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STOCK BROKING PVT. LTD.

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Voltas Management Meet @ Dalal & Broacha

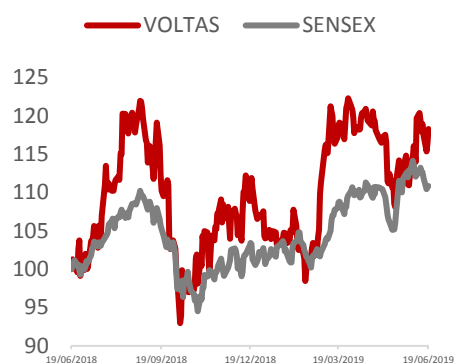
BUY

Current Price	615
Target Price	678
Upside/Downside	10%
52 Week Range	Rs.641/471

Key Share Data

Market Cap (Rs.bn)	205
Market Cap (US\$ mn)	2961
No of o/s shares (mn)	331
Face Value	1
Monthly Avg. vol (BSE+NSE)Nos (In 000)	1424
BSE Code	500575
NSE Code	VOLTAS
Bloomberg	VOLT IN

Price performance



Management meeting- Key Highlights

Demand revived during the quarter: AC demand has been good in month of April-May driven by late onset of summer and low base. Further, Northern and eastern part of India has witnessed a string summer, which are the key markets and the growth driver for Voltas. The stock levels have been decent and this demand has helped liquidation of last year inventory.

Margin to sustain at 11%: Voltas missed on taking price hikes during the season inspite of better demand. The Competitive pressures restrained the company from taking any price hikes. However, management has retained its annualized margin guidance at 11%. Tirupati facility will improve domestic sourcing. Total capex for the facility is Rs500cr out of which Rs200cr will be spent in FY20E.

Launch of ACs by EESL (Energy Efficient Services Ltd.) not a big threat: Voltas has participated in Energy Efficiency Services Limited (EESL) Super-Efficient Air Conditioning Programme. The product that will be supplied in this segment will be of different tonnage and star rating hence the prices will not be comparable for the AC under this scheme and under other general scheme. The company has 9-10% share in the e-commerce segment. Launch of private brands from Amazon and Flipkart is not likely to be big threat for Voltas brand.

Volt-Beko covered 50-55% Voltas' distribution network: The voltas beko JV has covered 50-55% of Voltas's distribution network. Distribution channel will be same in Metros while in Tier-II and III towns company is expanding through EBOs. Company has 100EBOs currently. Management reiterated that, Voltas Beko Jv shall remain in the investment phase for the next 3-4 years. The manufacturing unit of Voltas, which is expected to commence operation of end of 2019, shall start commercial production of Direct cool refrigerator and washing machine.

Good visibility of EMP orders: Voltas has a strong Order book. Further out of the order book, Rs. 50000 mn, Rs. 30000 mn is domestic and balance is international order book. Out of the domestic order book, 40% is towards rural electrification, 30 % towards urban infrastructure and balance towards other projects. Company sees good visibility for project business with stable government at center. The company is witnessing a good traction in electrification, metro projects and urban infra.

Outlook: The management is confident of 11% EBITDA margins for the years and expects Voltas to perform better this year due to better summer and low previous year base. We expect Voltas to post EPS of Rs19 and Rs22 over FY20E and FY21E resp. At CMP it is trading at 32x FY20E and 28x FY21E earnings. We recommend 'BUY'.

% Shareholding	Mar-19	Dec-18
Promoters	30.3	30.3
Institutions	48.8	46.6
Others	20.9	23.4
Total	100.0	100.0

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	33.9	14.7	19.9
FY19	72,752	13.2	6,499.9	9%	5,173	(9.8)	15.8	37.5	12.0	17.1
FY20E	81,623	12.2	7,936.5	10%	6,093	17.8	18.6	31.9	12.8	17.8
FY21E	91,864	12.5	9,640	10%	7,145	17.3	21.6	27.4	13.5	18.8



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Financials

Profit & Loss (Rs Mn)	FY18	FY19	FY20E	FY21E	Cash Flow Statement (Rs Mn)	FY18	FY19	FY20E	FY21E
Net Sales	64,279	72,752	81,623	91,864	Pre tax Profit	8049	7390	8704	10205
Raw Materials	(45,675)	(52,767)	(58,557)	(65,196)	Add: Dep. & Amortization	244	252	337	470
Employee Cost	(5,867)	(6,548)	(7,346)	(8,268)	Total tax paid	2492	2217	2611	3061
Other Expenses	(6,110)	(6,937)	(7,783)	(8,760)	Other Adjsutments	(6037)	(5529)	(6276)	(7157)
Cost of Sales	(57,652)	(66,252)	(73,686)	(82,224)	Cash Profit	4748	4330	5376	6578
Operating Profit	6,626	6,500	7,936	9,640	(Inc) / Dec in				
Depreciation	(244)	(252)	(337)	(470)	Sundry Debtors	(1162)	(2070)	(2167)	(2502)
PBIT	6,383	6,248	7,599	9,170	Inventories	940	(1072)	(1122)	(1295)
Other Income	1,741	1,430	1,238	1,148	Loans & Advances	(3819)	(2070)	(2167)	(2501)
Interest	(119)	(288)	(133)	(114)	Current liabilities & Trade paybles	2545	4512	4473	5164
Profit Before Tax	8,005	7,390	8,704	10,207	Change in Working Capital	(1495)	(699)	(983)	(1135)
Provision for Tax	(2,270)	(2,217)	(2,611)	(3,061)	CF from Operating Activities	3253	3631	4394	5444
PAT	5,735	5,173	6,093	7,145	CF from Investing Activities	(1992)	(163)	(706)	(852)
Extra ordinary Items	6	0	0	1	CF from Financing Activities	(1738)	(1548)	(1616)	(1839)
Minority interest & Ass. Profits	38	47	51	0	Net changes in cash	(477)	1920	2072	2753
Adj. PAT	5,779	5,220	6,144	7,146	Cash at the start of year	3314	2837	4756	6828
					Cash at the end of year	2837	4756	6828	9581
Balance Sheet (Rs Mn)	FY18	FY19	FY20E	FY21E	Ratios	FY18	FY19	FY20E	FY21E
Equity Capital	331	331	331	331	OPM	10.3	8.9	9.7	10.5
Reserves	38,721	42,681	47,341	52,761	NPM	8.9	7.1	7.5	7.8
Net Worth	39,052	43,011	47,672	53,091	Tax Rate %	(28.4)	(30.0)	(30.0)	(30.0)
Minority Interest	317	371	428	428	Growth Ratio (%)				
Long term borrowings	1,423	1,423	1,423	1,423	Net Sales	6.5	13.2	12.2	12.5
Short term borrowings	0	0	0	0	Operating Profit	14.4	(1.9)	22.1	21.5
Total Debt	1,423	1,423	1,423	1,423	PAT	13.5	(9.7)	17.7	16.3
Capital Employed	40,792	44,806	49,523	54,942	Per Share				
Gross Block	4,700	4,960	6,960	8,960	Earning Per Share (EPS)	17.5	15.8	18.6	21.6
Accumulated Depreciation	(2,899)	(3,151)	(3,488)	(3,958)	Cash Earnings (CPS)	18.1	16.4	19.4	23.0
Net Block	1,801	1,809	3,472	5,003	Dividend	3.5	3.2	3.7	4.3
Capital WIP	41	41	41	41	Book Value	118.1	130.1	144.2	160.5
Total Fixed Assets	1,842	1,850	3,513	5,044	Free Cash flow	8.8	10.2	7.2	10.4
Investments	28,706	30,093	30,093	30,093	Valuation Ratios				
Inventories	8,130	9,202	10,324	11,619	P/E (x)	33.9	37.5	31.9	27.4
Sundry debtors	15,703	17,773	19,940	22,442	P/B (x)	5.1	4.6	4.2	3.7
Cash & bank	2,837	4,756	6,828	9,581	EV / Sales	3.1	2.6	2.4	2.1
Loans & advances and Other C/	15,700	17,770	19,937	22,438	EV / EBITDA	29.7	29.6	24.2	20.0
Current Liabilities	(29,443)	(33,573)	(37,666)	(42,392)	FCF Yield (%)	1.5	1.8	1.2	1.8
Provisions	(2,729)	(3,112)	(3,491)	(3,929)	Div. Yield (%)	0.6	0.5	0.6	0.7
Working Capital	10,198	12,816	15,870	19,758	Return Ratios (%)				
Deferred Tax Liabilities	46	46	46	46	ROE	14.7	12.0	12.8	13.5
Capital Deployed	40,792	44,806	49,523	54,941	ROCE*	19.9	17.1	17.8	18.8



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