

February 15, 2019

## Q3FY19 Reuslt Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	600		658	
Sales (Rs. m)	80,517	88,950	81,437	93,466
% Chng.	(1.1)	(4.8)		
EBITDA (Rs. m)	8,052	8,895	8,307	9,534
% Chng.	(3.1)	(6.7)		
EPS (Rs.)	19.3	21.8	20.9	23.9
% Chng.	(7.8)	(8.6)		

### Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	64,044	73,105	80,517	88,950
EBITDA (Rs. m)	6,626	7,274	8,052	8,895
Margin (%)	10.3	9.9	10.0	10.0
PAT (Rs. m)	5,718	5,724	6,373	7,217
EPS (Rs.)	17.3	17.3	19.3	21.8
Gr. (%)	10.7	0.1	11.3	13.3
DPS (Rs.)	3.5	4.0	4.0	4.3
Yield (%)	0.7	0.8	0.8	0.8
RoE (%)	15.9	13.9	14.0	14.3
RoCE (%)	21.6	20.1	19.9	19.9
EV/Sales (x)	2.6	2.3	2.1	1.9
EV/EBITDA (x)	25.1	23.1	20.9	18.7
PE (x)	30.2	30.2	27.1	23.9
P/BV (x)	4.4	4.0	3.6	3.2

### Key Data

VOLT.BO | VOLT IN

52-W High / Low	Rs.665 / Rs.471
Sensex / Nifty	35,809 / 10,724
Market Cap	Rs.173bn / \$ 2,426m
Shares Outstanding	331m
3M Avg. Daily Value	Rs.1257.25m

### Shareholding Pattern (%)

Promoter's	30.30
Foreign	14.58
Domestic Institution	32.95
Public & Others	22.17
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(1.6)	(14.8)	(10.4)
Relative	(0.2)	(10.0)	(14.2)

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## Delicately poised ahead of summer season

*Voltas is in a phase of transition as it plans to graduate to a technology based white goods player in the coming few years. We expect Voltas to strengthen its presence in white goods market led by 1) launch of new technology products in AC with rising share of inverter AC 2) expected savings in logistics and distribution costs post starting of Tirupati unit 3) increased local sourcing and 4) Voltas branded stores with full range of AC and Voltas Beko products. EMPS segment will show improved growth led by focus on securing good quality orders, effective execution, increased government spend & improving economic activity in GCC countries.*

*3Q19 revenue grew by 9% led by strong 16% growth in EMPS revenues even as UCP continues to suffer due to soft Diwali and high inventory. We believe onset of summer AC sales, decline in inventory and response to Voltas Beko JV products will be key determinant in the near term. Voltas-Beko rollout is positive, however it needs considerable investment to scale up in highly competitive segment. We estimate 9% PAT CAGR over FY18-21. Retain Accumulate with a target price of Rs600 (28x DecFY21 EPS). Poor summer sales on high closing inventory remains a key risk and can de-rate the stock.*

**Concall Takeaways:** 1) RAC industry de-grew 4% in 9MFY19 on account of soft Diwali & poor summer season sales. 2) Current RAC inventory is 2 months, expect it to get normalized by end of Q4 3) Inverter ACs account for 40% of split AC sales, which are 80% of AC sales 4) 9MFY19 market share at 24% (200bps increase YoY), emerged as no.2 player in Air coolers 5) Voltas will set up AC and related products unit in Tirupati at a cost of Rs5bn which will provide benefits in terms of logistical cost & timing, and proximity to ports on the eastern side. 6) Price hikes in UCP will depend on how the summer season plays out 7) Electro-mechanical Projects (EMPS) order book – Domestic Rs31bn (up 9% QoQ) & International Rs19bn 8) EMPS will focus on government infrastructure & electrification projects. 9) Launched 44/40/12/7 SKUs in Refrigerators/ Washing Machines /Microwaves /Dishwasher's under Voltas-Beko JV.

**Sales up by 9%/ Adj PAT down by 7%:** Revenues grew by 8.5% YoY to Rs14.9bn led by 16% YoY increase in EMP segment revenues. Input cost pressure and depreciating INR led to a 270bps YoY decline in gross margin to 26.9%. However, 20bps decline in employee cost and 200bps decline in other expense curtailed EBITDA margin erosion to 60bps YoY at 7.8%. EBITDA increased by 1.3% to Rs1.2bn. 155% increase in other income to Rs548mn offset by 6x increase in finance cost (~2x QoQ) to Rs132mn led to adj. PAT declining by 6.8% to Rs927mn

**EMP segment EBIT up 30%, UCP EBIT declines 37%:** EMP segment recorded 16% YoY growth in revenues to Rs8.8bn. Better quality of orders and efficient execution enabled EMP EBIT to grow by 30% YoY to Rs692mn with margins expansion of 80bps to 7.9%. UCP segment revenues de grew by 3% to Rs5.3bn. On account of rising inputs cost and depreciating rupee EBIT declined 37% to Rs447mn while margins contracted 450bps YoY to 8.5%. Engineering products & services segment revenues grew 20% YoY to Rs832mn with EBIT growing 4% YoY to Rs219mn. EBIT margins contracted 400bps to 26.4%.

**Exhibit 1: Q3FY19 Result Overview (Rs m): Sales up by 9%; UCP segment, 6x rise in finance cost drag profitability down**

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
<b>Net Sales</b>	<b>14,918</b>	<b>13,747</b>	<b>8.5</b>	<b>14,214</b>	<b>50,612</b>	<b>43,560</b>	<b>16.2</b>
<b>Expenditure</b>							
Operating & Manufacturing Expenses	10,906	9,675	12.7	10,300	36,832	30,664	20.1
<i>% of Net Sales</i>	<i>73.1</i>	<i>70.4</i>		<i>72.5</i>	<i>72.8</i>	<i>70.4</i>	
Gross Profit	4,012	4,072	(1.5)	3,914	13,780	12,896	6.9
<i>% of Net Sales</i>	<i>26.9</i>	<i>29.6</i>		<i>27.5</i>	<i>27.2</i>	<i>29.6</i>	
Personnel Cost	1,601	1,503	6.6	1,723	4,755	4,433	7.3
<i>% of Net Sales</i>	<i>10.7</i>	<i>10.9</i>		<i>12.1</i>	<i>9.4</i>	<i>10.2</i>	
Other Expenses	1,254	1,427	(12.1)	1,105	4,351	4,368	(0.4)
<i>% of Net Sales</i>	<i>8.4</i>	<i>10.4</i>		<i>7.8</i>	<i>8.6</i>	<i>10.0</i>	
Total Expenditure	13,761	12,605	9.2	13,128	45,938	39,465	16.4
<b>EBITDA</b>	<b>1,157</b>	<b>1,142</b>	<b>1.3</b>	<b>1,085</b>	<b>4,674</b>	<b>4,095</b>	<b>14.1</b>
<i>Margin (%)</i>	<i>7.8</i>	<i>8.3</i>		<i>7.6</i>	<i>9.2</i>	<i>9.4</i>	
Other income	548	215	155.3	461	1,291	1,303	(1.0)
Depreciation	62	61	1.5	60	181	183	(1.3)
<b>EBIT</b>	<b>1,643</b>	<b>1,296</b>	<b>26.8</b>	<b>1,487</b>	<b>5,784</b>	<b>5,215</b>	<b>10.9</b>
Interest	132	19	NA	64	224	76	NA
<b>PBT</b>	<b>1,511</b>	<b>1,277</b>	<b>18.3</b>	<b>1,423</b>	<b>5,561</b>	<b>5,140</b>	<b>8.2</b>
Total Taxes	304	301	1.0	331	1,397	1,370	1.9
<i>ETR (%)</i>	<i>20.1</i>	<i>23.6</i>		<i>23.2</i>	<i>25.1</i>	<i>26.7</i>	
Share of JV/Associates	(308)	29		(22)	(325)	48	
Minority Interest	(28)	10		35	38	40	(3.0)
<b>PAT</b>	<b>927</b>	<b>995</b>	<b>(6.8)</b>	<b>1,035</b>	<b>3,801</b>	<b>3,777</b>	<b>0.6</b>
Exceptional Items	(118)	-		-	(118)	20	
<b>Reported PAT</b>	<b>809</b>	<b>995</b>	<b>(18.7)</b>	<b>1,035</b>	<b>3,683</b>	<b>3,797</b>	<b>(3.0)</b>

Source: Company, PL

**Exhibit 2: Segmental breakup (Rs m): EMPS EBIT up by 30%, UCP EBIT declines by 37%**

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
<b>Revenues</b>							
Electro-Mechanical Projects & Services	8,752	7,534	16.2	9,015	26,431	19,717	34.1
Engineering Products & Services	832	695	19.6	729	2,332	2,265	3.0
Unitary Cooling Products	5,259	5,422	(3.0)	4,410	21,580	21,616	(0.2)
<b>EBIT</b>							
Electro-Mechanical Projects & Services	692	534	29.6	759	2,332	1,189	96.1
<i>EBIT margin (%)</i>	<i>7.9</i>	<i>7.1</i>		<i>8.4</i>	<i>8.8</i>	<i>6.0</i>	
Engineering Products & Services	219	211	4.0	290	777	743	4.5
<i>EBIT margin (%)</i>	<i>26.4</i>	<i>30.3</i>		<i>39.8</i>	<i>33.3</i>	<i>32.8</i>	
Unitary Cooling Products	447	705	(36.6)	278	2,217	2,918	(24.0)
<i>EBIT margin (%)</i>	<i>8.5</i>	<i>13.0</i>		<i>6.3</i>	<i>10.3</i>	<i>13.5</i>	

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Net Revenues</b>	<b>64,044</b>	<b>73,105</b>	<b>80,517</b>	<b>88,950</b>
YoY gr. (%)	6.2	14.1	10.1	10.5
Cost of Goods Sold	45,675	53,148	58,375	64,266
Gross Profit	18,369	19,958	22,142	24,684
Margin (%)	28.7	27.3	27.5	27.8
Employee Cost	5,867	6,360	7,086	8,006
Other Expenses	4,850	5,264	5,757	6,360
<b>EBITDA</b>	<b>6,626</b>	<b>7,274</b>	<b>8,052</b>	<b>8,895</b>
YoY gr. (%)	16.9	9.8	10.7	10.5
Margin (%)	10.3	9.9	10.0	10.0
Depreciation and Amortization	244	242	305	392
<b>EBIT</b>	<b>6,383</b>	<b>7,032</b>	<b>7,746</b>	<b>8,503</b>
Margin (%)	10.0	9.6	9.6	9.6
Net Interest	119	259	257	174
Other Income	1,741	1,764	1,917	2,042
<b>Profit Before Tax</b>	<b>8,005</b>	<b>8,537</b>	<b>9,406</b>	<b>10,371</b>
Margin (%)	12.5	11.7	11.7	11.7
Total Tax	2,270	2,314	2,634	2,904
Effective tax rate (%)	28.4	27.1	28.0	28.0
<b>Profit after tax</b>	<b>5,735</b>	<b>6,224</b>	<b>6,773</b>	<b>7,467</b>
Minority interest	55	50	50	50
Share Profit from Associate	38	(450)	(350)	(200)
<b>Adjusted PAT</b>	<b>5,718</b>	<b>5,724</b>	<b>6,373</b>	<b>7,217</b>
YoY gr. (%)	10.7	0.1	11.3	13.3
Margin (%)	8.9	7.8	7.9	8.1
Extra Ord. Income / (Exp)	6	(118)	-	-
<b>Reported PAT</b>	<b>5,724</b>	<b>5,606</b>	<b>6,373</b>	<b>7,217</b>
YoY gr. (%)	10.6	(2.1)	13.7	13.3
Margin (%)	8.9	7.7	7.9	8.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,724	5,606	6,373	7,217
<b>Equity Shares O/s (m)</b>	<b>331</b>	<b>331</b>	<b>331</b>	<b>331</b>
<b>EPS (Rs)</b>	<b>17.3</b>	<b>17.3</b>	<b>19.3</b>	<b>21.8</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>5,262</b>	<b>5,333</b>	<b>7,903</b>	<b>8,964</b>
Tangibles	4,638	4,679	7,219	8,260
Intangibles	624	654	684	704
<b>Acc: Dep / Amortization</b>	<b>3,013</b>	<b>3,255</b>	<b>3,561</b>	<b>3,953</b>
Tangibles	2,486	2,690	2,955	3,306
Intangibles	528	566	605	647
<b>Net fixed assets</b>	<b>2,248</b>	<b>2,077</b>	<b>4,343</b>	<b>5,012</b>
Tangibles	2,152	1,989	4,264	4,954
Intangibles	96	88	79	57
Capital Work In Progress	41	41	41	41
Goodwill	723	723	723	723
Non-Current Investments	23,014	26,299	28,608	31,164
Net Deferred tax assets	46	46	46	46
Other Non-Current Assets	917	934	984	1,063
<b>Current Assets</b>				
Investments	4,876	6,376	4,876	5,376
Inventories	8,130	10,890	11,194	11,931
Trade receivables	15,703	18,895	20,811	23,002
Cash & Bank Balance	2,837	2,454	2,117	2,832
Other Current Assets	13,565	13,927	15,088	16,405
<b>Total Assets</b>	<b>73,097</b>	<b>83,714</b>	<b>89,973</b>	<b>98,837</b>
<b>Equity</b>				
Equity Share Capital	331	331	331	331
Other Equity	38,721	42,735	47,515	53,040
<b>Total Network</b>	<b>39,052</b>	<b>43,066</b>	<b>47,846</b>	<b>53,371</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	873	1,023	1,127	1,245
Other non current liabilities	10	10	10	10
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,423	4,021	2,416	2,224
Trade payables	21,764	23,916	25,977	28,277
Other current liabilities	9,525	11,178	12,048	13,110
<b>Total Equity &amp; Liabilities</b>	<b>73,096</b>	<b>83,714</b>	<b>89,973</b>	<b>98,837</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	8,005	8,537	9,406	10,371
Add. Depreciation	244	242	305	392
Add. Interest	119	259	257	174
Less Financial Other Income	1,741	1,764	1,917	2,042
Add. Other	(2,150)	(462)	(327)	(193)
Op. profit before WC changes	6,218	8,576	9,642	10,744
Net Changes-WC	(473)	(1,467)	(645)	(1,675)
Direct tax	(2,492)	(2,314)	(2,634)	(2,904)
<b>Net cash from Op. activities</b>	<b>3,253</b>	<b>4,796</b>	<b>6,363</b>	<b>6,165</b>
Capital expenditures	(331)	(71)	(2,571)	(1,061)
Interest / Dividend Income	159	-	-	-
Others	(1,820)	(3,257)	(2,279)	(2,524)
<b>Net Cash from Invt. activities</b>	<b>(1,992)</b>	<b>(3,328)</b>	<b>(4,850)</b>	<b>(3,585)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(287)	-	-	-
Dividend paid	(1,407)	(1,592)	(1,592)	(1,692)
Interest paid	(120)	(259)	(257)	(174)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(1,814)</b>	<b>(1,851)</b>	<b>(1,850)</b>	<b>(1,866)</b>
<b>Net change in cash</b>	<b>(553)</b>	<b>(383)</b>	<b>(337)</b>	<b>715</b>
Free Cash Flow	2,922	4,725	3,792	5,104

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
<b>Net Revenue</b>	<b>20,484</b>	<b>21,481</b>	<b>14,214</b>	<b>14,918</b>
YoY gr. (%)	0.7	10.5	37.1	8.5
Raw Material Expenses	15,011	15,626	10,300	10,906
Gross Profit	5,472	5,855	3,914	4,012
Margin (%)	26.7	27.3	27.5	26.9
<b>EBITDA</b>	<b>2,532</b>	<b>2,432</b>	<b>1,085</b>	<b>1,157</b>
YoY gr. (%)	121.7	(3.9)	(55.4)	6.6
Margin (%)	12.4	11.3	7.6	7.8
Depreciation / Depletion	61	59	60	62
<b>EBIT</b>	<b>2,471</b>	<b>2,373</b>	<b>1,026</b>	<b>1,095</b>
Margin (%)	12.1	11.0	7.2	7.3
Net Interest	43	27	64	132
Other Income	438	282	461	548
<b>Profit before Tax</b>	<b>2,865</b>	<b>2,627</b>	<b>1,423</b>	<b>1,511</b>
Margin (%)	14.0	12.2	10.0	10.1
Total Tax	900	762	331	304
Effective tax rate (%)	31.4	29.0	23.2	20.1
<b>Profit after Tax</b>	<b>1,966</b>	<b>1,866</b>	<b>1,092</b>	<b>1,206</b>
Minority interest	15	31	35	(28)
Share Profit from Associates	(10)	5	(22)	(308)
<b>Adjusted PAT</b>	<b>1,940</b>	<b>1,839</b>	<b>1,035</b>	<b>927</b>
YoY gr. (%)	(2.4)	0.2	9.3	(6.8)
Margin (%)	9.5	8.6	7.3	6.2
Extra Ord. Income / (Exp)	(14)	-	-	(118)
<b>Reported PAT</b>	<b>1,927</b>	<b>1,839</b>	<b>1,035</b>	<b>809</b>
YoY gr. (%)	(3.2)	(0.9)	9.3	(18.7)
Margin (%)	9.4	8.6	7.3	5.4
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,927</b>	<b>1,839</b>	<b>1,035</b>	<b>809</b>
Avg. Shares O/s (m)	331	331	331	331
<b>EPS (Rs)</b>	<b>5.9</b>	<b>5.6</b>	<b>3.1</b>	<b>2.8</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Per Share(Rs)</b>				
EPS	17.3	17.3	19.3	21.8
CEPS	18.0	18.0	20.2	23.0
BVPS	118.1	130.2	144.7	161.4
FCF	8.8	14.3	11.5	15.4
DPS	3.5	4.0	4.0	4.3
<b>Return Ratio(%)</b>				
RoCE	21.6	20.1	19.9	19.9
ROIC	15.3	14.7	13.4	13.7
RoE	15.9	13.9	14.0	14.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	12	29	27	27
<b>Valuation(x)</b>				
PER	30.2	30.2	27.1	23.9
P/B	4.4	4.0	3.6	3.2
P/CEPS	29.0	28.9	25.9	22.7
EV/EBITDA	25.1	23.1	20.9	18.7
EV/Sales	2.6	2.3	2.1	1.9
Dividend Yield (%)	0.7	0.8	0.8	0.8

Source: Company Data, PL Research

**Price Chart**

**Recommendation History**

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	26-Feb-18	Accumulate	702	581
2	13-Apr-18	Accumulate	702	638
3	17-May-18	Accumulate	652	584
4	11-Jun-18	Accumulate	652	558
5	21-Jun-18	Accumulate	624	523
6	10-Jul-18	Accumulate	624	526
7	10-Aug-18	Accumulate	658	621
8	5-Oct-18	Accumulate	658	516
9	9-Nov-18	Accumulate	658	540
10	7-Jan-19	Accumulate	658	542

**Analyst Coverage Universe**

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,460	1,407
2	Avenue Supermarts	Reduce	1,270	1,572
3	Britannia Industries	Accumulate	3,159	3,108
4	Colgate Palmolive	Hold	1,245	1,322
5	Crompton Greaves Consumer Electricals	BUY	272	216
6	Dabur India	Hold	456	452
7	Emami	Accumulate	524	411
8	Future Retail	BUY	576	448
9	GlaxoSmithKline Consumer Healthcare	Hold	8,520	7,488
10	Hindustan Unilever	Hold	1,874	1,752
11	ITC	BUY	364	277
12	Jubilant FoodWorks	Accumulate	1,467	1,303
13	Kansai Nerolac Paints	Accumulate	498	430
14	Marico	Hold	371	364
15	Nestle India	Accumulate	11,059	10,629
16	Pidilite Industries	Accumulate	1,163	1,109
17	Titan Company	BUY	1,195	992
18	Voltas	Accumulate	658	542

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

## **ANALYST CERTIFICATION**

### **(Indian Clients)**

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