	13.4	14.5	14.7	10.3	12.5	13.0	13.0
Total PBIT	9.4	8.8	10.3	11.9	9.9	11.0	11.1	11.0
EPS (INR/sh)	10.2	10.8	15.6	17.3	15.7	20.0	24.6	29.1
NWC (Days)	40.7	40.8	35.5	42.0	66.3	56.5	56.5	56.5
EPS Composition (INR/sh)	10.2	10.8	15.6	17.3	15.7	20.0	24.6	29.1
Electro mechanical projects	-0.1	0.8	3.6	4.3	7.7	8.1	10.8	12.9
Engineering Products	2.4	2.4	2.0	2.1	2.2	2.3	2.4	2.5
Unitary Cooling products	7.9	7.7	10.0	10.8	7.4	11.3	13.2	15.2
Voltas Beko JV				0.1	-1.6	-1.8	-1.8	-1.5

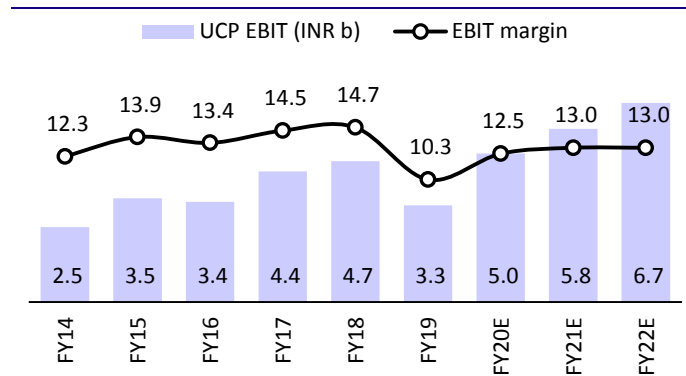
Source: MOFSL, Company

Exhibit 3: UCP sales to revive post two consecutive weak summer seasons



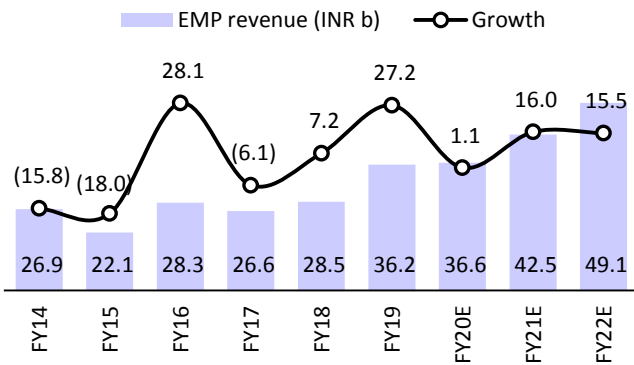
Source: MOFSL, Company

Exhibit 4: Margins to normalize again as operating leverage kicks in



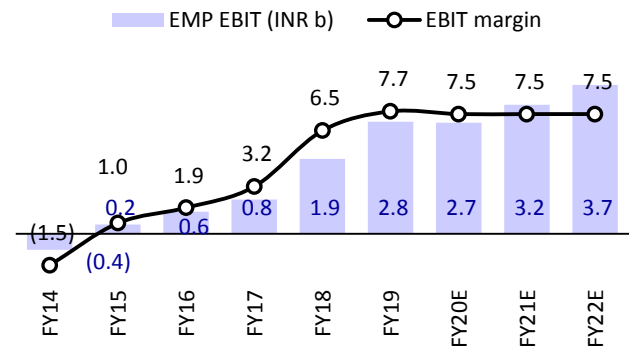
Source: MOFSL, Company

Exhibit 5: EMP revenue growth to improve, given new order wins



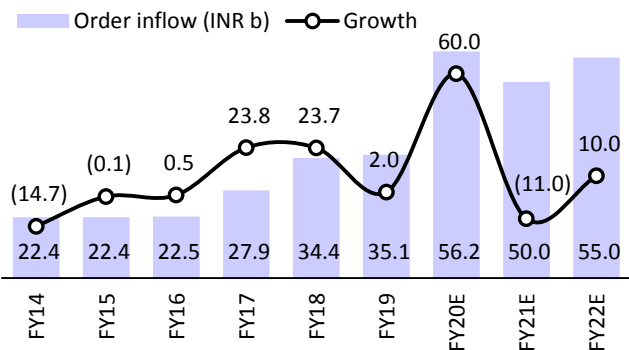
Source: MOFSL, Company

Exhibit 6: Margins to remain stable at ~7.5% for EMP business



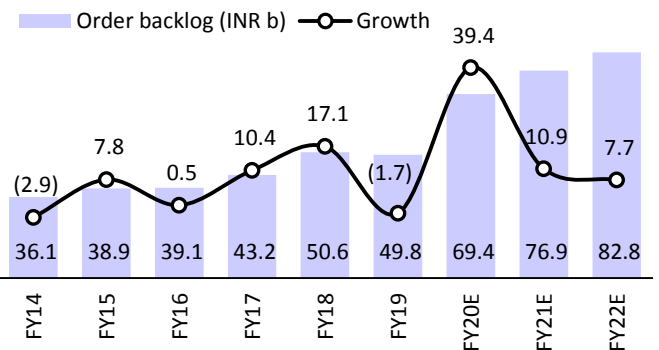
Source: MOFSL, Company

Exhibit 7: We expect order inflow CAGR of 16% over FY19-22



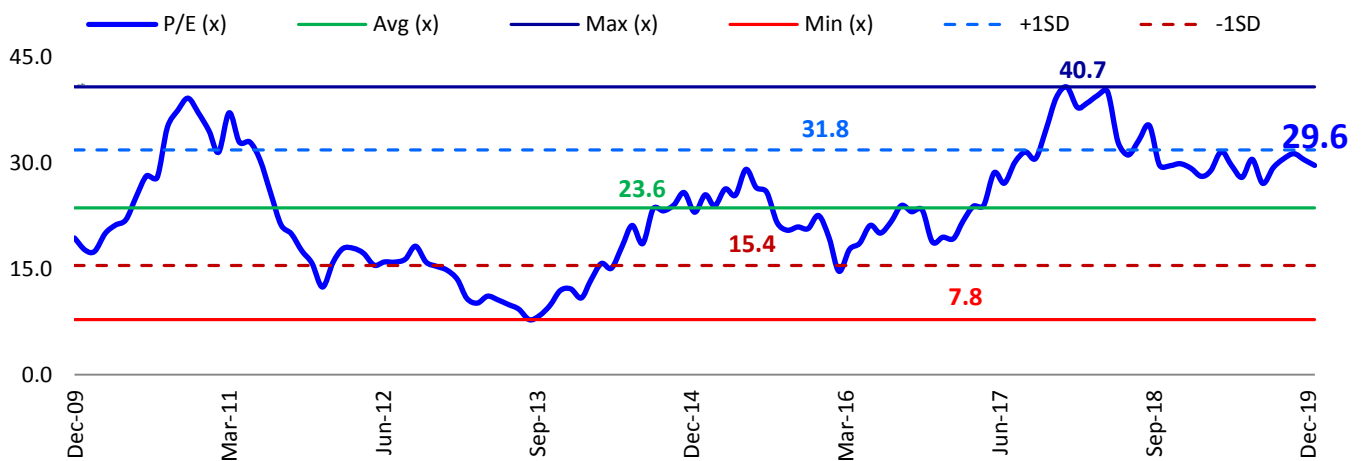
Source: MOFSL, Company

Exhibit 8: Order book trend



Source: MOFSL, Company

VOLT is trading at one-year forward multiple of 29.6x; we expect its premium multiples to continue given entry into the wide white goods market and leadership position in room ACs



Source: MOFSL, Company

Financials and valuations

Income Statement					(INR M)
Y/E March	2018	2019	2020E	2021E	2022E
Total Revenues	64,044	71,241	80,180	90,957	1,04,392
Change (%)	6.2	11.2	12.5	13.4	14.8
EBITDA	6,626	6,117	8,286	9,898	11,704
% of Total Revenues	10.3	8.6	10.3	10.9	11.2
Other Income	1,741	1,863	2,300	2,400	2,500
Depreciation	244	240	317	363	409
Interest	119	330	200	200	200
Exceptional Items	6	-118	-344	0	0
PBT	8,011	7,292	9,725	11,735	13,595
Tax	2,270	1,635	2,809	2,954	3,422
Rate (%)	28.3	22.4	28.9	25.2	25.2
Reported PAT	5,724	5,079	6,256	8,122	9,633
Change (%)	10.6	(11.3)	23.2	29.8	18.6
Adj. Consolidated PAT	5,718	5,197	6,600	8,122	9,633
Change (%)	10.7	(9.1)	27.0	23.1	18.6

Balance Sheet					(INR M)
Y/E March	2018	2019	2020E	2021E	2022E
Share Capital	331	331	331	331	331
Reserves	38,721	40,769	45,045	50,731	57,474
Net Worth	39,052	41,100	45,376	51,061	57,805
Minority Interest	317	348	348	348	348
Loans	1,423	3,147	1,147	147	-854
Deferred Tax Liability	(46)	(993)	(993)	(993)	(993)
Capital Employed	40,746	43,601	45,877	50,562	56,306
Gross Fixed Assets	5,262	5,666	6,666	7,666	8,666
Less: Depreciation	3,013	2,959	3,275	3,638	4,047
Net Fixed Assets	2,248	2,707	3,391	4,028	4,619
Capital WIP	41	157	157	157	157
Investments	27,536	23,859	23,859	23,859	23,859
Goodwill	723	723	723	723	723
Curr. Assets	42,370	46,715	52,143	60,814	71,729
Inventory	8,130	10,907	10,984	12,460	14,300
Debtors	15,703	18,330	19,771	22,428	25,740
Cash & Bank Balance	2,837	3,211	5,331	7,710	10,782
Loans & Advances	1,218	116	131	149	171
Other current assets	14,482	14,151	15,927	18,067	20,736
Current Liab. & Prov.	32,172	30,560	34,395	39,018	44,781
Creditors	21,765	23,745	26,725	30,316	34,794
Other Liabilities	10,408	6,815	7,670	8,701	9,986
Net Current Assets	10,198	16,155	17,748	21,796	26,949
Application of Funds	40,746	43,601	45,877	50,562	56,306

Financials and valuations

Ratios

Y/E March	2018	2019	2020E	2021E	2022E
Basic (INR)	17.3	15.7	20.0	24.6	29.1
Adj. EPS	17.3	15.7	20.0	24.6	29.1
Cash EPS	18.0	16.4	20.9	25.6	30.4
Book Value	118.0	124.2	137.2	154.4	174.7
DPS	4.0	4.0	5.0	6.1	7.3
Payout (incl. Div. Tax.)	26.8	31.0	31.7	30.0	30.0
Valuation (x)					
P/E	39.3	43.3	34.1	27.7	23.3
Cash P/E	37.7	41.3	32.5	26.5	22.4
EV/EBITDA	33.7	36.7	26.6	21.9	18.2
EV/Sales	3.5	3.2	2.8	2.4	2.0
Price/Book Value	5.8	5.5	5.0	4.4	3.9
Dividend Yield (%)	0.6	0.6	0.7	0.9	1.1
Profitability Ratios (%)					
RoE	14.6	12.6	14.5	15.9	16.7
RoCE	14.3	13.8	15.9	17.7	18.3
RoIC	50.0	27.8	34.2	37.9	39.3
Turnover Ratios					
Debtors (Days)	89.5	93.9	90.0	90.0	90.0
Inventory (Days)	46.3	55.9	50.0	50.0	50.0
Creditors. (Days)	124.0	121.7	121.7	121.7	121.7
Asset Turnover (x)	1.6	1.6	1.7	1.8	1.9
Leverage Ratio					
Debt/Equity (x)	0.0	0.0	-0.1	-0.1	-0.2

Cash Flow Statement

Y/E March	2018	2019	2020E	2021E	2022E
PBT before EO Items	8,005	6,774	9,066	11,076	13,055
Add : Depreciation	268	240	317	363	409
Interest	-	330	200	200	200
Less : Direct Taxes Paid	(2,270)	(2,708)	(2,809)	(2,954)	(3,422)
(Inc)/Dec in WC	(1,495)	(6,456)	527	(1,669)	(2,081)
CF from Operations	4,508	(1,820)	7,300	7,016	8,162
(Inc)/Dec in FA	(252)	(804)	(1,000)	(1,000)	(1,000)
Free Cash Flow	4,257	(2,625)	6,300	6,016	7,162
Investment in liquid assets	(4,857)	3,181	-	-	-
CF from Investments	(5,109)	2,377	(1,000)	(1,000)	(1,000)
(Inc)/Dec in Debt	1,666	1,724	(2,000)	(1,000)	(1,000)
Less : Interest Paid	-	(329)	(200)	(200)	(200)
Dividend Paid	(1,534)	(1,577)	(1,980)	(2,437)	(2,890)
CF from Fin. Activity	132	(183)	(4,180)	(3,637)	(4,090)
Inc/Dec of Cash	(469)	374	2,120	2,379	3,072
Add: Beginning Balance	3,305	2,837	3,211	5,331	7,710
Closing Balance	2,837	3,211	5,331	7,710	10,782

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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