



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Abhilasha Satale (022) 67141435

## Q2FY19 Result Update@ Dalal&Broacha

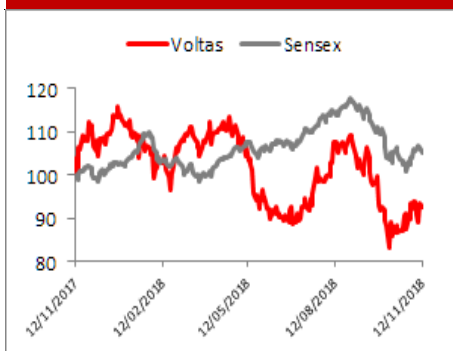
### BUY

Current Price	543
Target Price	689
Upside	26%
52 Week Range	471/675

### Key Share Data

Market Cap (Rs.bn)	179.3
Market Cap (US\$ bn)	2.6
No of o/s shares (mn)	331
Face Value	1
Monthly Avg.	
Vol(BSE+NSE) Nos ('000)	2400
BSE Code	500575
NSE Code	VOLTAS
Bloomberg	VOLTAS IN

### Price performance



### % Shareholding

	Sep-18 <sup>i</sup>	Jun-18
Promoters	30.30	30.30
Public	21.49	21.49
Others	48.214	48.214
<b>Total</b>	<b>100</b>	<b>100</b>

### Q2FY19 Result highlights

Voltas (VOLT) has a strong recovery in Electro Mechanical Projects (EMP) business. Revenue grew by 37% YoY better than estimates led by 61% YoY growth in EMP revenue e. Unitary Cooling Products (UCP) revenue increased by 8% YoY. Industry growth reported at 6% thus Voltas gained market share. EBITDA rose by 27% to Rs1.1bn, while EBITDA margin declined by 60bps to 7.2%. PAT came in at Rs1bn (up 7% yoy). The Company is expected to launch new products under JV by 2HCY18. With long-term demand drivers in place, we believe the Voltas-Arcelik JV is set to garner a sizable market share over time.

### Segmental Highlights

#### EMP Seg: (64% of sales/ 54% of EBIT)

Sales increased 61% yoy to Rs9bn. EBIT margin of 8.4%, up 300bps YoY reflecting better quality of orders and efficient execution both in domestic and international business. Order Book at Rs 48.8bn. Domestic order book stands at Rs28.5bn while international order book stands at Rs20.4bn. Order inflow for the quarter stood at Rs11bn including international orders of Rs4.5bn. Rural electrification orders form 35% of current order book.

#### UCP seg: (31% of sales/20% of EBIT)

Sales increased 8% yoy to Rs4.4bn for the quarter against industry growth of 6%. Voltas improved its room AC market share from 23.2% to 25.6% yoy. EBIT margin for the segment has gone down by 610bps yoy to 6.3% due to rise in raw material cost, INR depreciation and hike in custom duty. Capital employed increased for UCP division due to increase in inventory in the system. As a result investments have gone down as inventory piled up is funded through liquidation of MFs.

#### Engg Products Seg: (5% of sales/20% of EBIT)

Sales-13% YoY to Rs729mn. EBIT margin down 160 bps to 39.7%.

### Voltas Beko

The Company has launched new products in consumer durable segment by 2HCY18 through JV with Arcelik. With long-term demand drivers in place, we believe the Voltas-Arcelik JV is set to garner a sizable market share over time.

**Outlook:** We expect 12-15% volume CAGR for the room AC industry over next five years. Voltas is well positioned to maintain market share and margins despite intense competition and shift towards inverters. In projects business, order inflows have improved from international market. At the current CMP of Rs543 the stock trades at 24x FY20 EPS of Rs 24.6. EV/EBITDA is a 19x FY20E EBITDA. We recommend 'BUY' with target price of Rs689 valuing the company at 28x FY20E earnings.

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY17	60,328	5.5	5,791	9.6%	5,296	31.5	15.4	39.0	16.0	21.5
FY18	64,279	6.5	6,626	10.3%	5,735	13.5	17.5	34.3	14.7	19.9
FY19E	75,761	17.9	7,772	10.3%	6,540	14.0	19.9	30.1	14.8	20.3
FY20E	89,479	18.1	9,726	10.9%	8,069	23.4	24.6	24.4	16.1	22.0



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Abhilasha Satale (022) 67141435

**Q2FY19 Result Update@ Dalal&Broacha**

<b>Voltas Quarterly Result</b>	<b>2QFY19</b>	<b>2QFY18</b>	<b>YoY (%)</b>	<b>1QFY19</b>	<b>QoQ (%)</b>
Total operating income	14153.7	10316.6	37.2	21480.9	(34.1)
Stock	227.2	(869.8)	(126.1)	3099.0	(92.7)
Raw material	(10527.0)	(6172.3)	70.6	(18725.4)	(43.8)
Employee costs	(1723.0)	(1452.6)	18.6	(1430.8)	20.4
Other expenses	(1105.4)	(1015.6)	8.8	(1991.8)	(44.5)
Total expenditure	(13128.2)	(9510.3)	38.0	(19049.0)	(31.1)
<b>EBITDA</b>	<b>1025.5</b>	<b>806.3</b>	<b>27.2</b>	<b>2431.9</b>	<b>(57.8)</b>
Interest	(64.0)	(21.5)	197.7	(27.3)	134.4
Depreciation	(59.5)	(60.9)	(2.3)	(59.4)	0.2
Other income	460.8	562.6	(18.1)	282.1	63.3
<b>PBT</b>	<b>1362.8</b>	<b>1286.5</b>	<b>5.9</b>	<b>2627.3</b>	<b>(48.1)</b>
Tax	(350.8)	(342.6)	2.4	(761.7)	(53.9)
<b>Reported net profit</b>	<b>1012.0</b>	<b>943.9</b>	<b>7.2</b>	<b>1865.6</b>	<b>(45.8)</b>
<b>as % of net revenues</b>					
Raw material	73	68		73	
Staff expenses	12.2	14		6.7	
Other operating expenses	7.8	10		9	
EBITDA	7.2	7.8		11	
PBT margin	10	12		12	
Effective tax rate	26	27		29	
Net profit	7.2	9		9	
EPS	3.1	2.9	7.2	5.6	(45.8)

<b>Segment results</b>					
<b>Revenues</b>					
Unitary cooling products	4,410.1	4,077.7	8.2%	11,911	-63.0
Engineering products and services	728.6	666.2	9%	772	-5.6
Electromechanical projects	9,015.0	5,574.7	62%	8,664	4.1
<b>Total</b>	<b>14,160.2</b>	<b>10,316.6</b>	<b>37%</b>	<b>21,344</b>	<b>-33.7</b>
<b>Results</b>					
Unitary cooling products	277.5	507.6	-45%	1,493	-81.4
Engineering products and services	288.9	275.1	5%	268	8.0
Electromechanical projects	759.2	303.0	151%	881	-13.8
<b>Total</b>	<b>1,399.6</b>	<b>1,296.2</b>	<b>8%</b>	<b>2,632</b>	<b>-46.8</b>
<b>EBIT margin (%)</b>					
Unitary cooling products	6.3	12.4		12.5	
Engineering products and services	39.7	41.3		34.7	
Electromechanical projects	8.4	5.4		10.2	



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Abhilasha Satale (022) 67141435

## Q2FY19 Result Update@ Dalal&Broacha

Profit & Loss (Rs Mn)	FY17	FY18	FY19E	FY20E
Net Sales	60,328	64,279	75,761	89,479
Raw Materials	(42,359)	(45,675)	(53,946)	(63,167)
Employee Cost	(6,184)	(5,867)	(6,818)	(8,053)
Other Expenses	(5,994)	(6,110)	(7,224)	(8,532)
Cost of Sales	(54,537)	(57,652)	(67,989)	(79,753)
<b>Operating Profit</b>	<b>5,791</b>	<b>6,626</b>	<b>7,772</b>	<b>9,726</b>
Depreciation	(244)	(244)	(252)	(253)
PBIT	5,546	6,383	7,520	9,473
Other Income	1,998	1,741	1,800	2,000
Interest	(160)	(119)	(108)	(108)
Profit Before Tax	7,384	8,005	9,212	11,365
Provision for Tax	(2,088)	(2,270)	(2,671)	(3,296)
<b>PAT</b>	<b>5,296</b>	<b>5,735</b>	<b>6,540</b>	<b>8,069</b>
Extra ordinary Items	11	6	0	0
Minority interest & Ass. Profits	(217)	38	47	51
<b>Adj. PAT</b>	<b>5,090</b>	<b>5,779</b>	<b>6,587</b>	<b>8,120</b>

Cash Flow Statement (Rs Mn)	FY17	FY18	FY19E	FY20E
Pre tax Profit	7203	8049	9212	11365
Add: Dep. & Amortization	245	244	252	253
Total tax paid	1819	2492	2671	3296
Other Adjustments	(5518)	(6037)	(6987)	(8432)
<b>Cash Profit</b>	<b>3748</b>	<b>4748</b>	<b>5147</b>	<b>6481</b>
(Inc) / Dec in				
Sundry Debtors	(869)	(1162)	(2805)	(3351)
Inventories	(1823)	940	(1452)	(1735)
Loans & Advances	1207	(3819)	(2805)	(3351)
Current liabilities & Trade payables	2018	2545	6030	6917
<b>Change in Working Capital</b>	<b>533</b>	<b>(1495)</b>	<b>(1032)</b>	<b>(1520)</b>
<b>CF from Operating Activities</b>	<b>4281</b>	<b>3253</b>	<b>4115</b>	<b>4962</b>
<b>CF from Investing Activities</b>	<b>(738)</b>	<b>(1992)</b>	<b>1594</b>	<b>1797</b>
<b>CF from Financing Activities</b>	<b>(2083)</b>	<b>(1738)</b>	<b>(1699)</b>	<b>(2069)</b>
<b>Net changes in cash</b>	<b>1459</b>	<b>(477)</b>	<b>4010</b>	<b>4689</b>
Cash at the start of year	1855	3314	2837	6847
Cash at the end of year	3314	2837	6847	11536

Balance Sheet (Rs Mn)	FY17	FY18	FY19E	FY20E
Equity Capital	331	331	331	331
Reserves	32,735	38,721	43,718	49,877
<b>Net Worth</b>	<b>33,066</b>	<b>39,052</b>	<b>44,048</b>	<b>50,208</b>
Minority Interest	285	317	371	428
Long term borrowings	1,709	1,423	1,423	1,423
Short term borrowings	0	0	0	0
Total Debt	1,709	1,423	1,423	1,423
<b>Capital Employed</b>	<b>35,061</b>	<b>40,792</b>	<b>45,843</b>	<b>52,059</b>
Gross Block	4,603	4,700	4,960	5,220
Accumulated Depreciation	(2,784)	(2,899)	(3,151)	(3,404)
Net Block	1,819	1,801	1,809	1,817
Capital WIP	6	41	41	41
<b>Total Fixed Assets</b>	<b>1,825</b>	<b>1,842</b>	<b>1,850</b>	<b>1,857</b>
Investments	23,858	28,706	28,706	28,706
Inventories	9,070	8,130	9,582	11,317
Sundry debtors	14,541	15,703	18,508	21,859
Cash & bank	3,314	2,837	6,847	11,536
Loans & advances and Other C/	11,882	15,700	18,505	21,856
Current Liabilities	(26,943)	(29,443)	(34,961)	(41,292)
Provisions	(2,685)	(2,729)	(3,240)	(3,827)
Working Capital	9,180	10,198	15,240	21,449
Deffered Tax Liabilities	198	46	46	46
<b>Capital Deployed</b>	<b>35,061</b>	<b>40,792</b>	<b>45,843</b>	<b>52,059</b>

Ratios	FY17	FY18	FY19E	FY20E
OPM	9.6	10.3	10.3	10.9
NPM	8.8	8.9	8.6	9.0
Tax Rate %	(28.3)	(28.4)	(29.0)	(29.0)
<b>Growth Ratio (%)</b>				
Net Sales	5.5	6.5	17.9	18.1
Operating Profit	33.7	14.4	17.3	25.1
PAT	31.5	13.5	14.0	23.3
<b>Per Share</b>				
Earning Per Share (EPS)	15.4	17.5	19.9	24.6
Cash Earnings (CPS)	16.8	18.1	20.5	25.2
Dividend	2.6	3.5	4.0	4.9
Book Value	100.0	118.1	133.2	151.8
Free Cash flow	12.3	8.8	11.7	14.2
<b>Valuation Ratios</b>				
P/E (x)	39.0	34.3	30.1	24.4
P/B (x)	6.0	5.1	4.5	4.0
EV / Sales	3.3	3.1	2.5	2.1
EV / EBIDTA	34.0	29.7	24.8	19.4
FCF Yield (%)	2.1	1.5	2.0	2.5
Div. Yield (%)	0.4	0.6	0.7	0.8
<b>Return Ratios (%)</b>				
ROE	16.0	14.7	14.8	16.1
ROCE*	21.5	19.9	20.3	22.0



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Abhilasha Satale (022) 67141435

## Q2FY19 Result Update@ Dalal&Broacha

### Disclaimer

**Dalal&Broacha Stock Broking Pvt Ltd, hereinafter referred to as D& B** (CIN\_U67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services.

D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. [www.dalal-broacha.com](http://www.dalal-broacha.com)

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

### **Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-**

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

### **Disclosures in respect of Research Analyst:**

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Abhilasha Satale (022) 67141435

## Q2FY19 Result Update@ Dalal&Broacha

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	<a href="mailto:kunal.bhatia@dalal-broacha.com">kunal.bhatia@dalal-broacha.com</a>	022 67141442	Auto, Auto Ancillary, FMCG
Ms.CharulataGaidhani	<a href="mailto:charulata.gaidhani@dalal-broacha.com">charulata.gaidhani@dalal-broacha.com</a>	022 67141446	Pharma /Healthcare
Ms. Abhilasha Satale	<a href="mailto:Abhilasha.satale@dalal-broacha.com">Abhilasha.satale@dalal-broacha.com</a>	022 67141439	Mid Cap
Mr. Mayank Babla	<a href="mailto:Mayank.babla@dalal-broacha.com">Mayank.babla@dalal-broacha.com</a>	022 67141412	IT/Media/Telecom
Ms. Richa.Singh	<a href="mailto:richa.singh@dalal-broacha.com">richa.singh@dalal-broacha.com</a>	022 67141444	Analyst

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021

Tel: 91-22- 2282 2992, 2287 6173, (D) 6630 8667 Fax: 91-22-2287 0092  
E-mail: [research@dalalbroachaindia.com](mailto:research@dalalbroachaindia.com), [equity.research@dalal-broacha.com](mailto:equity.research@dalal-broacha.com)