

VOLTAS

Consumer common sense

India Equity Research | Consumer Durables

We studied the business cycles Voltas (VOLT) has faced over the past two decades to understand its competitive moats. Our two key findings: a) Several rounds of business transformation have helped the company find its real competitive edge, i.e. branding, distribution and asset-light strategy. b) The Voltbek JV would greatly add to bottom line over three–five years leveraging VOLT's pan-India distribution and judicious product positioning in the mass premium range (VOLT's forte). Given the target market would treble to USD15bn by FY25, we expect VOLT to generate substantial stakeholder value in the long run. Near-term seasonality risk is a blip at best. Maintain 'BUY/SO' with a revised TP of INR715 (versus INR650; consumer durables (CD) business valued at 38x June 2020E EPS) building in Voltbek at 5x June' 20E sales, retaining it as our sector top-bet.

Sustained investments in right avenues over past decade

VOLT's leadership and superior OPMs are attributable to its business consolidation over the past decade and a half. To this end, the company made two strategic choices: a) Getting product positioning right by focusing on value based SKUs, distribution, and mass premium brand image. b) An asset-light business model for better returns/cash flows which we expect to sustain despite the decision to invest in a white goods plant.

RAC leadership; rich learnings driving strategic choices

Many business disruptions over the past two decades have pushed VOLT into revisiting its business model from being a B2B manufacturer of room air conditioners (RAC)/refrigerator (multi product) to the one focused on branding/distribution of a single product (RAC). This approach is contrary to its MNC peers' and has paid off.

Voltbek JV – A timely and calculated bet

Voltas deliberately gave up its asset-light strategy to manufacturing with Arcelik eyeing a notable market share in the huge white goods space likely to be USD15bn by FY25. In our view, evolving trends in distribution with a skew towards MBO/online retail would make product expansion timing a key differentiator in creating value for stakeholders.

Outlook and valuation: Eying top slot; maintain 'BUY/SO'

Despite near-term challenges pertaining to seasonality, we see VOLT generating significant value for stakeholders over three–five years as it scales up the new categories while sustaining leadership in room air conditioners (RACs).

Financial snapshot

(INR mn)

Year to March	FY18	FY19E	FY20E	FY21E
Revenues (INR mn)	64,044	74,713	89,562	1,02,877
Rev. growth (%)	6.2	16.7	19.9	14.9
EBITDA (INR mn)	6,626	7,555	9,442	11,142
Adjusted Profit (INR mn)	5,718	5,817	7,130	8,738
EPS (INR)	17.3	17.6	21.6	26.4
P/E (x)	36.0	35.4	28.9	23.5
ROAE (%)	15.9	14.1	15.2	16.3

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Low
Sector Relative to Market	Underweight

MARKET DATA (R: VOLT.BO, B: VOLT IN)

CMP	: INR 622
Target Price	: INR 715
52-week range (INR)	: 665 / 471
Share in issue (mn)	: 330.9
M cap (INR bn/USD mn)	: 206 / 2,994
Avg. Daily Vol.BSE/NSE('000)	: 1,524.3

SHARE HOLDING PATTERN (%)

	Current	Q2FY19	Q1FY19
Promoters *	30.3	30.3	30.3
MF's, FI's & BK's	33.3	33.3	32.3
FII's	14.6	14.6	15.9
Others	21.8	21.8	21.5
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	15.7	6.2	9.3
3 months	7.9	6.5	(1.4)
12 months	0.1	12.8	(1.0)

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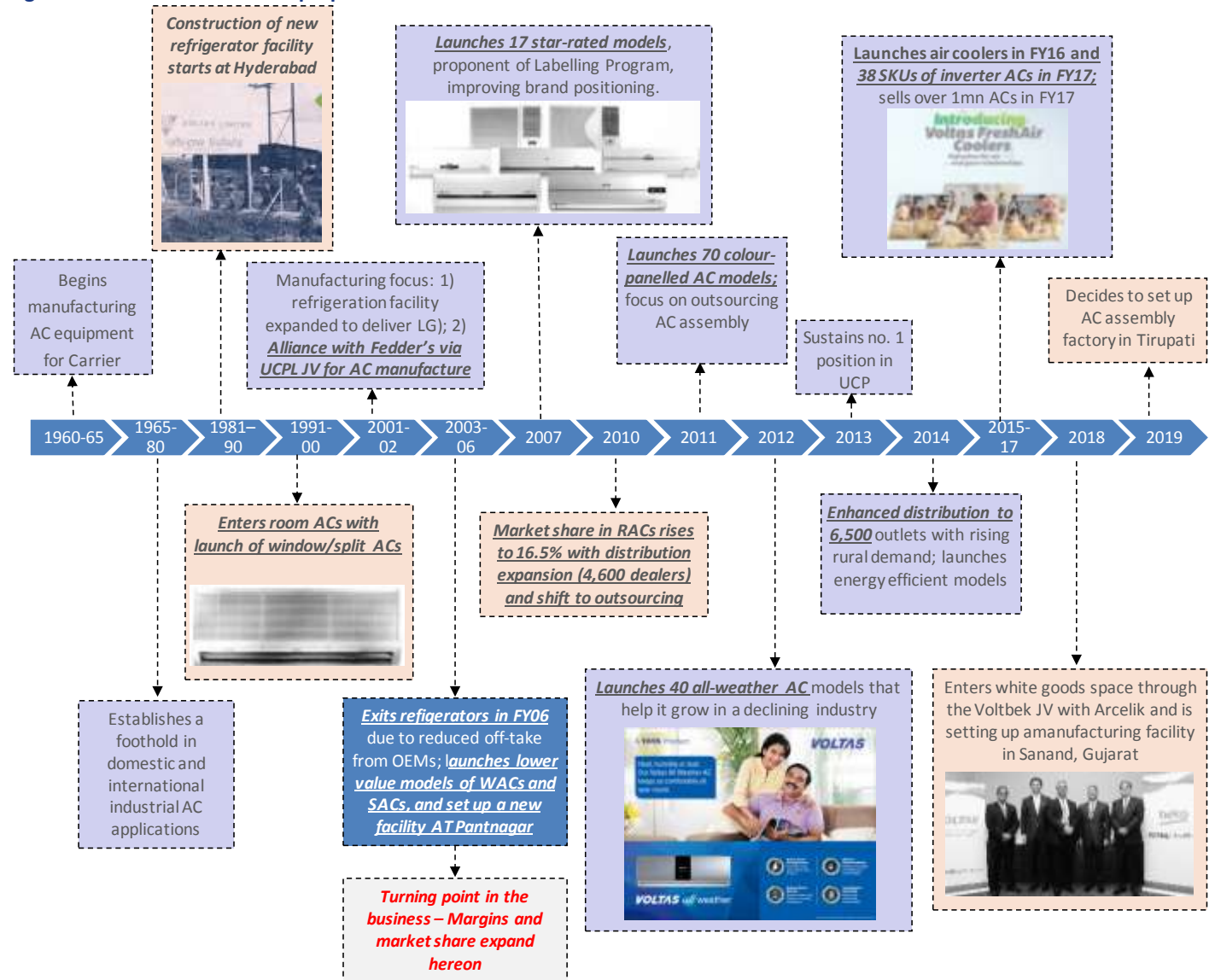
RAC leadership: Outcome of VOLT's strategic choices

Beginning as a manufacturer of RACs for Carrier way back in 1960s, VOLT has made several changes to its business models since (refer to the chart below). By early 2000, it had exited manufacturing, making its business model asset-light to focus on branding, distribution and product positioning.

The three aspects of VOLT's success in the RAC business are:

- ✓ Go for outsourcing in RAC
- ✓ Focus on biggest segment – mass premium
- ✓ SKU ramp-up with focus on getting the distribution right

Fig. 1: Timeline of Voltas's ramp-up in room air conditioners

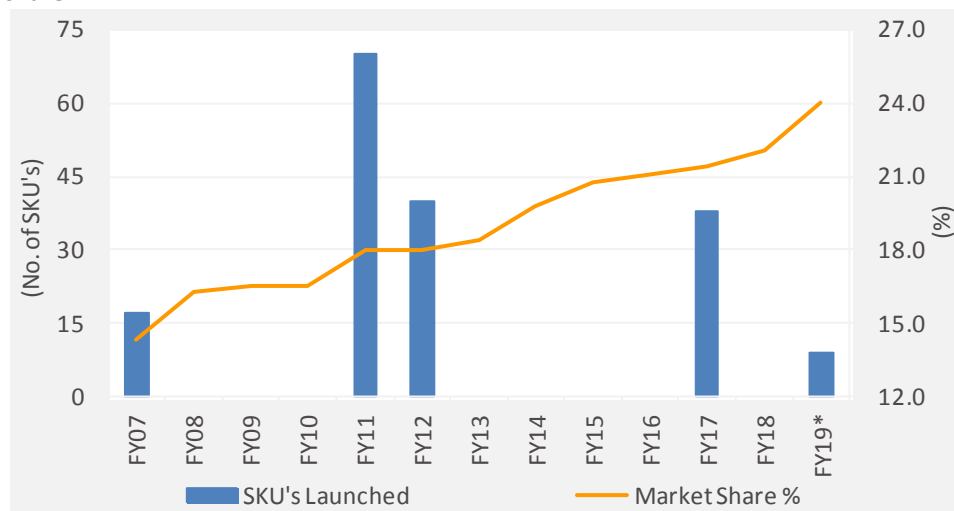


Source: Company, Edelweiss research

Table 1: Measures taken to adapt to changing industry trends

Period	Action	Rationale	Outcome
1980s	Ventures into refrigeration	Constructs refrigerator facility in 1980s where it would also manufacture on OEM basis for LG and Samsung	Due to reduced off-take by OEMs due to margin pressure that impacts its profitability, Voltas exits the refrigerator business in FY05–06
1980s	Voltas enters consumer food market as Volfarm	To recover the lost turnover from Amul's pull out, Voltas acquires Punjab Agro Fruits and Vegetable products venturing into food/dairy.	Given the slow rampup of the business, Voltas decides on exiting the business
1990s	Launches washing machines in collaboration with Samsung	Launches washing machines to leverage the growing market and expand the manufacturing base.	Due to increased losses at the Hyderabad facility, the washing machines facility was shut down
2002	Manufacturing focus	Sets up an AC manufacturing facility at Dadra (in a JV with Fedder); another facility later set up at Pantnagar, Uttarakhand	With mounting losses at Dadra, room AC facility was shut down; balance demand outsourced to focus on distribution, expansion and branding
2004	Lower demand from low income segments due to affordability issues	Focus on positioning Voltas as mass premium/'Value for Money' brand	Launches lower-income models in window/split ACs along with ad campaigns coined ' <u>Ab har koi le sake AC ka mazaa'</u>
2011–12	Industry de-growth and pricing pressure begins to build up	Intermittent rains impact industry growth, and research shows preference for coloured models	Launch of new 'All-Weather' AC models with colour panels while catering to rural demand
2019	Decides to set up an AC manufacturing facility at Tirupati	Rising duty structure on imports and input cost volatility resulting in pressure on margins	Expected to help revive margins and tackle input cost challenges better.

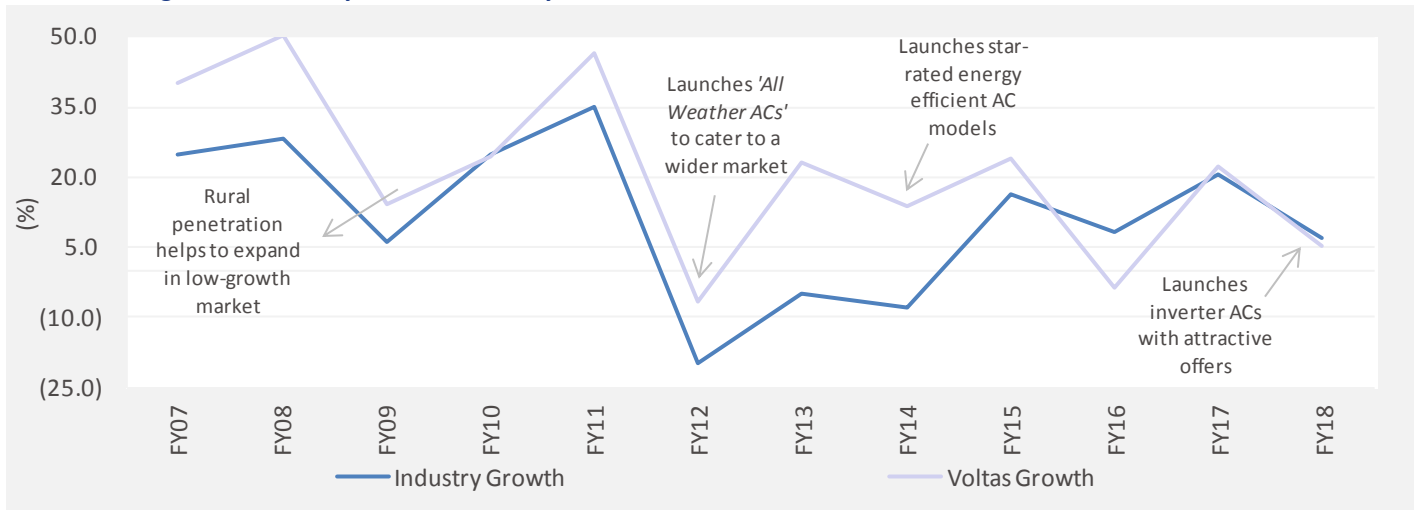
Source: Company, Edelweiss research

Chart 1: Launch of SKUs targeting new categories/customers helped gain market share...


Source: Company, Industry, Edelweiss research

*Note: Market share for FY19 is as on 9MFY19

Chart 2: ...and grow consistently ahead of industry

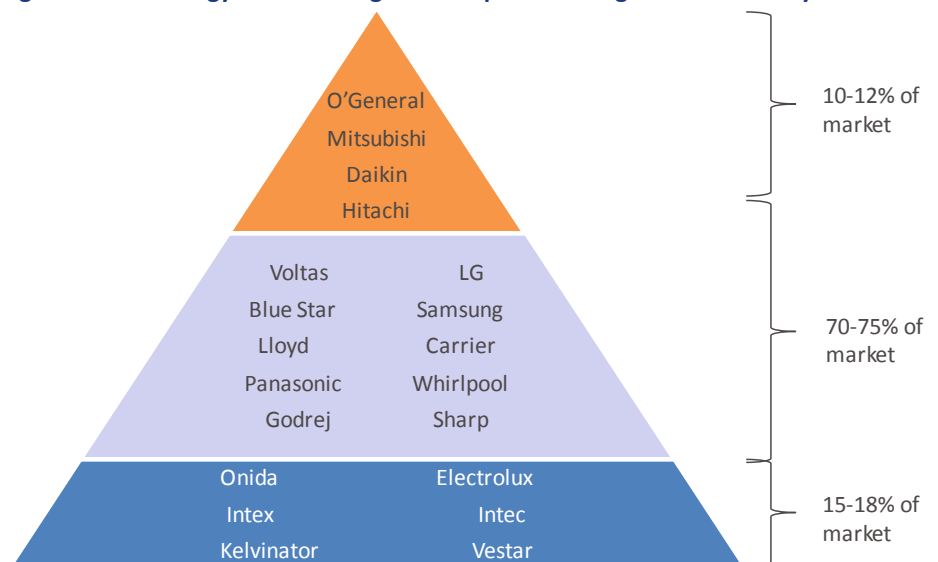


Source: Company, Industry, Edelweiss research

Creating 'Value for Money' brand

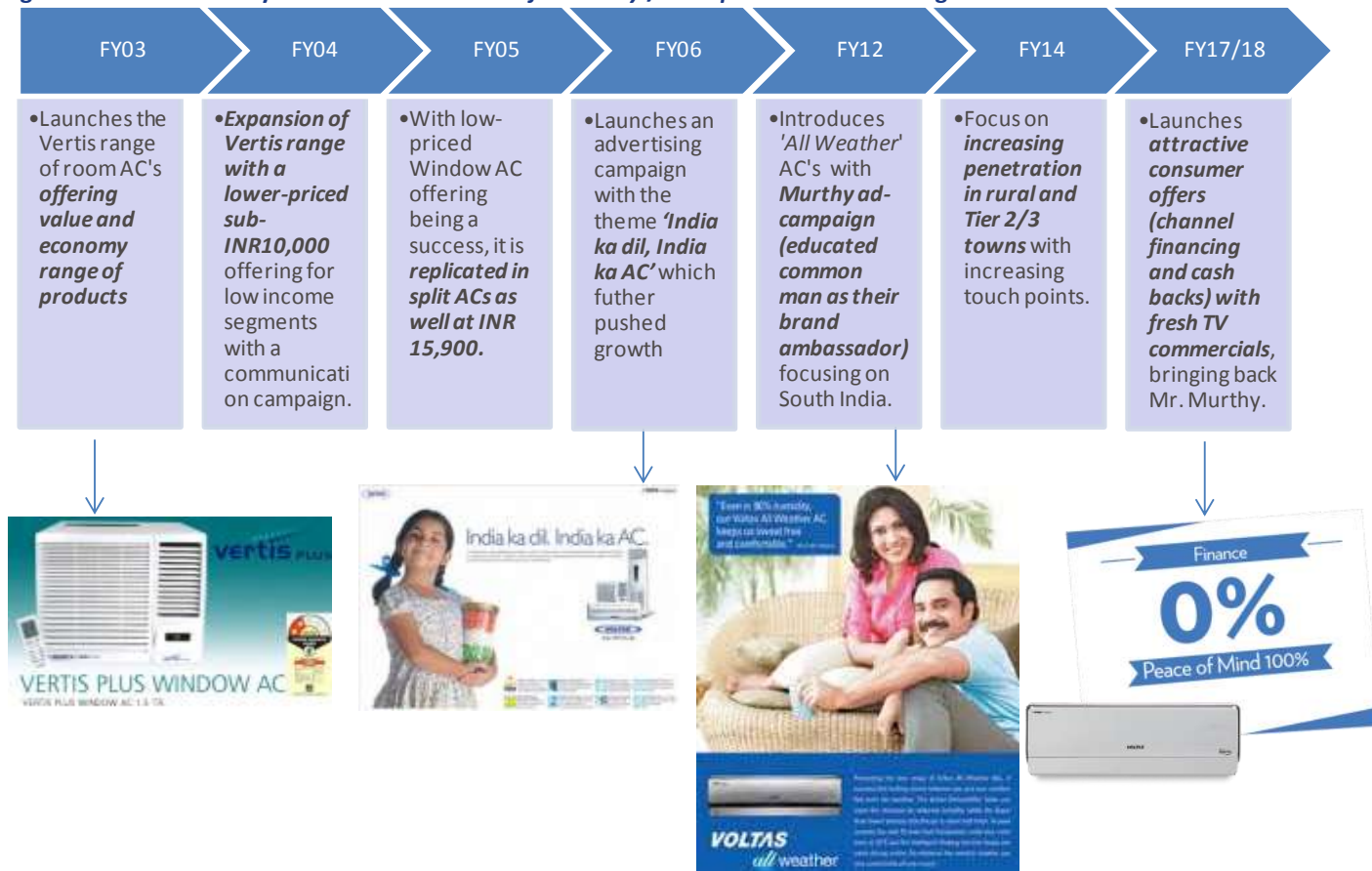
In FY01, VOLT regrouped its RAC offerings into two segments – Verdant for the premium range of products and Vectra for the sub-premium range. In FY03, the company launched the Vertis range of RACs – value and economy range – that was gradually expanded to split ACs. It also launched interesting ad-campaigns (such as the one of an educated common man called Mr. Murthy) to help connect with the masses and create a 'Value for Money' brand.

Fig.2: Voltas strategy: Cater to largest mass premium segment of industry



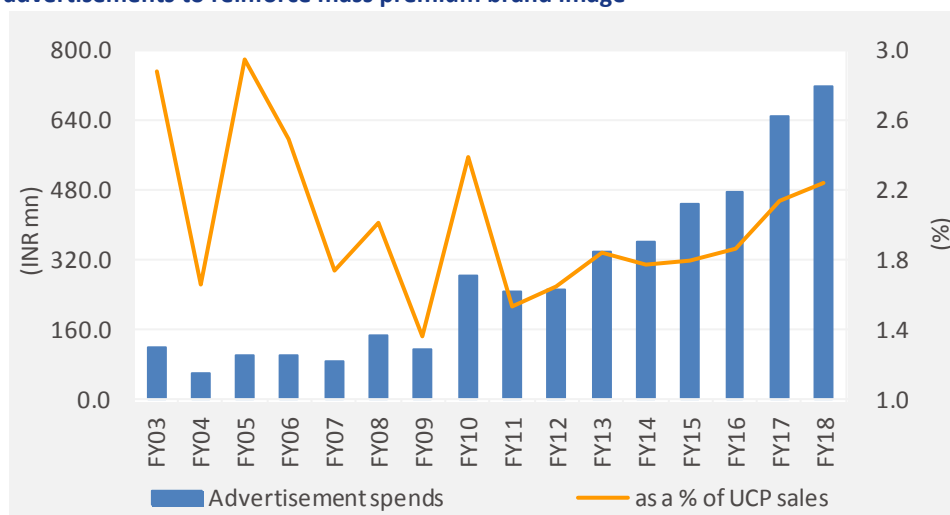
Source: Company, Industry, Edelweiss research

Fig.3: Initiatives taken by Voltas to create 'Value for Money'/mass premium brand image



Source: Company, Edelweiss research

Chart 3: About 2% of Unitary Cooling Products (UCP) revenue is consistently spent on advertisements to reinforce mass premium brand image



Source: Company, Edelweiss research

Fig. 4: A snapshot of Voltas's ad-campaigns



FY03
'ACs with IQ' – Introduces 'Sensicool' range of air conditioners



FY04
Launches Vertis brand with sub-INR10,000 offerings to secure positioning as a value-for-money brand



FY05
Value-for-money proposition replicated in split ACs offered at INR15,900; strengthens its 'ACs with IQ' advertising campaign



FY06
Consumers' growing pride in 'Indianness' via campaign themed 'India ka dil, India ka AC'

FY07
Voltas becomes a proponent of the National Energy Labeling Program with launch of 17 star-rated models along with its 'Save karo' campaign



Source: Company, Industry, Edelweiss research

Fig. 4: A snapshot of Voltas's ad-campaigns (Contd...)



FY10 and FY11

New advertising platform of 'Sensible Cooling' appreciated with thrust on educating consumers on optimal AC usage



FY12

Introduces 'All-Weather' air conditioners via introduction of Mr. Murthy campaign

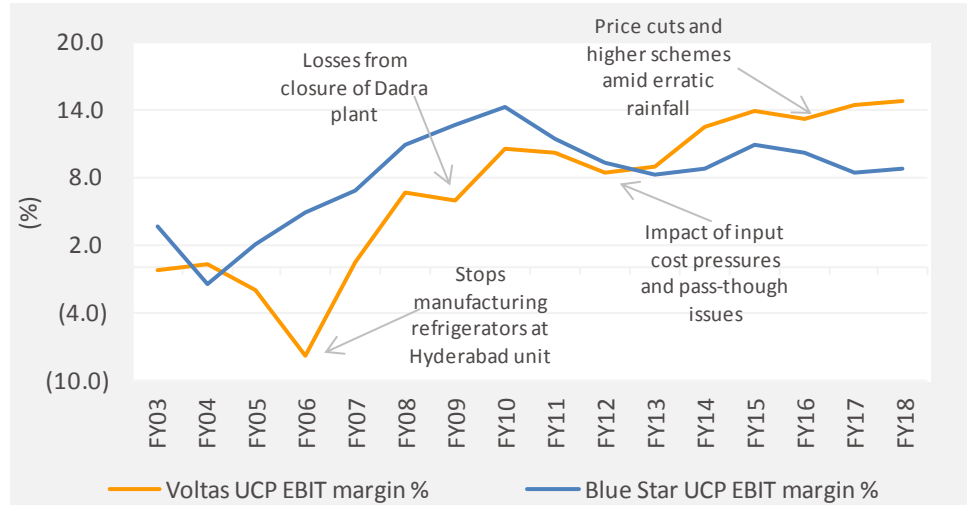
FY17

Launch of Inverter ACs with attractive consumer promotions (consumer financing schemes and cashback offers), bringing back Mr. Murthy



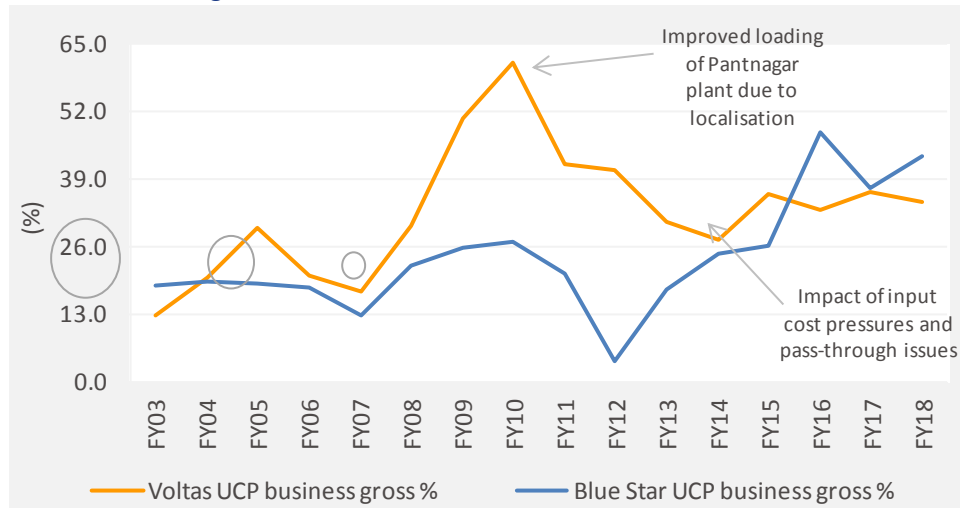
Source: Company, Industry, Edelweiss research

Chart 4: UCP margins have risen over the years driven by mass premium focus



Source: Company, Edelweiss research

Chart 5: Gross margins for UCP business



Source: Company, Edelweiss research

*Note: Assuming EMP gross margin 300bps lower than L&T's core business given difference of scale

Post the rising disruption of input costs in FY06-07, VOLT adopted an asset light strategy and shifted to outsourcing, leading to jump in margins.

From single- to multi-product strategy: A calculated and timely bet

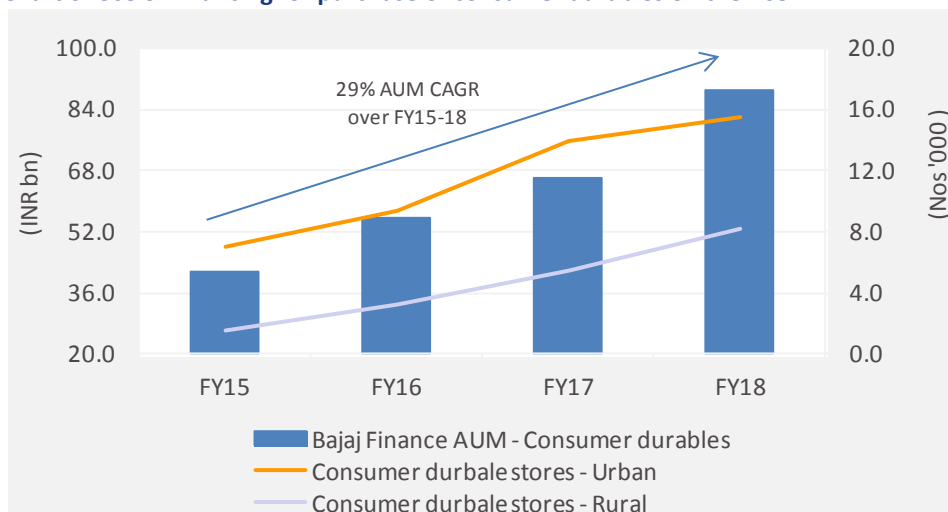
In our view, VOLT strategically timed its entry in refrigerators/washing machines around GST/demonetisation. After demonetization and GST, the distribution framework in the white goods industry has undergone a fundamental shift (mentioned below) that disrupted mom & pop stores in tier I/II towns.

This shift has made it challenging for single-product companies to compete with those having multiple-product offerings. Voltbek's effective execution over three-five years, in our view, will catapult VOLT to a leading position, making it a multi-product leader in a huge white goods market, which would grow to ~USD15bn by FY25E.

Disruption in the distribution framework of the white goods industry is attributable to:

- Fast emergence of multi-brand outlets (MBOs) and online retailing:** 25–30% of white goods sales are driven by MBO/online (versus about 5–10% five years ago) and is fast catching up.
- Robust finance schemes/interest subventions:** As much as 35-40% of overall sales happen via the finance route, wherein cost is borne by both brands and distributors.

Chart 6: Use of financing for purchase of consumer durables on the rise



Source: Bajaj Finance Investor Presentation

- Single product companies/dealers face greater challenges than those dealing in multi-products:** VOLT could foresee a disruption in the single-product business. Indeed, such businesses have grown much slower (single-product mom & pop stores as per our channel checks have grown slower than MBOs). Hence, we believe the timing of the company's expansion in the white goods through the JV with Arcelik will fundamentally be a key differentiator strategically going ahead.

Consumer Durables

Table 2: Our assumption of Voltbek's ramp-up over next five years

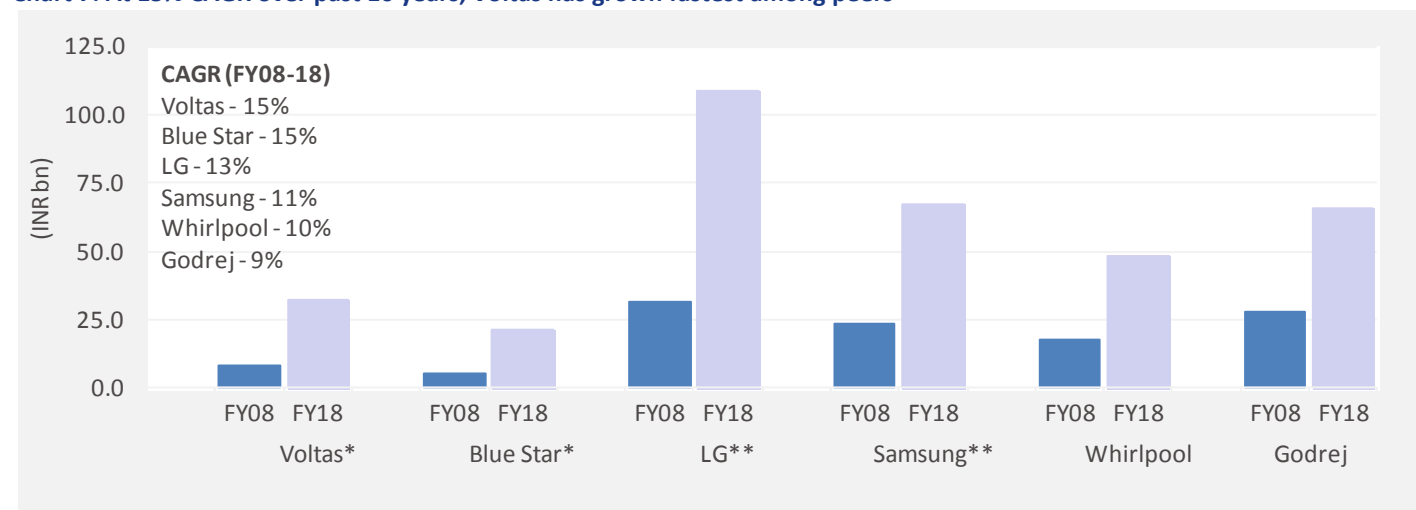
(INR mn)	FY19E (6M)	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
Market Share (%)							
Refrigerators - Frost Free	0.5	2.0	4.0	5.0	6.0	7.0	8.0
Refrigerators - Direct Cool	0.0	0.1	1.5	3.0	4.5	5.5	7.0
Washing machines	0.5	1.8	3.0	4.0	6.0	7.0	8.0
Dishwashers	0.5	1.0	2.5	4.0	5.5	7.0	8.0
Revenue							
Refrigerators - Frost Free	510	2,294	5,201	7,281	9,903	12,939	16,757
Refrigerators - Direct Cool	0	162	2,693	6,033	10,048	13,755	19,437
Total Refrigerators	510	2,456	7,894	13,315	19,951	26,694	36,194
Washing machines	466	1,819	3,493	5,240	8,646	10,591	12,709
Microwave	25	110	193	347	456	574	704
Dishwashers	7	15	41	73	112	159	205
Total revenues	1008	4400	11621	18974	29164	38019	49811
EBITDA	(881)	(1,224)	(565)	569	1,458	2,471	3,985
EBITDA Margins (%)	(87.4)	(27.8)	(4.9)	3.0	5.0	6.5	8.0
PAT	(1,121)	(1,508)	(897)	179	1,008	1,366	2,379
PAT Margins (%)	(111.2)	(34.3)	(7.7)	0.9	3.5	3.6	4.8
Share of Voltas	(560)	(754)	(449)	89	504	683	1,189

Source: Company, Industry, Edelweiss research

Competitive grid for white goods business

Voltas' UCP business over the last ten years has expanded at a CAGR of 15%, which is ahead of peers. This is largely attributable to the company's strong pan-India distribution network and regular SKU launches in a declining market that has helped rake in sustained market share gains.

Chart 7: At 15% CAGR over past 10 years, Voltas has grown fastest among peers



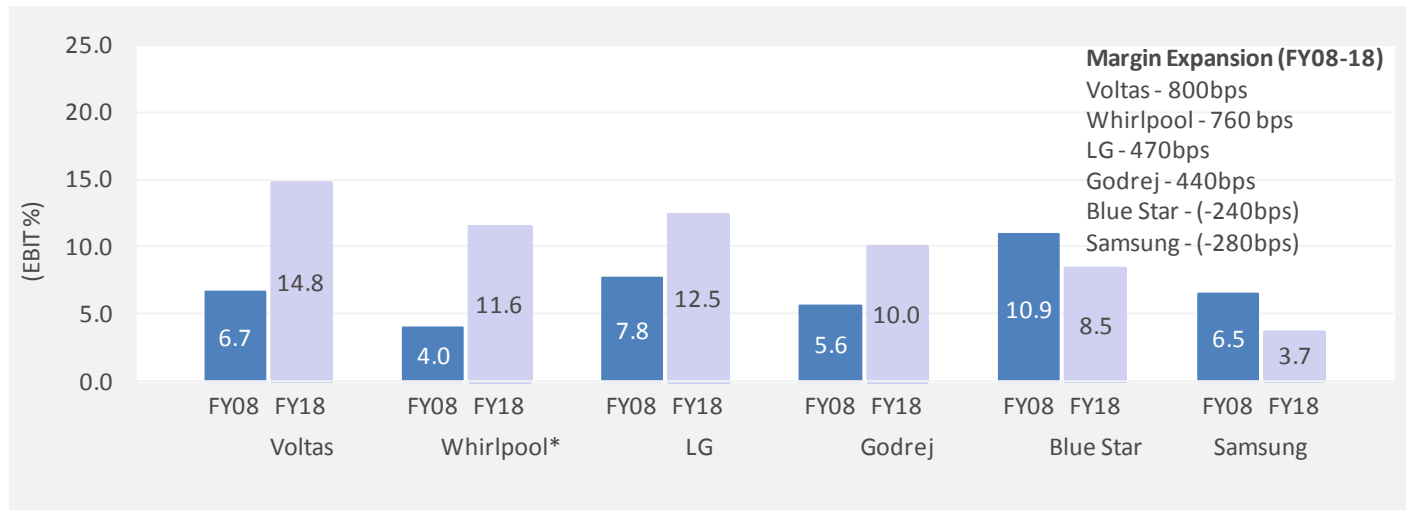
Source: Company, ROC filings, Edelweiss research

*Note: Unitary cooling products revenue for Voltas and Blue Star

**Note: Home appliances segment revenue for LG and Samsung

While the company's strategy of focusing on the largest mass premium category (75% of the market) and creating a 'Value for Money' brand image helped it improve segmental margins, its decision to shift to outsourcing has proved to be instrumental in lifting RoCE of the UCP business.

Chart 8: Voltas's margin expansion over past 10 years highest among peers

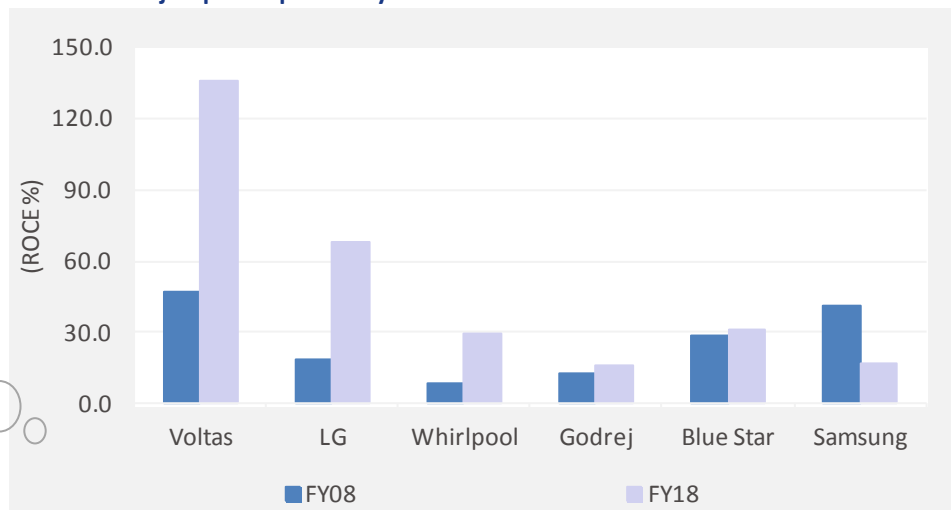


Source: Company, ROC filings, Edelweiss research

*Note: EBITDA margins are used for Whirlpool

Voltas started with a manufacturing set-up; however, its eventual shift to outsourcing from FY09-10 onwards helped it improve RoCE profile substantially

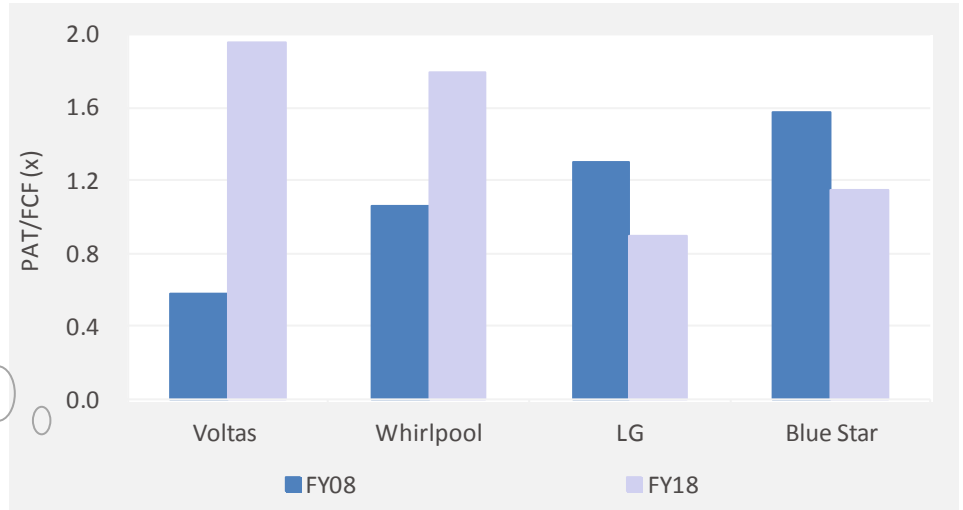
Chart 9: RoCE jump over past ten years



Source: Company, ROC filings, Edelweiss research

While a few MNCs continue to burn cash, Voltas has been successful in generating high free cash flow over the years, helping it finance the investments in the business.

Chart 10: Voltas generates high free cash versus peers

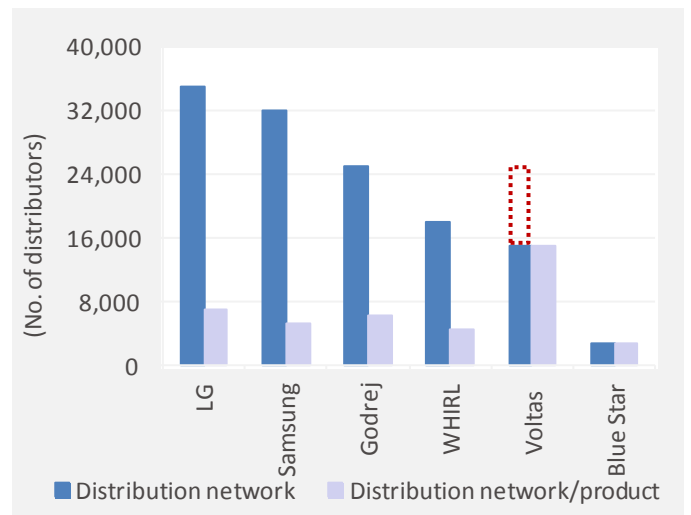
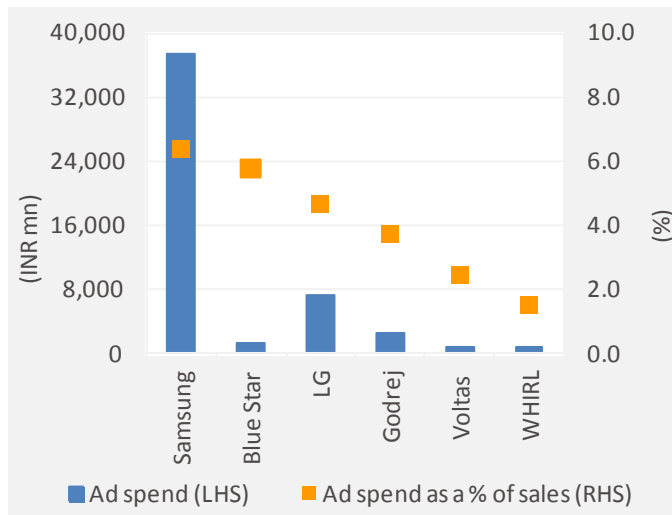


Source: Company, ROC filings, Edelweiss research

On average, MNCs spend about 4% of their revenue on advertising & promotions. Voltas's ad-spends are lower (about 2.5% of its UCP sales) given its single-product focus. Besides, its distribution network of 15,000 dealers is much lower than Samsung's and LG's 30,000-plus each. That said, its distribution network per product category is the highest.

With the launch of white goods under the Voltbek brand, the company plans to raise ad-spend to create a brand presence and add 10,000 outlets over the next two years.

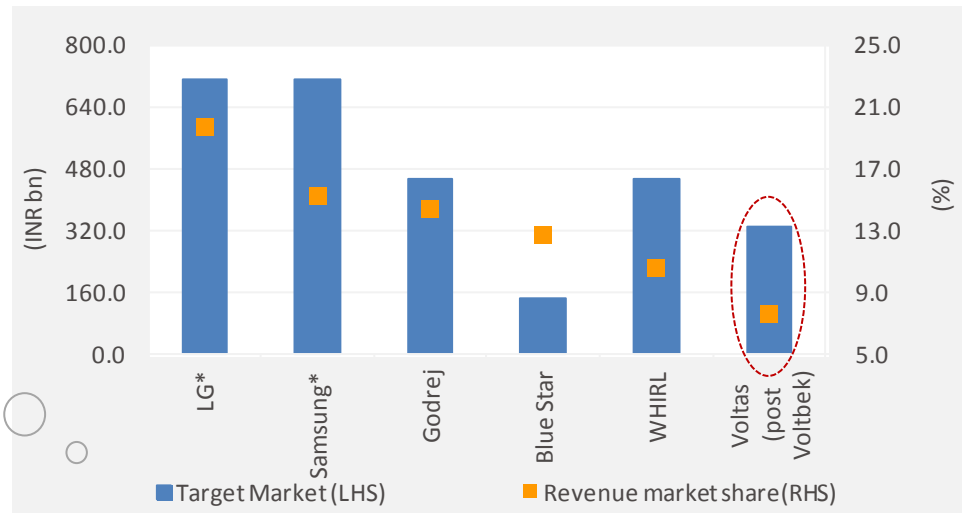
Chart 11: Voltas's ad spends and distribution network coverage lower given its single-product focus



Source: Company, ROC filings, Edelweiss research

Versus a 20%-plus market share in the RAC business, VOLT (post the Voltbek JV) has significant headroom to expand its market share

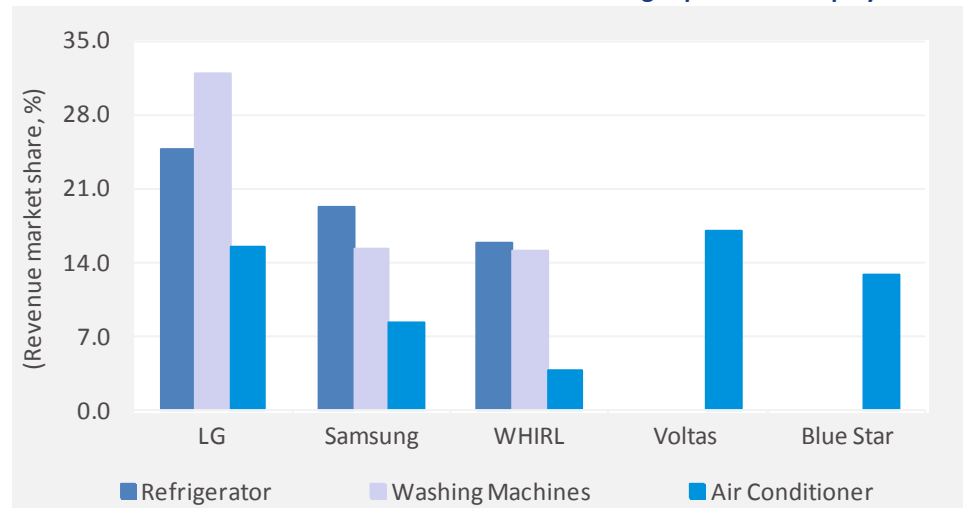
Chart 12: With Voltbek, Voltas has a large target market to tap...



Source: Company, ROC filings, Crisil, Industry, Edelweiss research

* Note: Numbers for LG and Samsung are ex of mobile phone revenue

Chart 13: ...where the bulk of share is concentrated among top three-four players



Source: Company, ROC filings, Crisil, Industry, Edelweiss research

Volt-beko: Our assessment of the JV's market value versus its potential

Our assessment of different business segments of Voltas derived the following values that the current market cap is ascribing. While we believe VOLT's positioning for the JV business will create significant value over three-five years, the market is currently factoring is INR11-15bn for the JV.

We believe, investors will gradually evaluate the potential of the Voltbek JV over the next 12-24 months which could lead to a significant value creation.

Table 3: Our assessment of the implied value market is ascribing to Voltbek

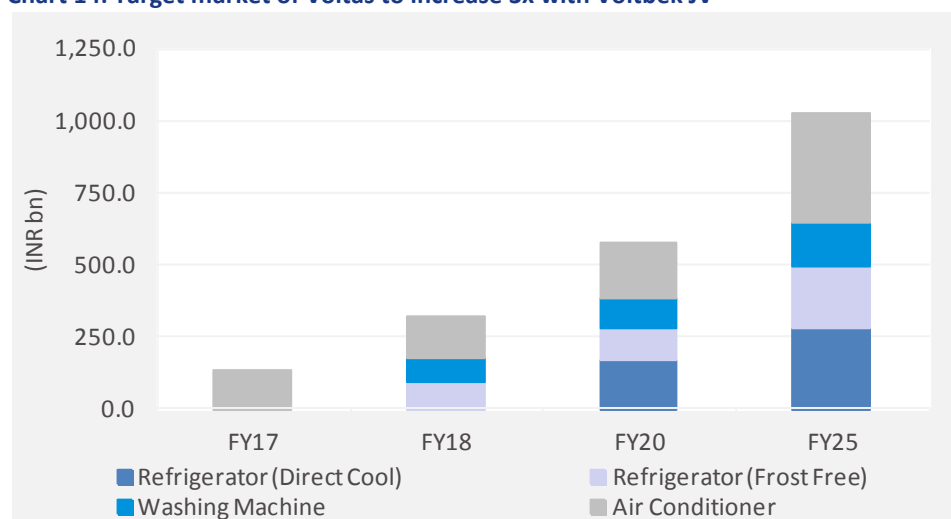
	FY21 EPS (INR)	PE Multiple (x)	CMP (INR)	Implied Market Cap (INR mn)
EMP Segment	11.8	12.0	142	47,011
Engineering Segment	3.0	12.0	36	11,760
Unitary Cooling Segment	13.7	30.0	410	1,35,760
Total Voltas	28.5		588	1,94,532
Voltbek	2.2	15.1	34	11,227
Total			622	2,05,758

Table 4: Our assessment of the implied value market is ascribing to Lloyd

	FY21 EPS (INR)	PE Multiple (x)	Justified Price (INR)	Implied Market Cap (INR mn)
Switchgears	7.1	25.0	177	1,10,443
Cable and wires	2.3	20.0	46	29,019
Lighting and fixtures	3.5	22.0	76	47,702
Electrical consumable durables	5.5	33.0	181	1,13,211
Total Havells	18.3		480	3,00,375
Lloyd	2.4	120.2	285	1,78,393
Total			765	4,78,768

Source: Company, Edelweiss research

Assumptions

Chart 14: Target market of Voltas to increase 3x with Voltbek JV


Source: Company, Crisil, Industry, Edelweiss research

Outlook and valuation

We maintain the premium for VOLT's UCP division (over CD) ascribing a PE of 38x given its sustained industry leadership, expanding distribution depth and sustained product variety leadership (SKUs).

We build in the Voltbek JV at ~INR30bn based on our assumptions for FY19–25E valuing it at 5x June 2020 sales given its back-ended sales (versus 3x for Whirlpool which is a mature business). This would imply market shares of more than 5% each in the refrigerator and washing machine segments. Hence, we are raising the target price to INR715 (from INR650), as we believe street will start factoring the potential from JV over 12-24 months.

Chart 15: PE band



Source: Company, Bloomberg, Edelweiss research

Table 5: Sum-of-the-parts valuation

(INR mn)	FY20E			FY21E			Valuation methodology	Multiple (x)	Comment	Volta's Stake	June 2020 TP (INR)
	Revenue	PAT	EPS (INR)	Revenue	PAT	EPS (INR)					
EMP Segment	45,795	3,156	9.5	53,899	3,813	11.5	P/E	16	In-line with S&P BSE Capital Goods Index		156
Engineering Segment	3,603	884	2.7	3,819	954	2.9	P/E	14	15% discount to S&P BSE Capital Goods Index		37
Unitary Cooling Segment	39,629	3,873	11.7	44,647	4,594	13.9	P/E	38	25% premium to CD given sustained product leadership		471
Total (ex -Voltbek)	89,028	7,914	23.9	1,02,365	9,361	28.3					664
Voltbek*				6,206			P/S	5	3x June 2020E for Whirlpool (mature business), 5x for Voltbek (back-ended revenues)	50%	51
Total											715

* Note: Revenue for Voltbek is for June 2020

Table 6: Scale up of the Unitary Cooling Products business of Voltas over the next five years

(INR mn)	FY18	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
UCP Revenues	32,156	34339	39629	44647	50572	57303	64953	73648
Revenue growth (%)		6.8	15.4	12.7	13.3	13.3	13.3	13.4
UCP EBIT	4,749	4,018	4,954	5,804	6,625	7,564	8,704	9,942
UCP EBIT %	14.8	11.7	12.5	13.0	13.1	13.2	13.4	13.5
UCP PAT before minority	3,548	3,111	3,873	4,594	5,122	5,936	6,809	7,892
UCP capital employed as a % of sales	7.8	8.0	9.3	10.3	10.0	10.0	10.0	10.0
ROCE (%)	141.2	110.3	110.9	100.9	98.8	101.0	102.5	103.3

Source: Edelweiss research

Table 7: Valuation Snapshot

Company	Reco/ Rating	CMP (INR)	TP (INR)	Revenue (INR bn)				EBITDA margins (%)				EPS (INR)				P/E (x)				RoE (x)			
				FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY 18	FY19E	FY20E	FY21E
Top Picks																							
KEI	Buy	421	470	34.6	42.3	50.4	59.4	9.8	10.1	10.4	10.6	18.7	23.1	31.2	40.1	22.5	18.3	13.5	10.5	27.1	25.9	27.5	27.6
Voltas	Buy	622	715	64.0	74.7	89.6	102.9	10.3	10.1	10.5	10.8	17.3	17.6	21.6	26.4	36.0	35.4	28.9	23.5	15.9	14.1	15.2	16.3
Others																							
Havells	Buy	764	845	81.4	102.9	122.6	143.6	12.9	12.7	13.0	13.3	11.2	13.9	17.3	20.8	68.1	54.8	44.2	36.8	20.0	21.9	24.3	26.2
Whirlpool	Buy	1,504	1,600	48.3	55.9	67.6	79.0	11.6	11.2	11.6	12.0	27.6	32.8	41.1	49.7	54.4	45.8	36.6	30.3	21.4	21.2	22.2	22.3
Amber	Buy	857	1,100	21.3	27.2	34.0	40.9	8.6	8.3	8.3	8.6	19.8	33.2	42.8	57.9	43.2	25.8	20.0	14.8	9.9	11.1	12.8	15.1
Finolex Cables	Buy	468	550	28.2	31.1	36.5	41.7	15.0	14.5	14.9	15.1	23.4	22.7	26.6	30.1	20.0	20.6	17.6	15.5	17.6	14.9	15.5	15.5
Crompton	Hold	222	230	40.8	45.6	52.2	59.0	13.0	13.3	13.5	13.7	5.2	6.1	7.3	8.7	43.0	36.5	30.3	25.5	49.5	42.1	39.6	36.5
Bajaj Electricals	Hold	566	495	47.1	68.8	66.9	78.5	6.2	6.5	7.1	7.7	17.1	20.9	23.9	33.9	33.0	27.1	23.7	16.7	19.0	20.5	19.9	23.5
Symphony	Reduce	1,365	815	8.0	9.4	11.6	13.2	27.5	20.1	20.7	21.7	27.5	22.8	29.3	32.5	49.6	59.8	46.6	42.0	35.8	23.6	25.0	22.9
V Guard	Reduce	219	160	23.1	26.0	30.4	35.1	8.1	8.9	9.5	10.0	3.1	4.1	5.2	6.4	70.0	53.4	42.1	34.5	19.2	21.6	23.9	25.4
Sector				396.7	483.9	561.9	653.3	11.2	10.9	11.4	11.7					48.0	43.4	34.8	29.1	23.5	21.7	22.6	23.1

Source: Company, Edelweiss research

What are the underlying risks to stock?

Extended winter: Consensus earnings for FY19E could be at risk

While the Q4FY19 season started off well for the south Indian market given good seasonal demand leading to normalization of inventory, the demand dropped in the later part of the quarter as per our channel checks. Whereas, the north and central Indian markets are likely to be impacted by the extended winter and hence a late off-take could push the overall season to Q1FY20. This, we believe, could impact FY19E earnings by 5–7%, implying a lower 2-4% growth for the UCP division in FY19.

Competition from MNC players

In our view, VOLT's entry into new verticals will be met with high competitive intensity given concentration of market share among the top three players (~60%-plus each in refrigerators and washing machines).

Company Description

Voltas, part of the TATA group which holds 30.3% stake, is a leading air conditioning and engineering services provider. Founded in 1954, it offers engineering solutions through three business segments in areas such as heating, ventilation & air conditioning, refrigeration, climate control, electromechanical projects, textile machinery, machine tools, mining & construction, material handling, water management, building management systems, pollution control and chemicals. Voltas has a higher market share of ~21% in the residential AC market. The company has one of the highest distribution touch-points (over 15,000) which can compare well with many mid-size local FMCG companies. Unitary Cooling Product and Engineering & Mechanical Project Segment together contribute ~90% topline of the company, while Unitary Cooling Product contributes more than 60% to the profit of the company.

Investment Theme

Low cost power availability driving up AC sales: A new phenomenon as electricity penetration in India increases.

Low penetration of ACs lends comfort on long term sales growth: AC penetration in India stands at <5% versus ~25% in China and ~50% in Korea. Various industry participants indicate that AC sales should see a strong 10-15% growth for the next 3-5 years, given the current low penetration levels.

Voltas's unique positioning through distribution/marketing ensures that it capture incremental first time sales in the country. With its Volt-Bek JV the company is ready to expand its addressable market leveraging on its mass premium brand image and robust product profile of the JV partner.

We estimate an EPS CAGR of 15% over FY18-21 assuming average 13% AC revenue CAGR over the same period. EPS for AC division is estimated at 9% CAGR over FY18-21. We see a bigger growth story now with Voltas entry into the USD15bn white goods target market (by FY25) which is clocking 15% CAGR.

Key Risks

White goods business

Voltas has an asset light model and is a distribution based franchise which could face risk of lower cash flow and return if MNC aggression intensifies, which to date has been well managed by Voltas.

Volt-Bek JV

Delay in execution/launch of products further could pose a downside risk to current valuations as we believe the stock is getting some value for new business ahead.

Domestic/Middle East infra slowdown

Domestic/Middle East infra slowdown could hamper growth and operating margins which have sustained better performance for 2-3 quarters.

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	6.7	7.3	7.6	7.3
Inflation (Avg)	3.6	4.5	4.5	4.5
Repo rate (exit rate)	6.0	6.8	6.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
Company				
EMP revenue growth (%)	7.2	28.3	25.2	17.7
Eng. rev growth (%)	(6.6)	7.6	8.0	6.0
Unitary Cooling product	6.1	6.8	15.4	12.7
Room AC (Qnty)	1,120,505	1,165,325	1,281,858	1,384,407
NSR (INR)	22,293	22,739	24,103	25,308
Order inflow (INR bn)	36.5	38.4	40.3	42.3
Total no. of employees	8,118	8,443	9,118	9,848
Employee cost per head	722,752	758,890	819,601	885,169
Tax rate (%)	28.3	28.0	28.0	28.0
Capex (INR mn)	331	535	3,026	2,526
Dep. (% gross block)	1.9	4.3	4.9	3.0

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Income from operations	64,044	74,713	89,562	102,877
Direct costs	45,675	54,215	64,812	74,112
Employee costs	5,867	6,407	7,473	8,717
Other Expenses	5,875	6,536	7,834	8,906
Total operating expenses	57,417	67,158	80,120	91,735
EBITDA	6,626	7,555	9,442	11,142
Depreciation	244	242	296	351
EBIT	6,383	7,313	9,146	10,791
Less: Interest Expense	119	291	302	323
Add: Other income	1,741	1,808	2,147	2,350
Profit Before Tax	8,011	8,712	10,991	12,818
Less: Provision for Tax	2,270	2,439	3,077	3,589
Less: Minority Interest	55	63	79	92
Add: Exceptional items	6	(118)	-	-
Associate profit share	38	(510)	(704)	(399)
Reported Profit	5,724	5,700	7,130	8,738
Exceptional Items	6	(118)	-	-
Adjusted Profit	5,718	5,817	7,130	8,738
Shares o /s (mn)	331	331	331	331
Adjusted Basic EPS	17.3	17.6	21.6	26.4
Diluted shares o/s (mn)	331	331	331	331
Adjusted Diluted EPS	17.3	17.6	21.6	26.4
Adjusted Cash EPS	18.0	18.3	22.5	27.5
Dividend per share (DPS)	4.0	3.4	4.2	5.1
Dividend Payout Ratio(%)	23.1	23.6	23.1	23.1

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Operating expenses	89.7	89.9	89.5	89.2
EBITDA margins	10.3	10.1	10.5	10.8
Net Profit margins	9.0	7.9	8.0	8.6

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	6.2	16.7	19.9	14.9
EBITDA	16.9	14.0	25.0	18.0
Adjusted Profit	10.7	1.7	22.6	22.5

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	331	331	331	331	
Reserves & Surplus	38,721	43,587	49,773	56,890	
Shareholders' funds	39,052	43,918	50,104	57,221	
Minority Interest	317	380	459	552	
Secured loans	1,423	3,423	3,673	3,923	
Total Borrowings	1,423	3,423	3,673	3,923	
Long Term Liabilities	883	883	883	883	
Def. Tax Liability (net)	(46)	(46)	(46)	(46)	
Sources of funds	41,629	48,557	55,073	62,532	
Gross Block	4,075	4,575	5,075	10,075	
Net Block	1,706	2,009	2,260	6,958	
Capital work in progress	41	50	2,550	50	
Intangible Assets	819	799	778	755	
Total Fixed Assets	2,565	2,858	5,588	7,763	
Non current investments	23,107	24,607	25,607	26,607	
Cash and Equivalents	7,713	8,084	9,935	11,685	
Inventories	8,130	9,952	12,430	15,229	
Sundry Debtors	15,703	18,312	21,952	25,241	
Loans & Advances	48	58	64	70	
Other Current Assets	15,652	16,435	17,256	18,119	
Current Assets (ex cash)	39,533	44,757	51,702	58,658	
Trade payable	21,764	24,508	29,299	33,503	
Other Current Liab	9,525	7,240	8,459	8,677	
Total Current Liab	31,289	31,748	37,758	42,180	
Net Curr Assets-ex cash	8,244	13,009	13,944	16,479	
Uses of funds	41,629	48,557	55,073	62,532	
BVPS (INR)	118.1	132.8	151.5	173.0	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	5,724	5,700	7,130	8,738	
Add: Depreciation	244	242	296	351	
Interest (Net of Tax)	85	209	217	232	
Others	(2,327)	364	566	259	
Less: Changes in WC	473	4,764	935	2,535	
Operating cash flow	3,253	1,751	7,274	7,045	
Less: Capex	331	535	3,026	2,526	
Free Cash Flow	2,922	1,215	4,248	4,519	

Cash flow metrics		FY18	FY19	FY20E	FY21E
Year to March					
Operating cash flow		3,253	1,751	7,274	7,045
Financing cash flow		(1,814)	655	(1,398)	(1,770)
Investing cash flow		(1,992)	(2,035)	(4,026)	(4,526)
Net cash Flow		(553)	371	1,850	750
Capex		(331)	(535)	(3,026)	(2,526)
Dividend paid		(1,407)	(1,345)	(1,648)	(2,020)

Profitability and efficiency ratios		FY18	FY19	FY20E	FY21E
Year to March					
ROAE (%)		15.9	14.1	15.2	16.3
ROACE (%)		21.4	20.6	22.2	22.7
Inventory Days		69	61	63	68
Debtors Days		86	83	82	84
Payable Days		167	156	152	155
Cash Conversion Cycle		(12)	(12)	(6)	(3)
Current Ratio		1.5	1.7	1.6	1.7
Debt/EBITDA (x)		0.2	0.5	0.4	0.4
Fixed asset turnover (x)		25.3	28.0	30.6	19.1
Gross Debt/Equity		-	0.1	0.1	0.1
Adjusted Debt/Equity		-	0.1	0.1	0.1
Interest Coverage Ratio		53.6	25.2	30.3	33.4

Operating ratios		FY18	FY19	FY20E	FY21E
Year to March					
Total Asset Turnover		1.7	1.7	1.7	1.7
Fixed Asset Turnover		25.3	28.0	30.6	19.1
Equity Turnover		1.8	1.8	1.9	1.9

Valuation parameters		FY18	FY19	FY20E	FY21E
Year to March					
Adj. Diluted EPS (INR)		17.3	17.6	21.6	26.4
Y-o-Y growth (%)		10.7	1.7	22.6	22.5
Diluted P/E (x)		36.0	35.4	28.9	23.5
P/B (x)		5.3	4.7	4.1	3.6
EV / Sales (x)		3.1	2.7	2.2	1.9
EV / EBITDA (x)		30.1	26.7	21.2	17.8
Dividend Yield (%)		0.6	0.5	0.7	0.8

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Voltas	2,994	28.9	23.5	4.1	3.6	15.2	16.3
Havells India	6,952	44.2	36.8	10.2	9.2	24.3	26.2
Median	-	36.5	30.2	7.1	6.4	19.8	21.2
AVERAGE	-	36.5	30.2	7.1	6.4	19.8	21.2

Source: Edelweiss research

Additional Data

Directors Data

Ishaat Hussain	Chairman	Pradeep Bakshi	Managing Director &CEO
N N Tata	Non Independent & Non Executive Director	Vinayak Deshpande	Non Independent & Non Executive Director
J S Bilimoria	Independent Non-Executive Director	R N Mukhija	Independent Non-Executive Director
S N Menon	Independent Non-Executive Director	Nani Javeri	Independent Non-Executive Director
Nasser Munjee	Independent Non-Executive Director	Anil George	Deputy Managing Director

Auditors - Deloitte Haskins & Sells

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Tata sons pvt ltd	26.64	Life insurance corp	5.09
Hdfc asset managemen	5.04	Franklin resources i	3.06
Tata investment corp	3.01	Aditya birla sun lif	2.24
Aditya birla sun lif	2.22	Mirae asset global i	2.1
Sbi funds management	1.69	Hdfc life insurance	1.64

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Amber Enterprises	BUY	SO	M	Bajaj Electricals	HOLD	SP	M
Crompton Greaves Consumer Electrical	HOLD	SP	L	Finolex Cables	BUY	SO	M
Havells India	BUY	SO	L	KEI Industries	BUY	SO	M
Symphony	REDUCE	SU	M	V Guard Industries	REDUCE	SU	L
Voltas	BUY	SO	L	Whirlpool of India	BUY	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect



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Aditya Narain

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Coverage group(s) of stocks by primary analyst(s): Consumer Durables

Amber Enterprises, Bajaj Electricals, Crompton Greaves Consumer Electrical, Finolex Cables, Havells India, KEI Industries, Symphony, V Guard Industries, Voltas, Whirlpool of India

Recent Research

Date	Company	Title	Price (INR)	Recos
25-Mar-19	Amber Enterprises	Sidwal buyout: Keeping growth mobile; <i>Company Update</i>	790	Buy
08-Mar-19	Finolex Cables (Coffee with CEO)	Management rewiring growth focus; <i>Visit Note</i>	433	Buy
15-Feb-19	Voltas	Demand blips; long-term drivers in place; <i>Result Update</i>	522	Buy

Distribution of Ratings / Market Cap

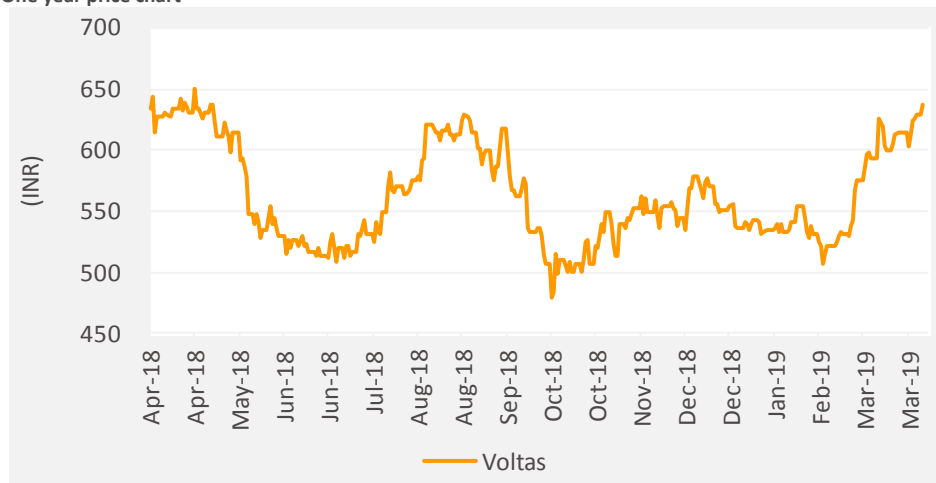
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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