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STOCK BROKING PVT. LTD.

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Voltas AGM KTAs@ Dalal & Broacha

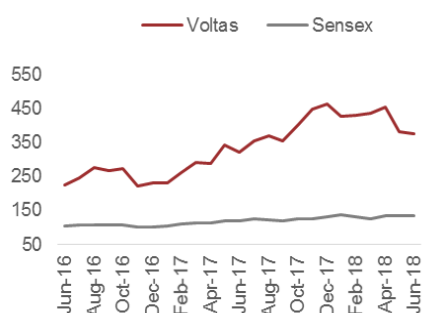
BUY

Current Price	625
Target Price	719
Upside/Downside	15
52 Week Range	Rs.493/675

Key Share Data

Market Cap (Rs.bn)	207
Market Cap (US\$ mn)	2979
No of o/s shares (mn)	331
Face Value	1
Monthly	2,506,868
Avg.vol(BSE+NSE) Nos	
BSE Code	532178
NSE Code	VOLT IN
Bloomberg	VOLT IN

Price performance



% Shareholding

	June-18	Mar-18
Promoters	57.0	57.0
FII	6.7	6.7
DII	20.4	20.4
Others	15.9	15.9
Total	100.0	100.0

Financials

Rs mn	Net Sales	% Growth	EBITDA	OPM%	PAT	% Growth	EPS	P/E (x)	ROE %	RoCE%
FY16	57198	-1.6%	4330	7.9%	3871	56.6%	11.7	52.3	12.7%	17.5%
FY17	60328	5.5%	5791	9.6%	5090	0.7%	15.4	39.8	16.0%	21.5%
FY18	64279	6.5%	6626	10.3%	5779	13.5%	17.5	35.0	14.7%	19.9%

Voltas AGM key takeaways

Unitary cooling product (UCP)

- **Volume and Penetration:** Voltas AC sales was 1.5 mn units in FY18 for Voltas. Going ahead the management restated that the penetration is just 4% currently and with increase in per capita income the sales are also expected to grow.
- **Opportunity:** Inflection point for China in 2002 when per capita income crossed \$2000, AC sales ramped up. India is at same inflection point when the per capita is at similar levels.
- **Focus on the new technology i.e. inverter:** Currently window AC comprises 23% of total AC volumes and 87% is split ACs. Out of that 87% split AC 43% is inverter ACs. Company focus area is inverter ACs and have increased the product portfolio in this.
- **Distribution reach:** Voltas currently have 15000 touch points across India and adding more would be one of the key focus. Aftermarket sales is the other focus area
- **Inventory and Kerala impact to keep discounting higher:** Weak summers and recent floods in Kerala did hinder the sales and current inventory in the channel is 60-90 days. Though the company expects the upcoming festive season to be good and sales to pick up. We expect that the market would be aggressive and heavy discounts can come along the festive season.
- Voltas sold more than **2 lakh coolers** and is currently no 3 player in the market with a market share of 11%.

Electro mechanical projects

- **Order book:** In this division Voltas is careful with new order intake and only taking high margin orders. Currently the order book(OB) after Q1FY19 stands at Rs 4623 crs (domestic: Rs2709 cr and international: Rs1914 cr, 1.4x FY18 revenues)
- Target **EBIT** margins to be in the range of 6.5 to 7% (margins at 6.5% for FY18).
- Economic embargo in Qatar continues so Voltas is carefully bidding for the projects in the region.



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- In **Sidra** there is no major development and company has provided for all the contingencies.
- Turn around in **Rohini Industrial Electricals Limited (RIEL)** a wholly owned subsidiary of Voltas reported a profit of Rs 2 crs for FY18. RIEL executes rural electrification projects and it has government. orders worth Rs 980 Crs
- Voltas EMP have also bid for station development projects in different states

Voltbek (JV {49% Voltas 1% Tata Investment 49% Arcelik 1% KOC holding} with Arcelik and Voltas

- **New plant at Sanand: 45% construction completed** for the new plant in Sadanand and will be completed by Feb 2019.
- This plant will have a **capacity of 1mn** refrigerators units.
- The company will be **launching the products in the upcoming festive season** comprising refrigerators, washing machines, microwaves and dishwashers initially.
- Currently Rs96 crs have been invested in the Voltbek and plans to invest Rs 1140 cr in the next 5 years.
- Regarding the issues in Turkey and Arcelik being a Turkish company Voltas clarified that there is no issues regarding the joint venture (JV). Management also stated that Arcelik has 60-70% revenues outside Turkey and has plants across the world so it won't affect the JV.
- Voltas also stated that there is huge opportunity in white goods space and plans to be more aggressive with its growth strategy.

Planned capex for FY19-20 at Rs 170 Crs. Stock trades at 26x FY20 EPS of Rs24.2 and we remain positive on the stock in the medium to long term. We are working on the detailed report and will be coming out with the initiating coverage on the stock.



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Financials			
Profit & Loss (Rs Mn)	FY16	FY17	FY18
Net Sales	57,198	60,328	64,279
Raw Materials	(40,871)	(42,359)	(45,675)
Employee Cost	(6,351)	(6,184)	(5,867)
Other Expenses	(5,646)	(5,994)	(6,110)
Cost of Sales	(52,868)	(54,537)	(57,652)
Operating Profit	4,330	5,791	6,626
Depreciation	(263)	(244)	(244)
PBIT	4,066	5,546	6,383
Other Income	1,367	1,998	1,741
Interest	(158)	(160)	(119)
Profit Before Tax	5,275	7,384	8,005
Provision for Tax	(1,696)	(2,088)	(2,270)
PAT	3,580	5,296	5,735
Extra ordinary Items	289	11	6
Minority interest & Ass. Profits	2	(217)	38
Adj. PAT	3,871	5,090	5,779

Cash Flow Statement (Rs Mn)	FY16	FY17	FY18
Pre tax Profit	5627	7203	8005
Add: Dep. & Amortization	264	245	244
Total tax paid	1637	1819	2172
Other Adjustments	(4800)	(5518)	(5929)
Cash Profit	2728	3748	4492
(Inc) / Dec in			
Sundry Debtors	6726	(869)	(1162)
Inventories	1424	(1823)	940
Loans & Advances	(9830)	1207	(3818)
Current liabilities & Trade paybles	1144	2018	2544
Change in Working Capital	(537)	533	(1495)
CF from Operating Activities	2191	4281	2997
CF from Investing Activities	(3149)	(738)	(3335)
CF from Financing Activities	483	(2110)	(199)
Cash Generated (Utilised)	3828	6100	5169
Cash at the start of year	2516	1855	3314
Cash at the end of year	1855	3314	2837

Balance Sheet (Rs Mn)	FY16	FY17	FY18
Equity Capital	331	331	331
Reserves	27,780	32,735	38,721
Net Worth	28,111	33,066	39,052
Minority Interest	267	285	317
Long term borrowings	2,707	1,709	1,423
Short term borrowings	0	0	0
Total Debt	2,707	1,709	1,423
Capital Employed	31,085	35,061	40,792
Gross Block	4,839	4,603	4,863
Accumulated Depreciation	(2,801)	(2,784)	(3,018)
Net Block	2,038	1,819	1,845
Capital WIP	13	6	6
Total Fixed Assets	2,050	1,825	1,851
Investments	20,471	23,858	28,706
Inventories	7,247	9,070	8,130
Sundry debtors	13,672	14,541	15,703
Cash & bank	1,855	3,314	2,837
Loans & advances and Other CA	13,089	11,882	15,700
Trade Paybles			
Current Liabilities	(25,235)	(26,943)	(29,443)
Provisions	(2,374)	(2,685)	(2,729)
Working Capital	8,253	9,180	10,198
Deffered Tax Liabilities	310	198	198
Capital Deployed	31,085	35,061	40,953

Ratios	FY16	FY17	FY18
OPM	7.6	9.6	10.3
NPM	6.3	8.8	8.9
Tax Rate %	(32.1)	(28.3)	(28.4)
Growth Ratio (%)			
Net Sales	10.4	5.5	6.5
Operating Profit	5.6	33.7	14.4
PAT	0.7	31.5	13.5
Per Share			
Earning Per Share (EPS)	11.7	15.4	17.5
Cash Earnings (CPS)	11.6	16.8	18.1
Dividend	2.3	2.6	4.0
Book Value	85.0	100.0	118.1
Free Cash flow	2,031	4,052	2,737
Valuation Ratios			
P/E (x)	52.3	39.8	35.0
P/B (x)	7.2	6.1	5.2
EV / Sales	3.6	3.3	3.1
EV / EBIDTA	46.9	34.7	30.3
Div. Yield (%)	0.4	0.4	0.7
FCF Yield (%)	332	662	447
Return Ratios (%)			
ROE	12.7	16.0	14.7
ROCE*	17.5	21.5	19.9

* includes other income



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