

Voltas Limited (VOLT IN)

Management meeting takeaways

INDIA | MIDCAP | Company Update

20 June 2019

We recently interacted with Voltas' management. Key takeaways:

Unitary cooling products (AC business)

- Favorable season resulted in a strong pick-up in primary sales of room air-conditioners (RACs) mainly on a good summer season. Sales of window ACs in north India saw strong growth yoy. East India growth was healthy.
- Strong volumes in April 2019 led to lower channel inventory; RAC inventory fell to less than one month in Q1FY20. The north market still has some more inventory, mainly because summer season is still on in the north.
- While Voltas saw higher volume growth yoy, high competitive intensity capped price hikes.
- Its air coolers have received positive feedback from consumers and are giving good competition to market leaders.
- Management maintains its EBIT margin guidance of 11% for FY20.
- The company's new factory in Tirupati (Tamil Nadu) would be an assembly and manufacturing unit like its existing Pantnagar factory.
- Its move to in-house manufacturing will be calibrated and signifies a change in strategy – it is moving away from assembly towards captive manufacturing.

Voltbek

- Voltbek (consumer appliances JV between Beko and Voltas) will use c.85% of VOLT's distribution channel for its products; Voltas has already displayed VOLTBEK products on many shops.
- It will strategically set up a franchisee and company-owned standalone stores in cities and towns where there are no multi-brand stores (majorly in tier-2 and 3 cities).
- VOLT is aggressively increasing the visibility of Beko products in tier 2 and 3 markets by launching EBOs (exclusive brand outlets; currently has c.100). It is also increasing its presence on e-commerce platforms.
- The Voltbek JV will remain in the investment phase for at least 2-3 years.
- VOLT is currently selling only frost-free refrigerators since all its products are imported. It will introduce direct-flow range of products (60% of industry refrigerator volume) when its local factory in city (state) commissions by December 2019.

Electro-mechanical project (MEP)

- Long-term focus is on water, metro-rail, modernization of small airports, smart cities, and the third leg of rural electrification (feeder segregation) in the domestic market.
- For the next 2-3 years, revenue growth will come from its current order book of c. Rs 50bn. International revenues will moderate as VOLT is being very selective about orders.
- Management expects sustainable margins for MEP at 7.0-7.5%.

Outlook and valuation: We expect UCP sales to revive in Q1, but in the long term, Voltas' margins will be capped due to high competitive intensity. Current valuations at 35x on FY21 PE look expensive in view of 12% CAGR in FY19-21 earnings and start-up losses in the Voltbek JV, which will have to find its footing in the consumer-appliances segment.

Our FY21 estimates factor a demand recovery for RACs with a better summer season this year. We ascribe a 40x PE for VOLT's UCP segment valuing it at Rs 417/share, value its MEP and EPS (engineering product and services) segments at 15x FY21 EPS, and Voltbek at Rs 12/share based on DCF. This brings our SOTP target to Rs 578 (Rs 550 earlier). We find valuations at current market price expensive, so we maintain Neutral.

NEUTRAL (Maintain)

CMP RS 610

NEUTRAL 578 (-5%)

COMPANY DATA

O/S SHARES (MN) :	331
MARKET CAP (RSBN) :	202
MARKET CAP (USDBN) :	2.9
52 - WK HI/LO (RS) :	642 / 471
LIQUIDITY 3M (USDMMN) :	14.3
PAR VALUE (RS) :	1

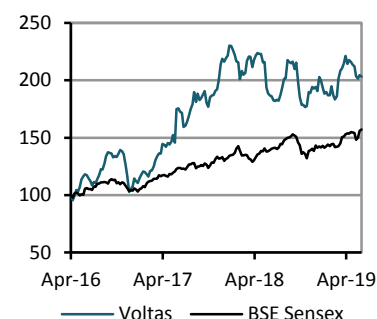
SHARE HOLDING PATTERN, %

	Mar 19	Dec 18	Sep 18x
PROMOTERS :	30.3	30.3	30.3
FII / NRI :	15.2	15.6	16.9
FI / MF :	33.6	32.3	31.3
NON PRO :	3.1	3.6	3.4
PUBLIC & OTHERS :	17.8	18.3	18.1

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	6.1	-0.5	18.2
REL TO BSE	3.0	-2.4	7.4

PRICE VS. SENSEX



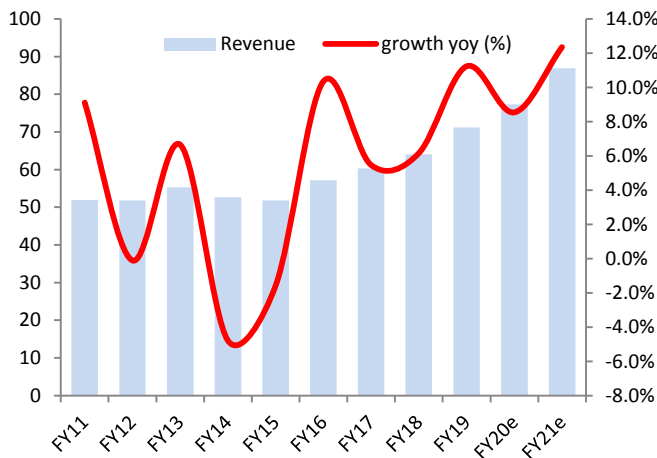
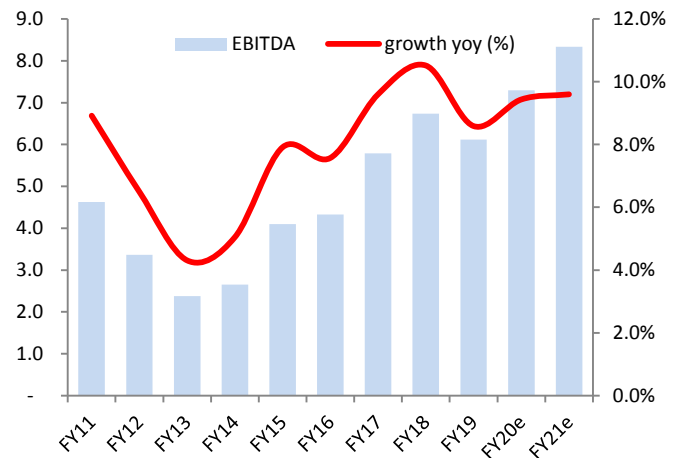
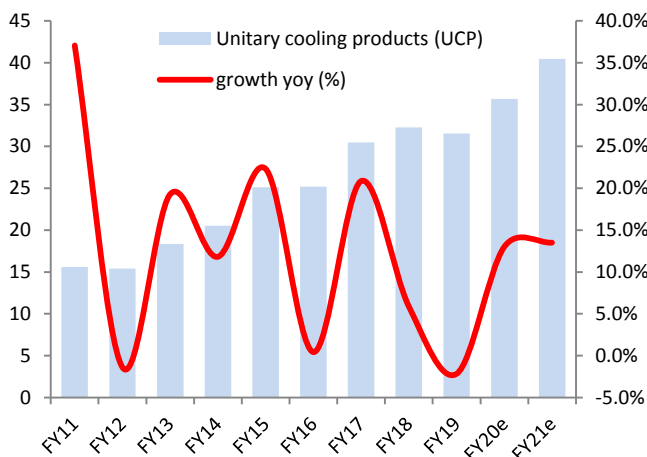
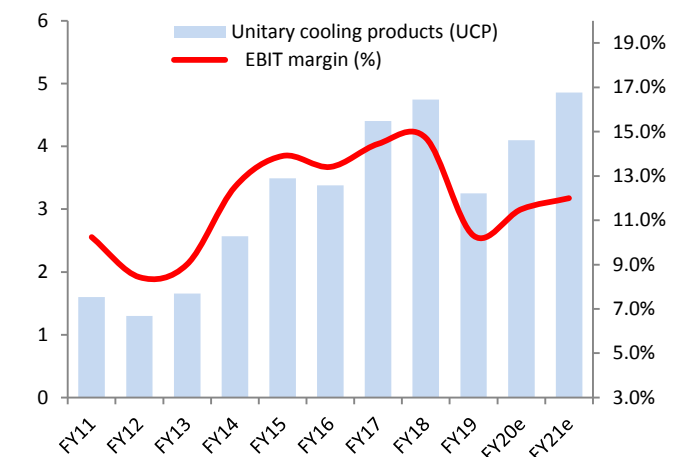
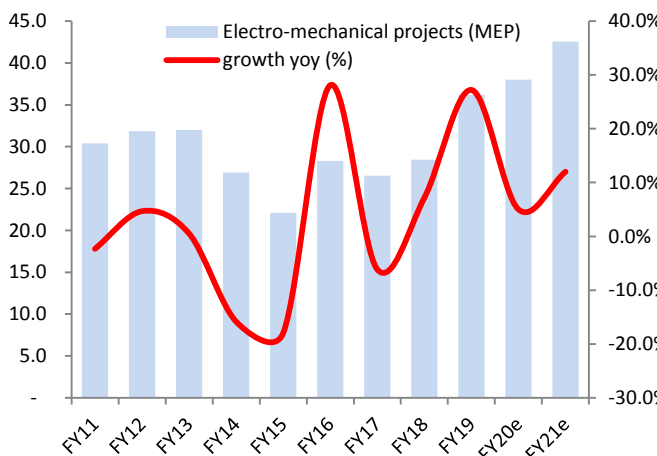
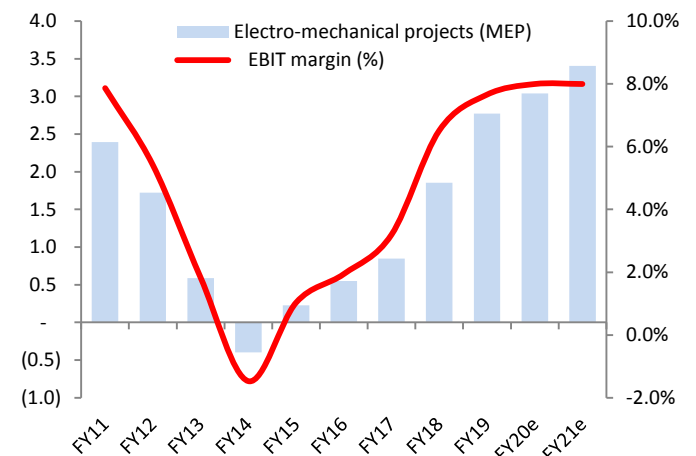
KEY FINANCIALS

Rs bn	FY19e	FY20e	FY21e
Net Sales	71.24	77.33	86.89
EBIDTA	6.12	7.30	8.34
Net Profit	5.20	5.56	6.49
EPS, Rs	15.7	16.8	19.6
PER, x	38.8	36.3	31.1
EV/EBIDTA, x	33.0	27.2	23.8
P/BV, x	4.9	4.5	4.0
ROE, %	13.0	12.9	13.7

Source: Bloomberg, PhillipCapital India Research

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Key Focus Charts

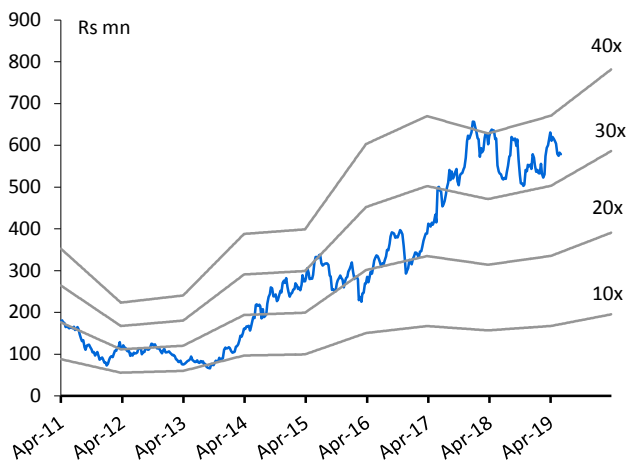
Revenue vs. revenue growth (%)

EBITDA vs. EBITDA margins (%)

Unitary Cooling Products: Revenue vs. growth (%)

Unitary Cooling product: EBIT vs. EBIT margins (%)

Electro-mechanical projects: Revenue vs. growth (%)

Electro-mechanical projects: EBIT vs. EBIT margins (%)


Source: Company, PhillipCapital India Research Estimates

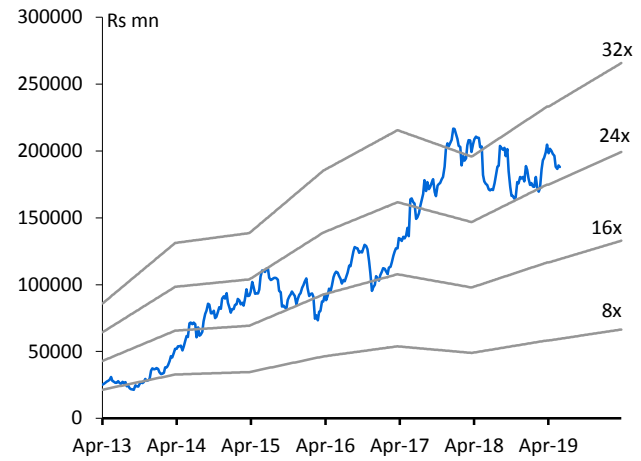
Voltas' SoTP valuation

Voltas - SOTP Valuation	FY21E	Multiple	(Rs share)
Unitary Cooling Products (UCP)	10.4	40	417
Electro Mechanical Products (EMP)	7.0	15	104
Engineering Products & Services (EPS)	2.5	15	38
Unallocated	0.7	10	7
Voltas			566
Voltbek			12
SOTP Value			578

Source: Company, PhillipCapital India Research

One-year forward P/E Band


Source: Company, PhillipCapital India Research

EV/EBITDA band


Financials

Income Statement

Y/E Mar, Rs mn	FY18	FY19	FY20E	FY21E
Gross Sales	64,044	71,241	77,328	86,886
Less: Excise Duty	6	11	9	12
Net Sales	-45,675	-52,622	-55,678	-62,560
Increase/Decrease in Stock	-5,867	-6,419	-7,202	-8,080
Raw Material Consumed	-5,766	-6,083	-7,153	-7,907
Power & Fuel Cost	6,736	6,117	7,295	8,339
Employee Cost	16.3	(9.2)	19.3	14.3
Other Manufacturing Expenses	10.5	8.6	9.4	9.6
General and Administration Exp	-244	-240	-279	-300
Selling and Distribution Expenses	6,492	5,877	7,016	8,039
Miscellaneous Expenses	17.0	(9.5)	19.4	14.6
Total Expenditure	10.1	8.2	9.1	9.3
Operating Profit (Excl OI)	-119	-330	-204	-164
Other Income	1,454	1,863	1,716	1,801
Operating Profit	7,827	7,410	8,528	9,676
Interest	-2,270	-1,635	-2,388	-2,806
PBDT	5,557	5,775	6,140	6,870
Depreciation	5,540	5,197	5,562	6,494
PBT & Exceptional Items	11.1	(6.2)	7.0	16.8
Exceptional Income / Expenses	5,540	5,197	5,562	6,494
Profit Before Tax	64,044	71,241	77,328	86,886
Provision for Tax	6	11	9	12
Profit After Tax	-45,675	-52,622	-55,678	-62,560

Balance Sheet

Y/E Mar, Rs mn	FY15	FY16	FY17	FY18
Cash & bank	2,837	3,211	5,771	5,093
Debtors	15,703	18,330	18,643	20,948
Inventory	8,130	10,907	10,678	11,998
Loans & advances	15,700	14,268	16,648	18,081
Total current assets	42,370	46,715	51,741	56,120
Investments	27,983	24,321	26,021	27,121
Gross fixed assets	5,423	5,627	5,923	6,223
Less: Depreciation	-2,899	-2,659	-3,418	-3,718
Add: Capital WIP	41	157	1,091	1,791
Net fixed assets	2,565	3,124	3,596	4,297
Non-current assets	178	1,059	1,059	1,059
Total assets	73,097	75,220	82,417	88,597
Current liabilities	29,348	28,297	31,465	32,582
Provisions	2,824	2,263	3,305	3,329
Total current liabilities	32,172	30,560	34,770	35,911
Non-current liabilities	1,555	3,212	2,162	2,112
Total liabilities	33,727	33,772	36,932	38,023
Minority Interest	317	348	418	488
Paid-up capital	331	331	331	331
Reserves & surplus	38,721	40,769	44,736	49,755
Shareholders' equity	39,369	41,447	45,485	50,573
Total equity & liabilities	73,096	75,220	82,417	88,597

Cash Flow

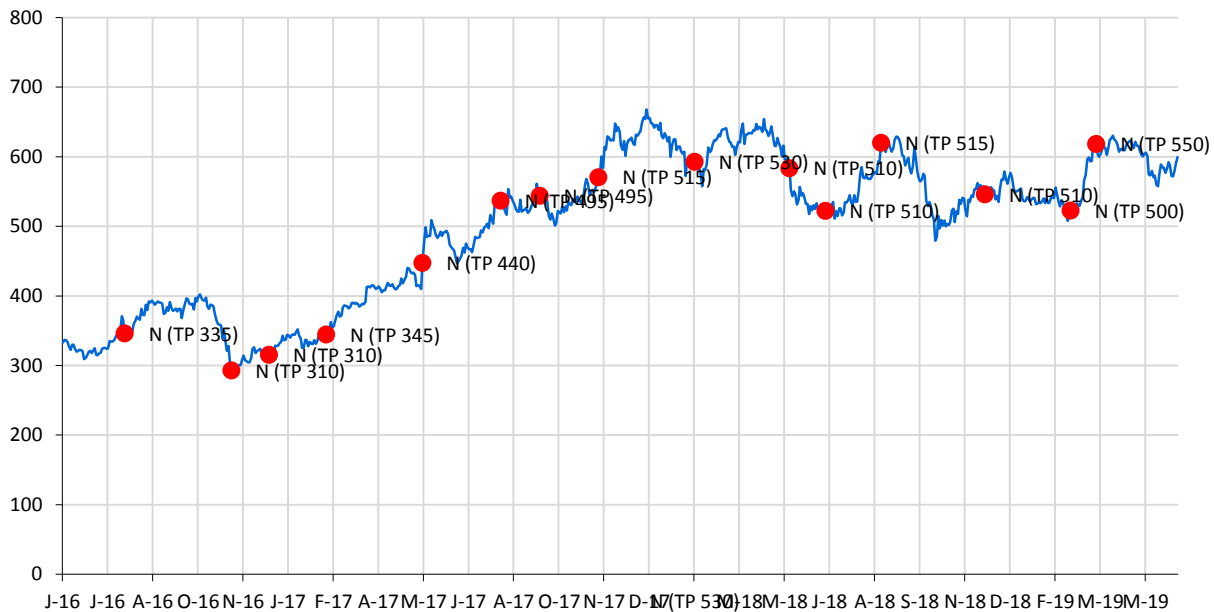
Y/E Mar, Rs mn	FY15	FY16	FY17	FY18
Pre-tax profit	7,827	7,410	8,528	9,676
Depreciation	244	240	279	300
Chg in working capital	-1,496	-5,583	1,745	-3,917
Total tax paid	-2,118	-2,582	-2,438	-2,856
Cash flow from operating activities	3,253	1,677	10,035	5,168
Capital expenditure	-261	-799	-751	-1,000
Chg in investments	-4,848	3,662	-1,700	-1,100
Cash flow from investing activities	-1,992	364	-4,675	-4,207
Free cash flow	1,261	2,041	5,360	961
Debt raised/(repaid)	-287	1,724	-1,000	0
Dividend (incl. tax)	-1,595	-1,595	-1,475	-1,723
Other financing activities	53	-1,248	184	389
Cash flow from financing activities	-1,814	-1,667	-2,799	-1,639
Net chg in cash	-553	374	2,560	-679

Valuation Ratios

	FY15	FY16	FY17	FY18
Per Share data				
EPS (INR)	16.7	15.7	16.8	19.6
Growth, %	11.1	(6.2)	7.0	16.8
Book NAV/share (INR)	118.1	124.3	136.3	151.4
FDEPS (INR)	16.7	15.7	16.8	19.6
CEPS (INR)	17.5	16.4	17.7	20.5
CFPS (INR)	9.1	(7.2)	19.3	4.2
DPS (INR)	4.0	4.0	3.7	4.3
Return ratios				
Return on assets (%)	8.2	8.1	7.9	8.1
Return on equity (%)	15.4	13.0	12.9	13.7
Return on capital employed (%)	14.9	14.3	13.9	14.2
Turnover ratios				
Asset turnover (x)	7.0	5.5	5.0	5.1
Sales/Total assets (x)	0.9	1.0	1.0	1.0
Sales/Net FA (x)	25.1	25.0	23.0	22.0
Working capital/Sales (x)	0.1	0.2	0.1	0.2
Working capital days	42.0	66.3	52.9	63.5
Liquidity ratios				
Current ratio (x)	1.3	1.5	1.5	1.6
Quick ratio (x)	1.1	1.2	1.2	1.2
Interest cover (x)	54.5	17.8	34.4	49.1
Dividend cover (x)	4.2	3.9	4.5	4.5
Total debt/Equity (%)	3.6	7.7	4.8	4.3
Net debt/Equity (%)	(3.6)	(0.2)	(8.0)	(5.9)
Valuation				
PER (x)	36.4	38.8	36.3	31.1
Price/Book (x)	5.2	4.9	4.5	4.0
Yield (%)	0.7	0.7	0.6	0.7
EV/Net sales (x)	3.1	2.8	2.6	2.3
EV/EBITDA (x)	29.7	33.0	27.2	23.8
EV/EBIT (x)	30.9	34.3	28.2	24.7

Source: Company, PhillipCapital India Research Estimates

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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