Voltas Ltd

March 22, 2019

DALAL & BROACHA
STOCK BROKING PVT. LTD.

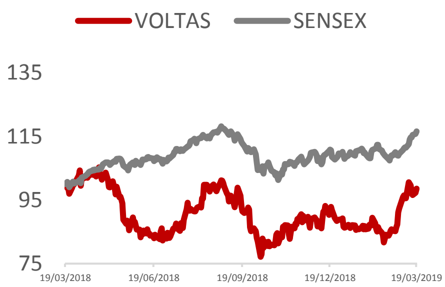
Analyst – Abhilasha Satale/Tanush Mehta

Initiating Coverage @ Dalal & Broacha

ACCUMULATE	
Current Price	614
Target Price	702
Upside/Downside	14%
52 Week Range	

Key Share Data	
Market Cap (Rs.bn)	202
Market Cap (US$ mn)	2934
No of o/s shares (mn)	331
Face Value	1
Monthly Avg.vol(BSE+NSE) Nos	1730
BSE Code	500575
NSE Code	VOLTAS
Bloomberg	VOLT IN

Price performance



% Shareholding	Dec-18	Sep-18
Promoters	30.30	30.30
FII	14.58	15.92
DII	23.43	22.20
Others	31.69	31.58
Total	**100**	**100**

Investment Rationale

Voltas as a company has never shied from reinventing itself. From doing a massive restructuring about 20 years back, getting out of unrelated businesses including its white goods business, to getting back in to the white goods business now, as India is on the cusp of moving above the 2000 USD per capita mark. This we believe is a smart move and the company will reap the benefits over a long term.

Considering the extreme under penetration (4% penetration) of the AC market and Voltas's positioning in the segment, we do expect the company to return to a 12-15% growth in this segment. In projects business, we expect order inflows to improve on the back of push through government projects. We expect Volt-Beko to be next revenue driver for Voltas. We initiate on Voltas with **'Accumulate'**.

Segment wise Break-up

EMP (Electro mechanical Projects) Segment: EMP segment has health order Book at Rs 50bn. Domestic order book stands at Rs31bn while international order book stands at Rs19bn. Order inflows for 9M stood at Rs11bn including international orders of Rs4.5bn. We expect order inflows to improve on the back of improved government ordering. Margin improved by 300bps yoy in 9MFY19 which is likely to sustain.

UCP (Unitary Cooling Products) segment:

Voltas improved its rooms AC market share from 22% to 24% yoy. During 9MFY19 Voltas' volume remained stable while industry has gone down by 4% yoy. Increased import duty, weak rupee and high inventory has impacted margin for the division. We expect volume growth to improve in FY20E on weak base and margin to improve during FY20 on the back of improved sales.

Arcelik JV: Future growth driver

The Arcelik JV has launched 44SKUs in refrigerator and 24SKUs in washing machine under the Voltbek brand sourced from Arcelik's facilities near India and initial response is encouraging. With long-term demand drivers in place, we believe the Voltas-Arcelik JV is set to garner a sizable market share over time.

Outlook & Valuation: We are positive on Voltas over medium-to-long term, given the improving margin profile of fresh orders, strong consumer business franchise and structural growth in Room AC segment, given the low penetration, healthy balance sheet and cash flow. We have valued the company on SOTP basis giving 20xmultiple to EMP segment, 35x to UCP and Discounted Cash Flow for Volt-Beko JV. We arrive at target price of Rs702. At the current CMP of Rs614 the stock trades at 27x FY21E EPS of Rs 22.5.

Key Financials

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY18	64,279	6.5	6,626	10.3%	5,735	13.5	17.5	35.1	14.7	19.9
FY19E	73,747	14.7	6,739.0	9%	5,341	(6.9)	16.3	37.7	12.4	17.6
FY20E	83,622	13.4	8,519.5	10%	6,501	21.7	19.8	31.0	13.5	18.9
FY21E	94,017	12.4	10,056	11%	7,437	14.4	22.5	27.3	13.8	19.3

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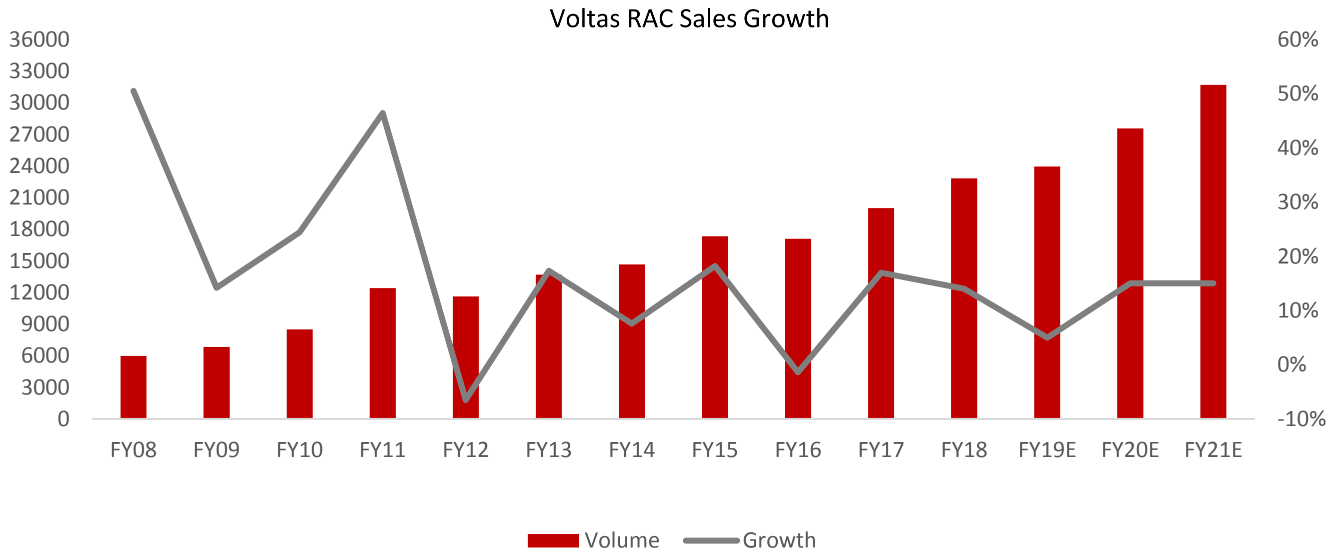
Investment Rationale

RAC growth to revive post consolidation for two years

The air-conditioner industry has witnessed several headwinds during FY18-19, led by GST transition and the change in energy efficiency ratings. Additionally, the summer of 2018 started on a weak note. Rating norms were revised from Jan-18, wherein the prevalent 5/3 star norms were downgraded to 3/1 star. This resulted in prebuying during 3QFY18, as prices would rise at the consumer level in 2018. This has impacted Jan-18 consumer offtake. Further due to weak summer sales didn't pick up as expected. Further GST transition and no relief on tax front kept AC prices elevated affecting sales for Q1 and Q2FY19. Also festiv season fared lower than expected impacting overall growth for the year.

As per industry sources the industry declined 4% yoy for 9MFY19 however, Voltas has gained market share in this period maintianing its sales yoy. We expect sales for Q4FY19 to post single digit growth resulting into lacksustre growth for FY19. However, post two years of consolidation we expect AC sales to pick up in FY20E. Studying past trends we note that RAC industry growth revives post two years of dull period. RAC industry declined by 5% in FY13 post which it grew 11%, 23% and 12% over FY14, FY15 and FY16 respectively**. As RAC industry is expected to decline by 2% in FY19E we expect growth to revive in FY20E and FY21E to 11%. Voltas being the leader in the industry is likely to be major beneficiary of the same improving volume growth to 12% CAGR.**

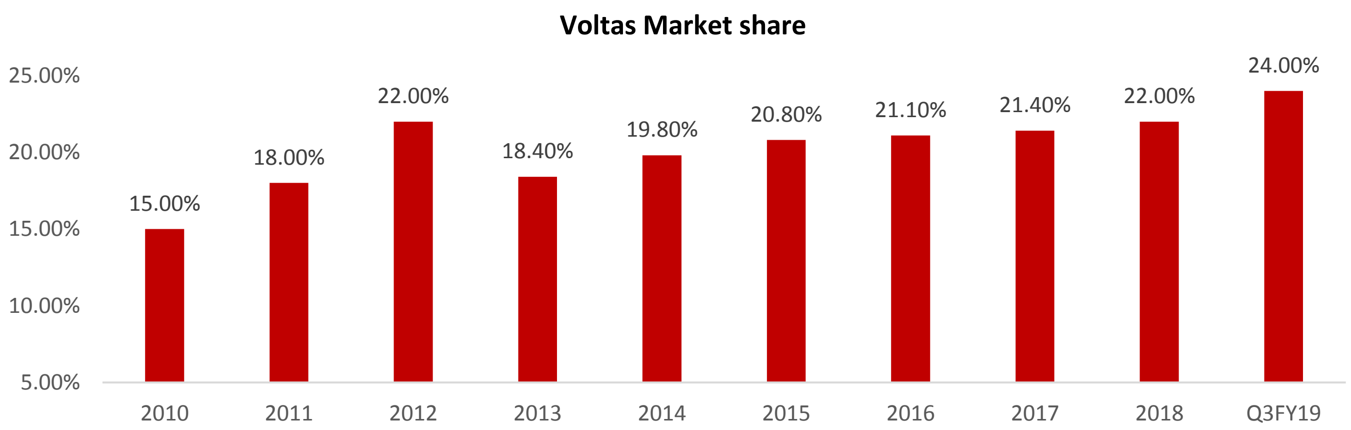


Source – Dalal & Broacha Research

Voltas- Undisputed market leader

Voltas is the undisputed market leader, with more than 24% market share in Room Air Conditioners, manufacturing and marketing India's No.1 brand of Air Conditioners, with a substantial lead over numerous multi-national competitors. AC as a product has seen transition in its aspirational needs. Now AC is considered more as a necessity in Tier-I and Tier-II cities. Buying AC is influened more by factors such as brand name and product performance (energy efficiency, cooling, etc.) over the price of the product. Maintanance and after sales costs have increased more than actual cost of AC over last few years. Therefore, customers are more conscious about the brand name—and prefer well-pnenetrated and well-tested brands.

Voltas scores highest amongst most of the parameters like (1) popularity of the brand/high brand recall, (2) aftersales service, (3) ease of doing business with the brand, (4) dealer margin offered and (5) range of products. This has enabled Vlotas to maintain its market share inspite of changes in major industrial players.



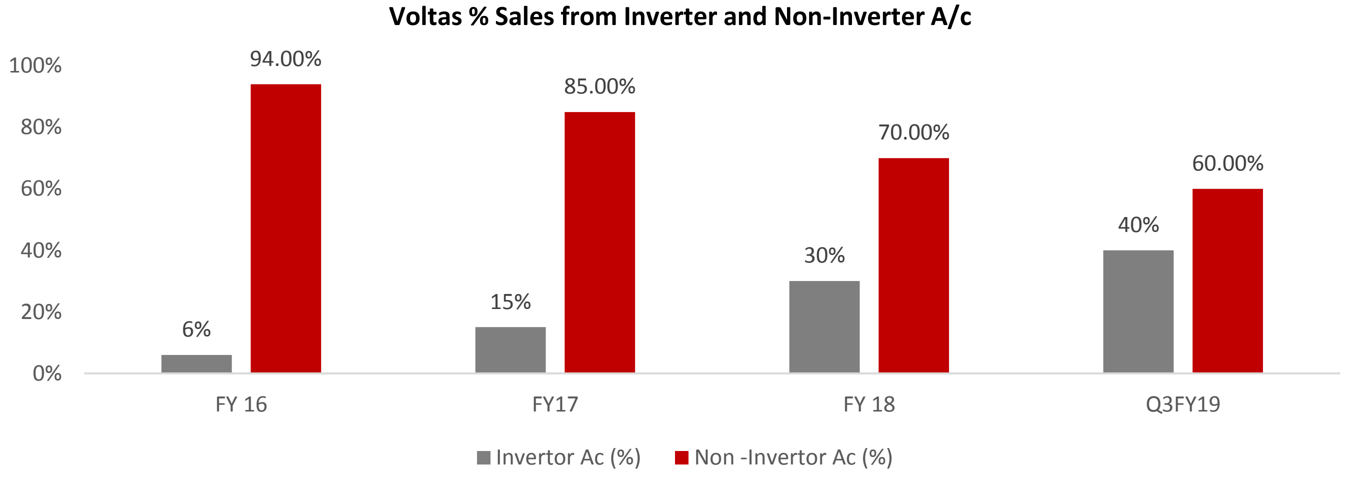
Source – Voltas Annual Report

Voltas recently introduced voice-enabled ACs in partnerships with Amazon Alexa, which are available exclusively on Amazon and have been received well in the market.

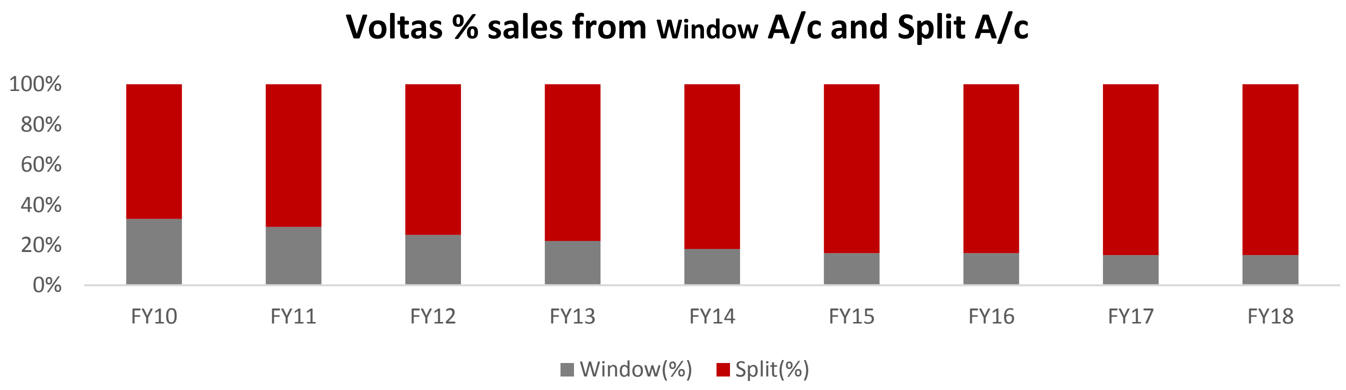
Well-geard to ride wave of invertor ACs

Voltas has ramped-up its product basket with the right mix in the energy efficiency segment which is well received in the market Voltas is well poised to position itself in the inverter AC with its inverter offering to 39 AC models from 7 AC models earlier. Voltas' market share is improving. Voltas recently launched India's first Window inverter AC along with other features like 'high ambient cooling' up to 52 degree Celsius and a two stage filtration to provide cleaner air. Share of invertors has grown 3x over FY15-FY18 which stands at 40% of Room AC sales (25% ~12 months back). Voltas continued to maintain that while the inverter market is a growing market and Voltas will have a fair share of inverters, it will continue to focus on Window and split (Fixed speed ACs) which still is ~60% of the total market share. It currently ranks second in the inverter segment behind market leader LG who sells only inverter.

Voltas has introduced Adjustable Inverter AC which comes with the unique value proposition of 'Flexible Air Conditioning' that allows the user to switch from 1.5t to 1 t capacity and vice versa, depending on the ambient heat or number of people in the room leading to savings and optimisation of running cost. With these products and allied marketing initiatives and wider product placements, Voltas' market share is improving.
The price differential between the normal ACs and inverter ACs have narrowed down to almost Rs3500- 4000. We estimate inverter ACs to account for 50% of industry volumes by FY20.



Source – Dalal & Broacha Research



Source – Dalal & Broacha Research

Oligopolistic nature of industry to maintain pricing discipline

Indian RAC industry is pegged at Rs110bn and is growing at 10-12% CAGR. Top seven players contribute to 85% of sales. Industry players have maintained pricing discipline as Voltas' realisaiton has remained stable even during periods of weak demand growth. Post disruptive invertor technology foray by LG in 2014 split AC prices have seen correction of 5-7% however, prices stabilised post that. As LG has also maintained pricing discipline overall industry witnessed stable pricing. We expect pricing discipline to be maintained in AC idnsutry.

Strong dealer network to maintian market share

Voltas' strenght lies with its strong dealer touchpoints network. Voltas has increased its dealers network by 50% in past five years. Its current network of 15000 dealers is highest in the industry which will enable it to maintain market share in RAC indsutry. With Voltas' entry into white goods space through Volt-Bek JV the company is expected to strengthen its network in Tier-II and Tier-III cities. The company is planning to increase its reach also through EBOs (Exclusive Brand Outlets) to smaller cities. This will enable Voltas to strengthen its reach in Tier-II and Tier –III cities and maintain its market share in RAC segment. 40% of Voltas' sales are driven from Northern market. The company is increasing distribution network in Southern market.

Cost-push to get passed on with stability in demand

All AC manufactures source 30-40% of their raw material requirment through imports. Major sourced components inclued compressors and indoor units and sourning destinations are China and Thailand etc. During November 18 GOI increased import duty on compressors(7.5% to 10%) and indoor units (10% to 20%). This has increased sourcing cost for Indian manufacturers. Due to weak demand growth during the peiod most of the manufacturers have not been able to pass on the increase to end consumers. We expect overall impact for Voltas has been 2-2.5% as it imports 30-35% of its total requirement. We expect the cost is likely to get passed on once demand picks up.

Change in import durties

Basic Custom Duty	Earlier	Now
AC Compressors	7.5%	10%
Air Conditioners	10%	20%

Backward integration to be beneficial in long-term

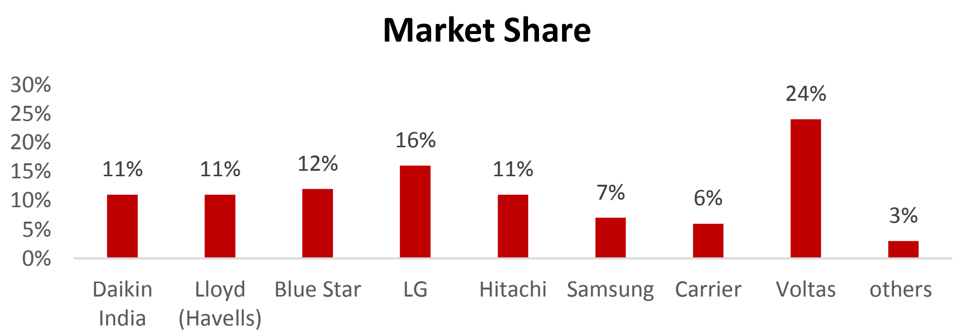
Overall domestic industy is moving towards increasing domestic sourcing to insulate costs from import duties and Rupee volatility. Voltas imports mainly compressors and indoor units and is planning to reduce its dependancy on imports. Voltas recently decided to setup a plant in Tirupati with a CAPEX of Rs. 5000 mn to manufacture air conditioners in india. Voltas's backward integegration will help the company to advance it's new products and technology at much more rapid pace. Further, Voltas's plan fits well with the "Make In India" intiative to boost the domestic growth. Adding to it, Voltas would be able to sell it's products and would have a competitive advantage over others who import Air conditioners. Also this facility has locational advantage which would facilitate Voltas' reach in Southern market.

Air Conditioners Market in India

In 2015-16, estimated total market size of ACs in India was ~INR170bn. Of this, the market for central ACs, including central plants, packaged/ducted systems, VRF systems and other ancillary equipment was ~INR60bn, while that for room ACs was pegged at INR110bn. Room ACs account for 65% of this market and have been growing at a fast pace, whereas central ACs account for 35% of the market. India's room AC market has grown from 2mn units in FY09 to 5.8mn units in FY18, 12.5% CAGR.

We expect a surge in this segment which will be primarily driven by rising penetration, shift towards energy-efficient ACs, rising disposable incomes and electrification. Further, demand is majorly coming from the middle class segment from Tier 3/4/5 markets. The demand geographically, comes from North India which accounts for 40% of total sales, followed by South India which accounts for 30%; however, underpenetrated areas are gaining ground.

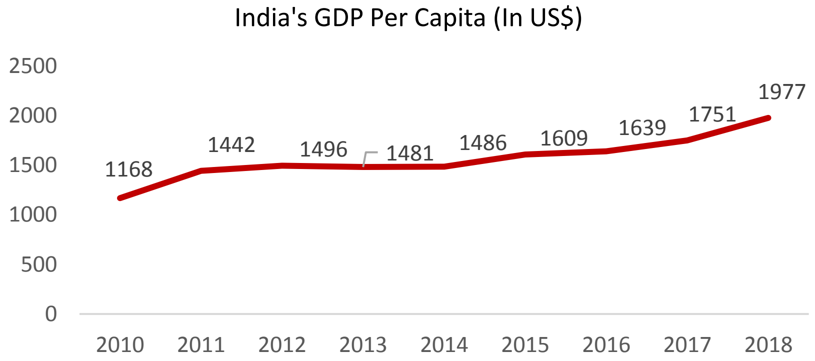
Voltas, LG maintain top 2 positions in the domestic AC market with 24% and 16% market share respectively. Further, Blue Star has become aggressive with launch of new models, which has enhanced its market share to 12%.



Source – Dalal & Broacha Research

Key drivers for Room Air Conditioner Sales in India

Rising Disposable Income leading to affordability- In the recent years, the India's GDP per capita has increased by a CAGR of 9% from 2010 to 2018. Further, the air-conditioners are not treated as luxury items as treated a few years back, thereby increasing the possibility of air conditioners penetration in India.



Source – Dalal & Broacha Research

Continuing further, the majority of the Indian population (41%) is in the age bracket of 25-54 years and 18% is in the age bracket of 15-24 years. This, along with rising participation of women in the workforce, should add to total household income and should drive higher spends on durables and demand for premium products. India has highest percentage of Millennials, at 440mn, making up 47% of the world's millennial population and they are expected to spend $330bn annually, by 2020. India is expected to become the youngest country by 2020, with an average age of 29. **In 2010 cost of AC was 39% of per capital income of an individual which has gone down to 23% in 2018 increasing affordability.**

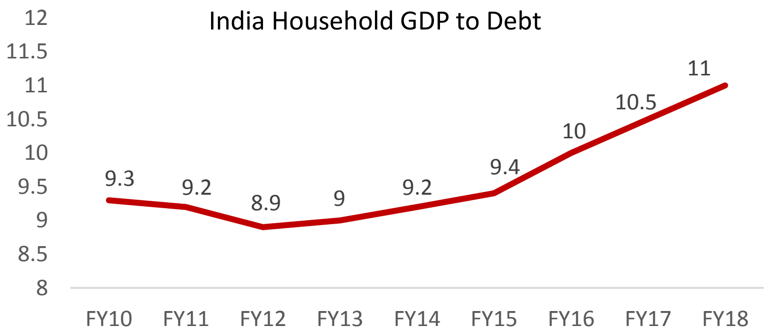
Electrification – The government's ambitious target of electrifying every household in the country under the **Saubhagya scheme** has achieved 99.7% electrification by December 2018 and soon will reach 100% electrification as it is electrifying 7 lakh homes per week currently. **Deen Dayal Upadhyay Gram Jyoti Yojana** brought power to all 6 lakh census villages, and now with Saubhagya scheme, power will reach 40mn households in those villages. Rural electrification should drive demand for white goods. The government's focus on rural electrification under the Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY) has a total investment target of Rs756bn in FY14-19E. Further, Rajasthan, Karnataka, Jharkhand, Assam and Meghalaya are some of the states that have un-elecrified households.

Nuclear Families – Nuclear families are increasing, with 70% households with a nuclear construct, up 13% over the past two decades and 35% over the last decade and nuclear families spend 20-30% higher than joint families. There is high growth in the urban areas, presumably, because of youngsters migrating to cities for education or jobs and setting up houses there. It was also seen that, joint families are thriving in cities but breaking up in the rural areas.

Increasing Urbanisation*:* There has been a drastic increase in urban towns and cities in the country over the past five years. Almost 10mn people migrate to cities and towns every year. The urban population as a percentage of India's total population is estimated to increase from the current 32.8% (2017) to 35% by 2020, in turn driving greater exposure to modern amenities.

Easy Availability of Finance: India is seeing rising demand for consumer discretionary amid easily available finance options. The 'New India' does not have the 'No Loan' mind-set of the last 1-2 generations. The changing mind-set to improve lifestyle and higher spends on consumption/discretionary/durables/white goods is showing traction in the medium- to long term. It is observed, that in big cities ~50% of the sales of large modern retail outlets (MBOs) happen on financing schemes. This consumption pattern is picking up pace in Tier II and Tier III cities as financing companies are increasing their penetration. Bank advances for consumer durables stood at Rs. 2,187bn in FY18 vs. Rs1,128bn in FY12. Further, availability of finance/EMI options and Increase in network expansion by several of banks/NBFC's/financial institutions would encourage consumer spending.

India's household debt as % of GDP: Household-debt-to-GDP in India has been growing, while it is still far behind other developing economies like China, Brazil, and Indonesia. With growth in overall income, debt-to-GDP will continue to rise as consumer spending is expected to remain high with changing lifestyle needs.



Source – Dalal & Broacha Research

Electromechanical Projects Segment (EMP)

Voltas has transformed itself from being a HVAC player to EMP (Electro Mechanical Projects & Services) player. The current scope of EMP work includes heating, ventilation, air conditioning, fire protection and security, water and sewerage treatment, integrated building management system, green building technology, electricals and instrumentation, public health and indoor air quality system. The international business order book constituted ~38% of 9MFY19's EMP order book and within the international business, majority of the revenues come from Middle East like UAE, Oman, Bahrain etc. The current order book stands at Rs. 50bn in 9MFY19as compared to Rs. 48.50bn in 9MFY18.

Post 2008-09 global crisis, Voltas restructured its business approach as well its operations by having a selective approach while bidding for new projects. The management also started focusing on orders with lower gestation periods and smaller ticket sizes with lower complexity while bidding for new projects. Further, it refrained from targeting any landmark projects as the profitability is normally at risk. At the same time, it focused on quick execution of old projects and financial closure of completed projects. Hence, with all the initiatives and approaches we expect EMP to be a growth drivers for the subsequent years.

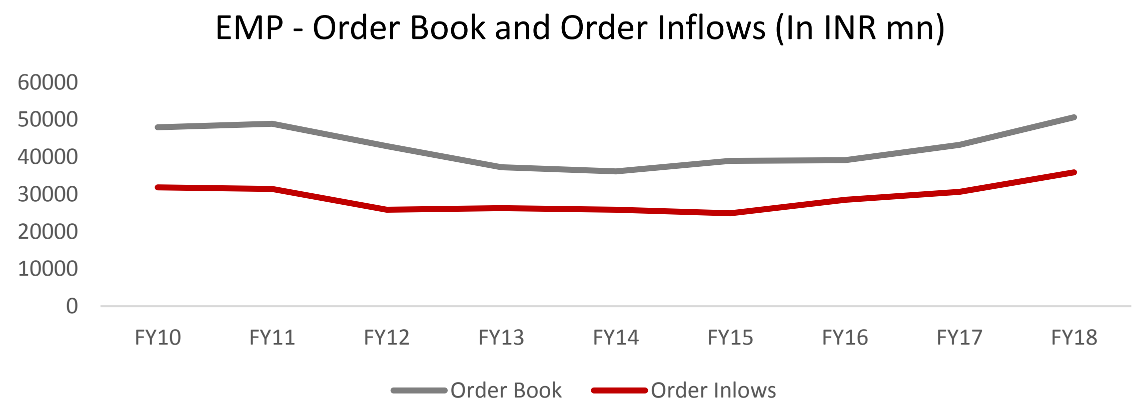
EMP Segment to grow at 11% CAGR driven by railways and civil

Volta's EMP order book bottomed out in FY14 at Rs 36bn and has grown to Rs 50bn in 9MFY19, largely driven by the domestic segment. The proportion of domestic orders in the total order book has grown from 52% in FY15 to ~60% in FY18.

International order book to improve

EMP segment has order book of Rs50bn (up 10% yoy) including Rs19bn from international division and Rs31bn from domestic. Order inflows during the quarter stood at Rs7.3bn for domestic segment and Rs3.4bn for international segment. Overall order inflows at Rs10bn as against Rs6bn yoy.

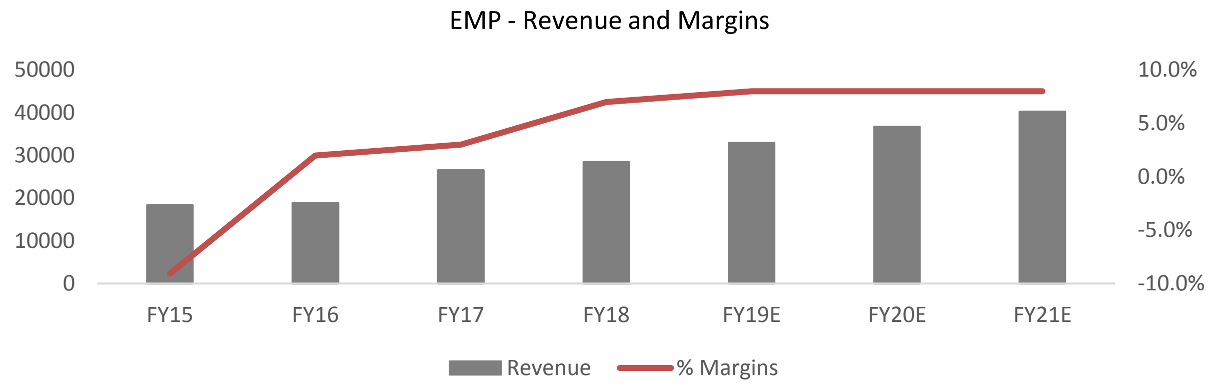
We expect topline for EMP segment to grow at a CAGR of 11% over FY19-21E on the back of improved order inflows and execution. Voltas witnessing good traction in rural electrification orders and rural electrification orders form 30-35% of current domestic order book. It also entered into facility management and water management segment. In the international market the company is witnessing good traction in order inflows from Middle East.



Source – Dalal & Broacha Research

Margin to improve on better execution

During 9MFY19 EMP segment EIT margin imrpoved by 300bps to 8.8% yoy. Margin imrpovement is largely on account better execution as toplineduring the period increased by 34% yoy. We expect EMP segment margin to be maintained at 8% over FY19-21E.

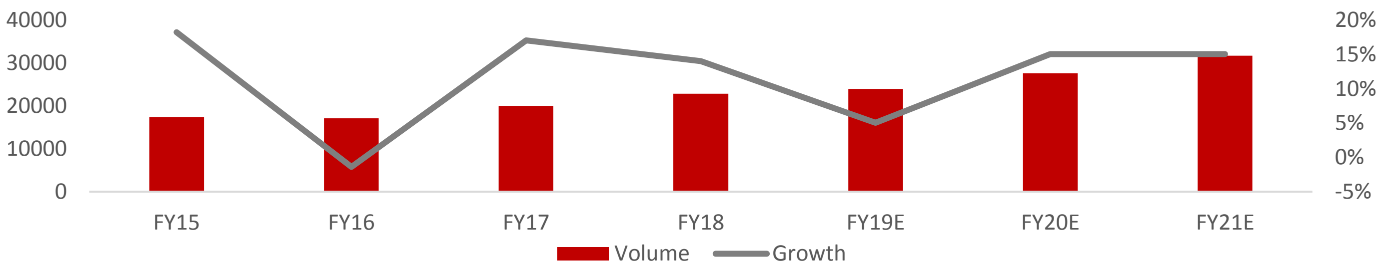


Source – Dalal & Broacha Research

Engineering Product segment

Impact of demonetization and GST implementation has been severe on the Domestic Textile Industry leading to further slowdown in new capacity formation. Profitability of spinning mills was also under pressure during the year due to subdued prices for yarn and a steep increase in raw cotton prices. Banks are also reticent to lend to the textile sector. Despite these conditions, this segment is focused on providing value added services and delivered profits.

The Government's impetus on road development has been encouraging and orders in the Crushing & Screening Equipment sector have started emerging. M&CE remains focused on adding new principals and customers as well as new equipment's. Therefore, we expect this segment to grow at a CAGR of 9% (FY19E-FY21E) with margins being steady at ~30%.



Voltas –Beko- Future growth driver

Voltbek Home Appliances Private Limited (Voltbek), an equal partnership joint venture, between Voltas and Arcelik has been entered to offer a wide range of home appliances which include Refrigerators, Washing Machines, Microwaves, and Dishwashers.

As per various industry reports, the Consumer Durables market in India is slated to grow at 10–12 percent per annum. The white goods market is currently valued at Rs 43,000-crore (excl. ACs). During the last 10 years, the Indian Major Domestic Appliances market grew by nearly 9 percent (CAGR), surpassing the overall 3 percent growth of global white goods market. This purely highlights the potential Voltbek has in the coming years.

The company plans to invest more than Rs. 10000mn over a period of 4 to 5 years. The Company is looking to corner around 10 per cent of the market share and to generate a revenue of Rs 100bn in the next seven-eight years in the home appliances segment.

In the Q2FY19, the JV launched a basket of products including 44 SKUs of Refrigerators, 40 SKUs of Washing Machines, 12 SKUs of Microwaves/Ovens and 7 SKUs of Dishwashers. The JV is currently sourcing products from China, Turkey and Thailand. It will move manufacturing to India (60 acre land at Sanand) as the capacities get set up (expected to start by December 2019).

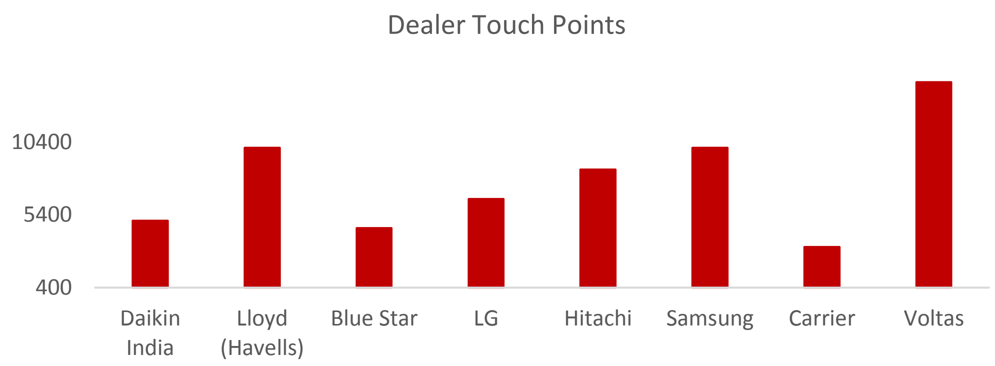
The launch was supported by a strong product and marketing campaign, which led to higher losses in the JV in Q2FY19. The company expects JV to become profitable at EBITDA level by FY21E. This JV will continue to focus on Tier-2 and Tier-3 cities. Presently, Voltas has around 5 exclusive brand outlets (EBOs) and around 70 per cent of its dealers selling its range of cooling products also deal in other product categories and this network would be utilised by the Tata Enterprise for Beko branding.

Voltas-Beko to rise to 25% of topline by FY24

We expect Vlotas-Beko JV to post topline of Rs37bn by FY24E garnering market share of 7% in white goods segments. Major growth driver would be refrigerator segment wherein, we expect the growth will be on the back of introduction of SKUs in frost free refrigerators. Current refrigerator industry is around 70% of total white goods industry and is growth at 8%. Voltas has launched 44SKUs for refrigerator segment consisting largely single door refrigerators. Refrigerator industry on an average create incremental demand of Rs38-40bn annually. Therefore, incremental demand over next five years is likely to be Rs240bn. We expect even if market leader like LG is able to sustain its market share at 25% Voltas would still be able to garner 5% market share only through eyeing incremental demand created in the industry. Apart from this Voltas has launched 24SKUs in washing machine division mainly into twin tub models.

White Goods Industry

The White goods segments majorly consists of Refrigerators, Washing Machines, Microwaves, and Dishwashers. Further, as compared to other segments are one of the most under penetrated segments at less than 20% with scope for significant expansion potential. Also, With significant structural tail winds getting in place—formalization of economy, rising preference for premium products—large consumer durables players are positioning themselves to build a pan-India distribution network, apparent from recent M&A activities (ex - Havells acquiring Lloyd). Hence, the player with the largest distribution network has the highest potential and Voltas ranks No. 1 in Dealers Touch Points.



Refrigerators

The Indian refrigerators market is categorized into two product types' i.e. direct cool refrigerators and frost free refrigerators. While single-door direct cool refrigerators still account for about 70 per cent of the total market share of about 10 million units per annum, two-door frost-free ones account for 30 per cent market share. The market penetration of refrigerators is estimated to be 20 per cent. Apart from potential in the major cities, tier II, III and IV cities and rural markets hold immense potential for growth. Overall market size of refrigerator industry is Rs300bn and is growing at 10%.

As of today, LG, Samsung, Videocon, Whirlpool, Godrej, Panasonic and Hitachi are the major players operating in the Indian refrigerator industry. At present, LG is the market leader with 25% market share followed by Samsung in the 2nd position.

Washing Machine

The market size of washing machine industry is approx. Rs. 11,000 crore and expected to grow at 11-15% CAGR. Currently, accounting for around 63% of volume sales, semi-automatic 'twin-tub' category dominates the washing machine market. But in terms of growth, the fully-automatic category is performing extremely well in the Indian market. The volume sales of fully-automatic washing machines are expected to surpass that of semi-automatic washing machine in coming few years. Compared to semi-automatics, the premium end is witnessing a faster growth. Growth in the top-loader category is growing at 11 per cent, while in the front loader it is around 18-20 per cent. Samsung is currently the market leader enjoys a 24-25 per cent market share in washing machine market in the country. Apart from Samsung, other major players in the category include IFB, Bosch, Whirlpool, LG and others.

Microwaves

Microwave ovens are becoming one of the important cooking appliance in the household appliance sector. Microwave is estimated to be a Rs.400 bn category with 15 lakh units sold in a year. The microwave oven category is around Rs 8500 mn and one of the least cluttered segment in white goods with around 15 brands operating in the segment. Further, players wise, Samsung has the largest market share has retained its market leadership in microwave ovens in India for the last three years despite the entry of newer brands in this segment.

Dishwasher

Dishwashers is still an emerging category in India. Dishwasher market is likely to witness immense growth potential over the coming years with rising number of average households along with flourishing modular kitchen trend in the country.

Financials

Voltas's revenues have been growing at a CAGR of ~4% over FY10 to FY18 to Rs 64279 mn. FY19 was a year where the air conditioners industry saw a degrowth due to changes in the government polices like increase in custom duties and rate changes in GST. We expect going forward overall volumes to grow at a CAGR of ~12% between FY19 to FY22E.

Margins: EBITDA has been growing at ~6% over FY11-FY18. Voltas posted margin of 10.3% in FY18. We expect the margins to be the same range for the years to come. The absolute EBITDA is expected to grow at a CAGR of 19% FY19 to FY 22

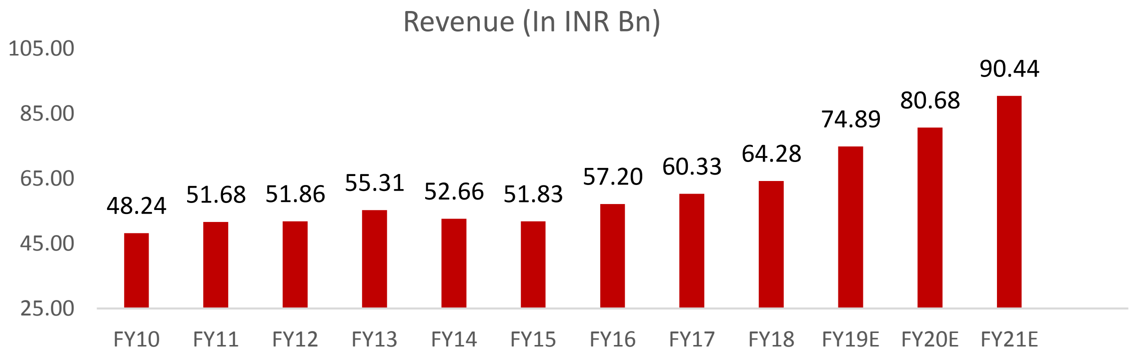
PAT: PAT has been growing at ~9% over FY11-FY18 at Rs. 5735 mn marred by lacklustre volume growth. However, we expect growth to be stronger with increase in volumes market share. We expect Voltas's bottom-line to grow at a CAGR of 15% over FY19-22E.

CAPEX: As discussed earlier, Voltas had announced setting up of a new factory at Tirupati at a CAPEX of INR 5000 mn. The same would get completed in H2FY20. The CAPEX amount would be spent over a period of time.

Q3FY19:

For Q3FY19, Voltas improved its market share from 22% to 24% YoY. UCP sales remained flat during the quarter while industry sales declined by 4% yoy during this period. The Mgmt expects sales to pick up from March-April and nos to improve in Q4 and Q1. Currently co is holding 2months inventory in UCP segment as against 2.5mts qoq. The Topline stood at Rs. 14.9 Bn impacted by lower UCP sales. +9% yoy. The EBITDA +6.2% yoy at Rs1.16bn and Margin -20bps to 7.8%. The PAT at Rs781mn. Excl. exceptional items PAT reported at Rs1206mn.

Q3FY19 Segment wise: UCP (35% of sales, 33% of EBIT) Rev -3% yoy at Rs5.25bn followed by EBIT % -450bps yoy at 8.5% (Exp: 9%). EBTI -36% yoy at Rs447mn was impacted due to slower than expected inventory de-stocking. EMP (59% of sales, 51% of EBIT): Rev +16% yoy at Rs8.7bn followed by EBIT % +80bps yoy at 7.9% and EBIT +30% yoy at Rs692mn. Engineering products (6% of sales, 16% of EBIT), Rev +20% yoy at Rs832mn followed by EBIT % -390bps at 26.4% . EBIT +4% yoy at Rs217mn



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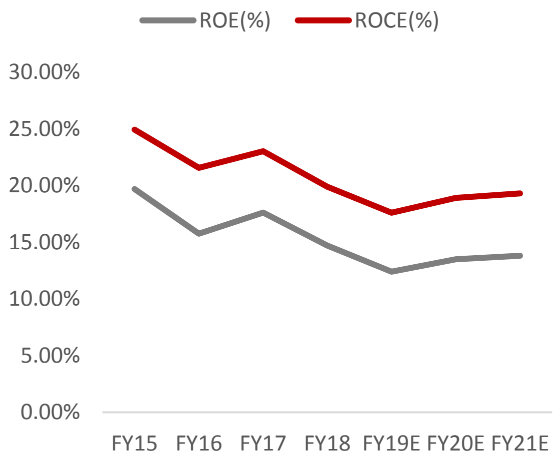

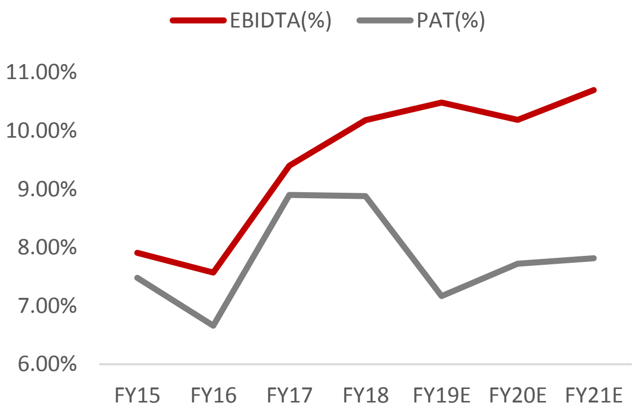

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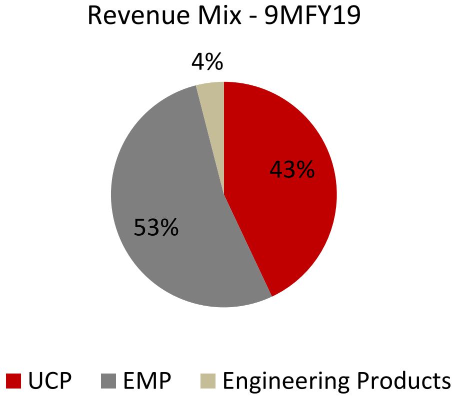

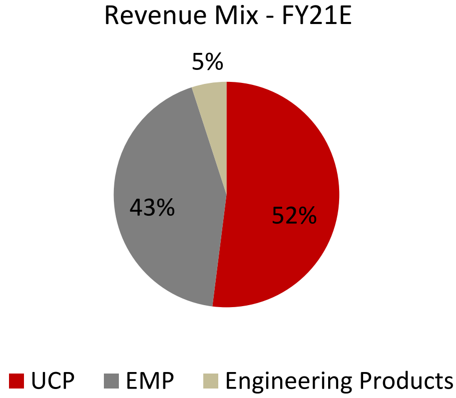

Source – Dalal & Broacha Research

Valuation

We value Voltas on SOTP basis. We expect UCP segment to grow at 15% CAGR and EMP segment to grow at 10% CAGR over FY18-21E. We expect Voltas-Beko to be next revenue driver for the company. We expect Vlotas-Beko JV to post topline of Rs37bn by FY24E garnering market share of 7% in white goods segments. We have valued the venture on Discounted Cash Flow basis. Overall margin is expected to improve from 9.2% in FY19E to 11% by FY21E. Voltas expects to generate ROE and ROCE of 15% to 20% respectively. Valuing its cash-cow UCP segment at 35xFY22E PAT and EMP at 20xFY22E earnings we arrive at target price of **Rs702** per share.

Sum-of-the-Parts Valuation

Particulars	**PAT (Rs Mn)**	**Muliple (x)**	**Value (Rs Mn)**
EMP	2,010	20	40,199
EPS	812	20	16,246
UCP	3,809	35	148,539
Total	8,291	0	204,984
Cash	25,078	0.5	12,539
Total			217,523
Value (Rs/Share)			658
Value from Arcelik JV			45
Target price			**702**

Company Background

Voltas is an air conditioning and engineering company. Its business segments include Electro-mechanical Projects and Services, Engineering Products and Services, Unitary Cooling Products for Comfort and Commercial use, and Others. Launched in 1954, Voltas has a presence in air conditioning, refrigeration, as well electro-mechanical projects as an EPC contractor. The company is also engaged in the business of engineering product services for mining, water management and treatment, construction equipment, textile industry and rural electrification. VOLT offers products, including textile machinery, mining and construction equipment, heating, ventilation, air conditioning and refrigeration (HVAC&R), and water coolers and dispensers.

Introduction on Arcelik-Beko

Arçelik is a household appliances manufacturer from Turkey. It is engaged in the production and marketing of durable goods, components, consumer electronics and after-sale services. Its products include white goods, electronic products, small home appliances and kitchen accessories, such as refrigerators, freezers, washing machines, dishwashers, aspirators, vacuum cleaners, coffee makers and blenders.

Arçelik is active in more than 100 countries including China and the United States through its 13 international subsidiaries and over 4,500 branches in Turkey. The company operates 15 production plants in Turkey, Romania, Russia, China, South Africa and Thailand. It offers products under its own Eleven brand names, including Arçelik, **Beko,** Grundig, Dawlance, Altus, Blomberg, Arctic, Defy, Leisure, Arstil, Elektra Bregenz and Flavel.

Beko is a budget brand name in some countries and continues to be in use for of Arçelik products majorly, refrigerators, washing machines and dishwashers. Further, Beko is the 2nd brand in Europe (up from 7th position in 2004).

Analyst – Abhilasha Satale/Tanush Mehta

Initiating Coverage @ Dalal & Broacha

Financials

Profit & Loss (Rs Mn)	FY18	FY19E	FY20E	FY21E
Net Sales	64,279	73,747	83,622	94,017
Raw Materials	(45,675)	(53,338)	(59,603)	(66,534)
Employee Cost	(5,867)	(6,637)	(7,526)	(8,462)
Other Expenses	(6,110)	(7,032)	(7,974)	(8,965)
Cost of Sales	(57,652)	(67,008)	(75,103)	(83,961)
Operating Profit	**6,626**	**6,739**	**8,519**	**10,056**
Depreciation	(244)	(252)	(337)	(470)
PBIT	6,383	6,487	8,182	9,587
Other Income	1,741	1,430	1,238	1,148
Interest	(119)	(288)	(133)	(114)
Profit Before Tax	8,005	7,629	9,287	10,623
Provision for Tax	(2,270)	(2,289)	(2,786)	(3,186)
PAT	**5,735**	**5,341**	**6,501**	**7,437**
Extra ordinary Items	6	0	0	1
Minority interest & Ass. Profits	38	47	51	0
Adj. PAT	**5,779**	**5,388**	**6,552**	**7,438**

Cash Flow Statement (Rs Mn)	FY18	FY19E	FY20E	FY21E
Pre tax Profit	8049	7629	9287	10621
Add: Dep. & Amortization	244	252	337	470
Total tax paid	2492	2289	2786	3186
Other Adjsutments	(6037)	(5673)	(6626)	(7407)
Cash Profit	**4748**	**4497**	**5785**	**6870**
(Inc) / Dec in				
Sundry Debtors	(1162)	(2313)	(2412)	(2539)
Inventories	940	(1197)	(1249)	(1315)
Loans & Advances	(3819)	(2313)	(2412)	(2539)
Current liabilities & Trade paybles	2545	5014	4980	5242
Change in Working Capital	**(1495)**	**(809)**	**(1094)**	**(1152)**
CF from Operating Activities	**3253**	**3688**	**4691**	**5718**
CF from Investing Activities	**(1992)**	**(163)**	**(706)**	**(852)**
CF from Financing Activities	**(1738)**	**(1588)**	**(1715)**	**(1909)**
Net changes in cash	(477)	1936	2270	2957
Cash at the start of year	3314	2837	4773	7043
Cash at the end of year	2837	4773	7043	10000

Balance Sheet (Rs Mn)	FY18	FY19E	FY20E	FY21E
Equity Capital	331	331	331	331
Reserves	38,721	42,808	47,778	53,418
Net Worth	**39,052**	**43,138**	**48,109**	**53,749**
Minority Interest	317	371	428	428
Long term borrowings	1,423	1,423	1,423	1,423
Short term borrowings	0	0	0	0
Total Debt	1,423	1,423	1,423	1,423
Capital Employed	**40,792**	**44,933**	**49,959**	**55,600**
Gross Block	4,700	4,960	6,960	8,960
Accumulated Depreciation	(2,899)	(3,151)	(3,488)	(3,958)
Net Block	1,801	1,809	3,472	5,003
Capital WIP	41	41	41	41
Total Fixed Assets	**1,842**	**1,850**	**3,513**	**5,044**
Investments	28,706	30,093	30,093	30,093
Inventories	8,130	9,327	10,576	11,891
Sundry debtors	15,703	18,016	20,428	22,968
Cash & bank	2,837	4,773	7,043	10,000
Loans & advances and Other CA	15,700	18,013	20,425	22,964
Current Liabilities	(29,443)	(34,032)	(38,589)	(43,386)
Provisions	(2,729)	(3,154)	(3,577)	(4,021)
Working Capital	10,198	12,943	16,307	20,416
Deffered Tax Liabilities	46	46	46	46
Capital Deployed	**40,792**	**44,933**	**49,959**	**55,599**

Ratios	FY18	FY19E	FY20E	FY21E
OPM	10.3	9.1	10.2	10.7
NPM	8.9	7.2	7.8	7.9
Tax Rate %	(28.4)	(30.0)	(30.0)	(30.0)
Growth Ratio (%)				
Net Sales	6.5	14.7	13.4	12.4
Operating Profit	14.4	1.7	26.4	18.0
PAT	13.5	(6.8)	21.6	13.5
Per Share				
Earning Per Share (EPS)	17.5	16.3	19.8	22.5
Cash Earnings (CPS)	18.1	16.9	20.7	23.9
Dividend	3.5	3.3	4.0	4.5
Book Value	118.1	130.4	145.5	162.5
Free Cash flow	8.8	10.4	8.1	11.2
Valuation Ratios				
P/E (x)	33.9	37.7	31.0	27.3
P/B (x)	5.1	4.6	4.1	3.7
EV / Sales	3.1	2.6	2.3	2.0
EV / EBIDTA	29.7	28.6	22.6	19.2
FCF Yield (%)	1.4	1.7	1.3	1.8
Div. Yield (%)	0.6	0.5	0.7	0.8
Return Ratios (%)				
ROE	14.7	12.4	13.5	13.8
ROCE*	19.9	17.6	18.9	19.3

* includes other income

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