

Ground Reality

Channel check: VOLT maintains pole position in ACs

Premiumization to increase ASPs; competitive intensity elevated

We interacted with several dealers to understand trends in the AC market, various players' strategies, and also shift in consumer buying patterns. Our key takeaways:

- While VOLT maintains its leadership, LG is making intense efforts to regain its pole position.
- There is a growing trend towards premiumization, with shift towards Inverter ACs, innovative offerings, etc leading to increase in average selling prices.
- Competitive intensity remains elevated, particularly from Japanese brands. Also, Indian brands are attempting to gain share.

VOLT v/s LG: Neck-to-neck fight for pole position

- LG had dominated the Indian AC market for years. In CY13, VOLT became the number-1 brand in the multi-brand outlets category (which account for 80-85% of industry sales), and in CY14, it became India's number-1 AC brand. While VOLT continues to maintain its leadership position at most outlets, several distributors highlighted the intense efforts being made by LG to get back its pole position.
- VOLT has launched new products like all-weather inverter ACs and smart ACs. LG has made several course corrections in terms of (1) new products like inverter ACs with mosquito away technology, and (2) 5-7% price cuts – pricing is now just at a slight premium to VOLT.

Premiumization: Increased sales of inverter / 5-star ACs

- The inverter AC market is gaining momentum, and despite ~25% higher initial purchase cost, there is a noticeable shift in consumer preference. In addition, several manufacturers like Onida, Videocon, and VOLT have launched product innovations (like ACs controlled through Wi-Fi).
- We understand that the share of inverter ACs is just 3-4% in India, and the trade (based on the initial sales trend) expects that this could double to 7-8% in CY15. In addition, shift towards product innovations has also led to premium positioning and an increase in average selling price (ASP).

Competition intense: Aggressive postures by various players

- Competitive intensity remains elevated, particularly from Japanese brands like Panasonic, Hitachi, Daikin, Sharp, and General. Also, Indian brands like Videocon, Godrej, Whirlpool, and Onida are attempting to gain share.
- Distributors expect VOLT to possibly enter the air coolers segment. The company already has a portfolio and the dealership network is largely similar. This could be an important monitorable; new product introductions can accelerate growth momentum.

Valuation and view

- We model PAT CAGR of 23% over FY15-17, largely led by profitability improvement in MEP, 18% EBIT CAGR in Unitary Cooling (UC) and 5% EBIT CAGR in Engineering Products. Maintain **Buy** with an SOTP-based price target of INR320 (UC at 22x FY17E EPS, MEP at 16x, and Engineering Products at 20x).

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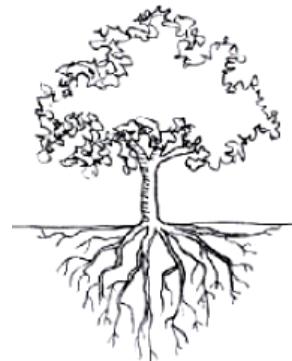
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BSE Sensex
28,504

S&P CNX
8,660



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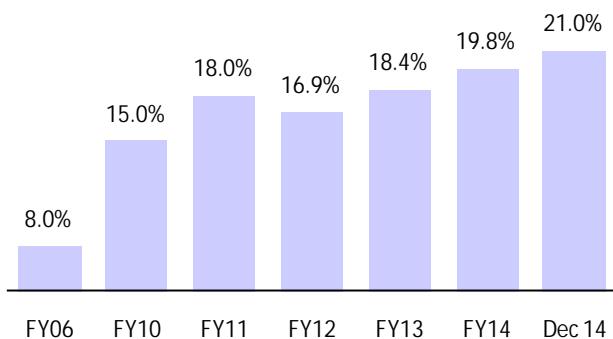
Bloomberg	VOLT IN
Equity Shares (m)	330.7
52-Week Range (INR)	301/149
1, 6, 12 Rel. Per (%)	10/10/50
M.Cap. (INR b)	96.9
M.Cap. (USD b)	1.6
Avg Val(INRm)/Vol '000	720/3151
Free float (%)	69.7

[Financial Snapshot \(INR b\)](#)

Y/E Mar	2015E	2016E	2017E
Net Sales	50.8	58.1	66.6
EBITDA	4.1	5.0	6.0
Adj PAT	3.8	4.2	5.0
EPS (INR)	10.3	12.7	15.3
EPS Gr. (%)	52.6	22.8	20.2
BV/Sh. (INR)	63.2	72.0	82.7
P/E (x)	28.4	23.1	19.2
P/BV (x)	4.6	4.1	3.5
RoE (%)	16.4	17.6	18.4
RoCE (%)	21.0	22.3	23.5

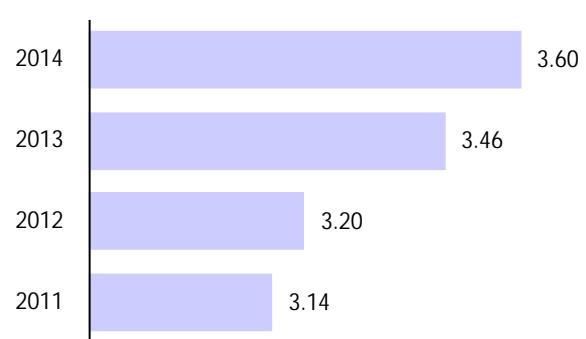
Air conditioners remain a seasonal product. With the sharp increase in summer temperatures post mid-March 2015, sales have gathered momentum. We interacted with several dealers and also visited retail chains / distributors in Mumbai, Thane and Nashik to gauge the strategies of various players and also the shift in consumer buying patterns.

Exhibit 1: VOLT has catapulted to number-1 position in room ACs (market share; %)



Source: MOSL, Company

Exhibit 2: Indian AC market volumes have grown at CAGR of 5% over CY11-14 (market size; m units)



Source: TV Veopar Journal

VOLT maintains its leadership position at most outlets

VOLT v/s LG: Neck-to-neck fight for pole position

- LG had dominated the Indian air-conditioning market for years. In CY13, VOLT became the number-1 brand in the multi-brand outlets category (which accounts for 80-85% of industry sales), and in CY14, it became India's number-1 AC brand. Over the years, VOLT has consistently gained market share from ~8% in FY06 to 21% as at December 2014. While VOLT maintains its leadership position at most outlets, several distributors highlighted the intense efforts being made by LG to get back its *pole* position.
- VOLT has launched several energy-efficient products in the split and window AC categories. It has also introduced 'all-weather inverter ACs' and 'all-weather smart ACs' this season. The 'smart' range of all-weather ACs allows users to keep track of the amount of electricity consumed by downloading an app called Voltas Remote, which turns the mobile phone into an AC remote using Wi-Fi. It guides consumers on how to reduce power consumption by using the right temperature and humidity levels.
- LG has stated its intent of increasing revenue by 25% in CY15, and has made several course corrections in terms of (1) launching new products like inverter ACs with mosquito away technology, and (2) 5-7% price cuts – pricing is now at just a slight premium to VOLT. It targets to derive ~40% of its revenue from tier II and III cities. Mosquito away technology produces ultrasonic waves that are beyond the human-range and only impact the sensing of mosquitoes; it can be used independent of the air conditioning process.

Our view: VOLT has had the initial lead, but the market shares between both the players continue to be in a narrow range of 19-21%. The summer of CY15 will thus be interesting to monitor.

Exhibit 3: VOLT: Launched inverter ACs and smart ACs



Source: Industry

Exhibit 4: Smart ACs turn the mobile phone into an AC remote and suggest optimum parameters to save electricity



Smart Sense
Gives weather information on the go and recommends the best mode to run your AC on.



Smart Tips
Helps you understand the benefits of different modes of AC operation.



Power Calculator
Manage your power consumption with daily & monthly forecasts.



24/7 Helpline
24/7 access to call centre at the touch of a button.

Source: Industry

Exhibit 5: LG: Launched inverter ACs with mosquito away technology



Source: Industry

Premiumization: Increased sales of inverter / 5-star ACs

- The inverter AC market is gaining momentum in India on the back of aggressive push by manufacturers and changing buyer preferences. Despite ~25% higher initial purchase cost, there is a noticeable shift in consumer preference, given the promise of 65-70% lower electricity consumption.
- Five-star ACs contributed 20-22% of industry volumes in CY14, and are also witnessing increased share. Further, large part of this market could shift to inverter ACs, going forward.
- In addition, during the summer of CY15, several manufacturers like Onida, Videocon and VOLT have launched ACs that can be controlled from anywhere in the world through Wi-Fi (also enables user to control and monitor usage).
- We understand that the share of inverter ACs is just 3-4% in India, and the trade (based on the initial sales trend) expects that this could double to 7-8% in CY15 and then increase further to 20-25% over the next 3-4 years. In China, the share of inverter ACs is 50%, and in Japan, it is near 100%. In addition, consumer shift towards product innovations like mosquito away technology by LG, or Wi-Fi based controls by VOLT, Onida, and Videocon have also led to a premium positioning and an increase in average selling price (ASP).

Our view: We are positively surprised by the extent of premiumization and acceptance of inverter ACs. This trend may entail an increase of 7%+ in ASP in CY15. In FY16, we model VOLT's UC business to report revenue growth of 15.8%, comprising volume growth of 7-9% and ASP increase of 5-7%.

Competition intense: Aggressive postures by various players

- **Panasonic** has lined up more than 50 models during the season, and is expecting strong sales pick-up in tier-II and tier-III cities.
- **Blue Star:** Close to 55% of the company's volume comes from tier-II and tier-III markets. It has lined up 81 models for the season. In addition, the company also plans to set up a new manufacturing plant in South India at a capex of INR1.5b.

- **Daikin** is pushing its R32 inverter AC range with its campaign '*Think Inverter Think Daikin*'. The company intends to expand its national dealership network to 3,000 from current levels of 1,800+. It also intends to develop 300 Daikin Solution Plazas across the country over the next 12 months.
- **Videocon** recently launched a series of Wi-Fi ACs. The 'away mode' tracks the user's location through the smart phone and switches off to conserve energy.
- **Mitashi** has also launched ACs with turbo cooling and dehumidifiers.
- Johnson Controls and **Hitachi** have recently entered into a global joint venture (JV) to form a specialist AC company, in which Johnson Controls will have 60% stake and Hitachi 40%. The company would be unveiled in India.

Our view: Competitive intensity remains at elevated levels, particularly from Japanese brands like Panasonic, Hitachi, Daikin, Sharp, and General. Also, Indian brands like Videocon, Godrej, Whirlpool, and Onida are also attempting to gain incremental market share.

Other takeaways: Possible launch of air-coolers, consumer demand

- Some distributors expect VOLT to enter and aggressively push air-coolers, going forward. The company already has a portfolio and the dealership network is largely similar. This could be an important monitorable, and new product introductions can accelerate growth momentum.
- Consumer demand was robust till November 2014, post which it has been impacted. AC demand is largely a function of the summer intensity; while the initial pick-up in sales is encouraging, a lot depends on the heat waves in April / May and that will be an important driver for market growth.

Valuation and view

We model PAT CAGR of 23% over FY15-17, largely led by profitability improvement in MEP business, 18% EBIT CAGR in UC business and 5% EBIT CAGR in Engineering Products business. VOLT has net cash of INR6.4b as at September 2014. We maintain **Buy**, with an SOTP-based price target of INR320 (UC business at 22x FY17E EPS, MEP at 16x, and Engineering Products at 20x).

Key triggers / risks

- **Projects business:** Negotiations with customers on time / cost overruns; pick-up in ordering will be important monitorables. Further provisions on the Sidra / other legacy projects remain a key risk.
- **UC business:** Maintaining the number-1 position in India and expanding the market share gap is a challenge. Increased competitive intensity and pricing pressures remain key risks.

Exhibit 6: VOLT – operating metrics

INR M	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
Order Book	46,780	48,870	42,920	37,190	36,120	40,675	40,412	44,691
Domestic	15,000	19,630	19,560	21,610	20,200	22,120	24,772	28,250
International	31,780	29,240	23,360	15,580	15,920	18,555	15,640	16,440
YoY	-1.7%	4.5%	-12.2%	-13.4%	-2.9%	12.6%	-0.6%	10.6%
Order Inflows	30,730	32,501	25,882	26,265	22,410	22,000	19,500	23,800
Revenues								
India Contract	9,513	10,053	9,511	8,634	7,213	8,080	8,848	10,322
ME Contract	17,483	15,843	17,627	18,381	14,408	9,365	10,915	9,200
Product	4,134	4,515	4,695	4,980	5,302	4,507	4,958	5,949
EMP Revenues	31,130	30,411	31,832	31,995	26,924	21,952	24,721	25,471
India Contract, % YoY	17.1%	5.7%	-5.4%	-9.2%	-16.5%	12.0%	9.5%	16.7%
ME Contract, % YoY	15.9%	-9.4%	11.3%	4.3%	-21.6%	-35.0%	16.6%	-15.7%
Segmental Revenues								
Electro mechanical projects	31,130	30,411	31,832	31,995	26,924	21,952	24,721	25,471
Engineering Products	4,680	5,638	4,121	4,311	4,482	3,763	4,328	4,977
Unitary Cooling products	11,860	15,608	15,388	18,356	20,524	24,314	28,152	35,207
Total Revenues	48,060	51,783	51,768	55,163	52,451	50,601	57,830	66,347
EMP, % YoY	12.8%	-2.3%	4.7%	0.5%	-15.8%	-18.5%	12.6%	3.0%
Engg Products, % YoY	-13.7%	20.5%	-26.9%	4.6%	4.0%	-16.0%	15.0%	15.0%
UCP, % YoY	28.9%	31.6%	-1.4%	19.3%	11.8%	18.5%	15.8%	25.1%
Segmental PBIT, %								
Electro mechanical projects	9.9	7.9	-3.3	-1.5	-1.5	1.3	4.4	5.0
Engineering Products	16.4	18.3	16.7	19.0	31.6	28.5	24.0	24.0
Unitary Cooling products	10.1	10.2	8.4	9.0	12.5	13.6	13.4	13.0
Total PBIT	10.7	9.7	1.9	3.6	6.8	9.3	10.2	10.7
EPS (INR/sh)	10.3	9.5	9.5	5.9	6.8	10.3	12.7	15.3
NWC (Days)	8.2	30.4	55.9	53.4	52.6	48.7	45.4	40.0
EPS Composition (INR/sh)						6.8	10.3	12.7
Electro mechanical projects						-2.2	0.2	1.5
Engineering Products						2.8	2.1	2.0
Unitary Cooling products						6.2	8.0	9.1

Source: MOSL, Company

Financials and valuations

Income Statement (INR Million)								
Y/E March	2010	2011	2012	2013	2014	2015E	2016E	2017E
Total Revenues	48,059	51,914	51,857	55,310	52,660	50,836	58,077	66,606
Change (%)	11.1	8.0	(0.1)	6.7	(4.8)	-3	14	15
Raw Materials	32,992	36,808	37,800	41,670	38,543	35,941	41,641	47,757
Staff Cost	5,357	5,563	5,995	6,325	5,947	5,592	6,679	7,660
Other Expenses	5,118	4,914	4,698	4,934	5,515	5,163	4,769	5,142
EBITDA	4,592	4,629	3,365	2,380	2,656	4,140	4,988	6,047
% of Total Revenues	9.6	8.9	6.5	4.3	5.0	8.1	8.6	9.1
Other Income			985	901	1,002	1,106	1,236	1,370
Depreciation	214	210	340	278	248	270	298	326
Interest	98	165	314	326	225	235	235	245
Exceptional Items	250	402	(1,505)	121	215	450	0	0
PBT	4,529	4,656	2,191	2,798	3,399	5,191	5,692	6,846
Tax	1,472	1,725	571	728	941	1,342	1,496	1,803
Rate (%)	32.5	37.0	26.1	26.0	27.7	26	26	26
Adjusted PAT	3,057	2,931	1,620	2,070	2,458	3,849	4,195	5,044
Extra-ordinary Income (net)	-	-	-	-	-	0	0	0
Reported PAT	3,057	2,931	1,620	2,070	2,458	3,849	4,195	5,044
Change (%)	93.1	(4.1)	(44.7)	27.8	18.7	57	9	20
Adj. Consolidated PAT	3,397	3,147	3,126	1,955	2,238	3,416	4,195	5,044
Change (%)	51.5	(7.3)	(0.7)	(37.5)	14.5	53	23	20
Balance Sheet (INR Million)								
Y/E March	2010	2011	2012	2013	2014	2015E	2016E	2017E
Share Capital	331	331	331	331	331	331	331	331
Reserves	10,521	13,287	14,469	15,926	17,863	20,557	23,494	27,024
Net Worth	10,852	13,618	14,800	16,256	18,193	20,888	23,824	27,355
Minority Interest	139	196	170	118	138	138	138	138
Loans	352	1,367	2,214	2,612	2,629	2,629	2,629	2,629
Deferred Tax Liability	(202)	(152)	(242)	(222)	(239)	(239)	(239)	(239)
Capital Employed	11,140	15,029	16,941	18,765	20,722	23,416	26,352	29,883
Gross Fixed Assets	3,890	4,198	4,451	4,678	4,696	5,072	5,650	6,228
Less: Depreciation	1,821	1,987	2,448	2,568	2,611	2,879	3,177	3,503
Net Fixed Assets	2,069	2,211	2,003	2,110	2,086	2,193	2,474	2,726
Capital WIP	193	10	46	0	18	-	-	-
Investments	2,339	2,686	3,116	4,074	7,320	7,320	7,320	7,320
Goodwill	764	894	890	888	798	798	798	798
Curr. Assets	28,267	35,475	35,271	38,352	36,973	39,264	45,557	53,233
Inventory	11,441	8,215	8,334	9,784	9,010	8,642	9,989	11,656
Debtors	10,060	19,948	20,977	21,927	22,039	21,172	23,459	25,744
Cash & Bank Balance	4,689	4,890	2,710	3,498	2,818	6,228	8,451	11,642
Loans & Advances	2,078	2,422	3,249	3,142	3,107	3,221	3,657	4,191
Current Liab. & Prov.	22,493	26,246	24,384	26,658	26,476	26,160	29,797	34,194
Creditors	19,848	23,084	21,593	23,947	23,686	22,899	26,094	29,855
Other Liabilities	2,645	3,163	2,790	2,711	2,790	3,261	3,703	4,339
Net Current Assets	5,774	9,228	10,887	11,694	10,497	13,104	15,760	19,038
Application of Funds	11,140	15,029	16,941	18,766	20,720	23,416	26,352	29,883

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2010	2011	2012	2013	2014	2015E	2016E	2017E
Basic (INR)	10.3	9.5	9.5	5.9	6.8	10.3	12.7	15.3
Adj EPS	9.2	8.9	4.9	6.3	7.4	10.3	12.7	15.3
Cash EPS	10.9	10.2	10.5	6.8	7.5	11.1	13.6	16.2
Book Value	32.8	41.2	44.7	49.2	55.0	63.2	72.0	82.7
DPS	2.0	2.0	1.6	1.6	1.9	3.0	3.3	3.9
Payout (incl. Div. Tax.)	20.3	21.5	38.0	29.8	29.2	30.0	30.0	30.0

Valuation (x)

P/E				23.8	28.4	23.1	19.2
Cash P/E				39.0	26.3	21.6	18.0
EV/EBITDA				20.0	22.5	18.3	14.5
EV/Sales				1.0	1.8	1.6	1.3
Price/Book Value				2.9	4.6	4.1	3.5
Dividend Yield (%)				1.1	1.0	1.1	1.3

Profitability Ratios (%)

RoE	31.3	23.1	21.1	12.0	12.3	16.4	17.6	18.4
RoCE	39.3	29.4	23.3	15.8	16.3	21.0	22.3	23.5

Turnover Ratios

Debtors (Days)	76	140	148	145	153	152.0	147.4	141.1
Inventory (Days)	87	58	59	65	62	62.1	62.8	63.9
Creditors. (Days)	151	162	152	158	164	164.4	164.0	163.6
Asset Turnover (x)	4.3	3.5	3.1	2.9	2.5	2.2	2.2	2.2

Leverage Ratio

Debt/Equity (x)	0.0	0.1	0.1	0.2	0.1	0.1	0.1	0.1
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Cash Flow Statement

Y/E March	2010	2011	2012	2013	2014	2015E	2016E	2017E
PBT before EO Items	5,318	5,240	2,191	2,798	3,399	5,191	5,692	6,846
Add : Depreciation	214	210	340	278	248	270	298	326
Interest	98	165	314	326	225	235	235	245
Less : Direct Taxes Paid	(1,472)	(1,725)	(571)	(728)	(941)	(1,342)	(1,496)	(1,803)
(Inc)/Dec in WC	(965)	(3,300)	(3,651)	(202)	596	804	(434)	(88)
CF from Operations	3,193	591	(1,378)	2,472	3,528	5,158	4,294	5,526
(Inc)/Dec in FA	35	(125)	(289)	(181)	(36)	(358)	(578)	(578)
Free Cash Flow			(1,666)	2,291	3,492	4,799	3,716	4,948
Investment in liquid assets	(777)	(346)	(430)	(957)	(3,247)	(0)	-	-
CF from Investments	(741.6)	(471.4)	(719)	(1,139)	(3,283)	(359)	(578)	(578)
(Inc)/Dec in Debt	(1,463)	1,016	847	399	17	-	-	-
Less : Interest Paid	(98)	(165)	(314)	(326)	(225)	(235)	(235)	(245)
Dividend Paid	(772)	(769)	(615)	(619)	(716)	(1,155)	(1,259)	(1,513)
CF from Fin. Activity	(2,333)	81	(83)	(546)	(925)	(1,389)	(1,493)	(1,758)
Inc/Dec of Cash	119	201	(2,179)	787	(680)	3,410	2,223	3,190
Add: Beginning Balance	4,571	4,689	4,890	2,710	3,497	2,817	6,227	8,450
Closing Balance	4,689	4,890	2,710	3,497	2,817	6,227	8,450	11,640

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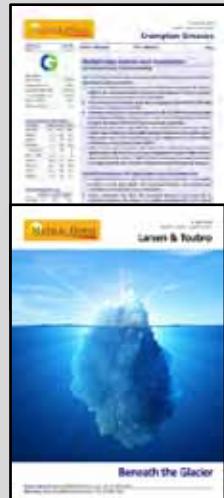
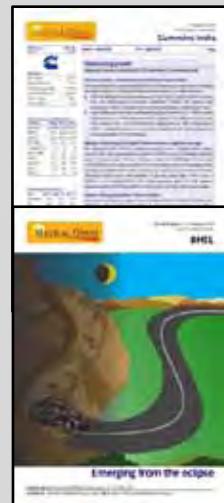


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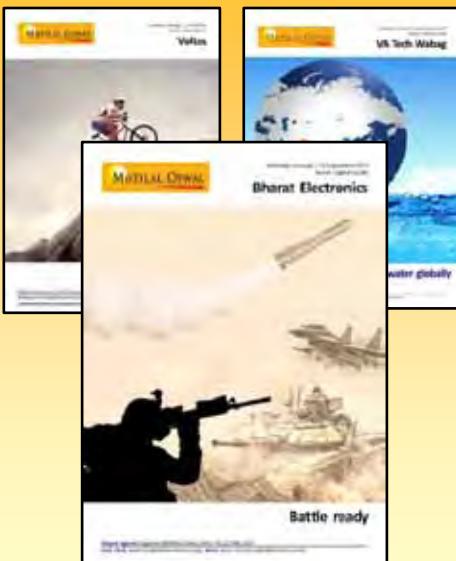
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