



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Abhilasha Satale (022) 6714 1435

Result Update @ Dalal & Broacha

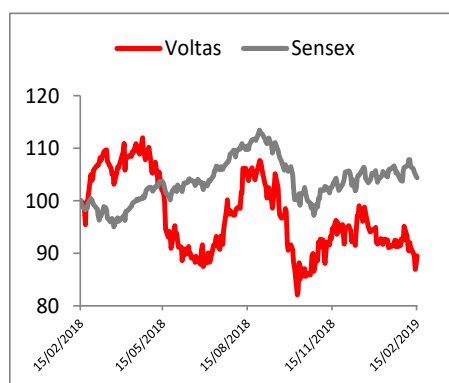
BUY

Current Price	522
Target Price	619
Upside/Downside	19%
52 Week Range	Rs.712/463

Key Share Data

Market Cap (Rs.bn)	171
Market Cap (US\$ mn)	2531
No of o/s shares (mn)	331
Face Value	1
Monthly	1,51,940
Avg.vol(BSE+NSE) Nos	
BSE Code	500575
NSE Code	VOLTAS
Bloomberg	VOLT IN

Price performance



% Shareholding	Dec-18	Sep-18
Promoters	30.3	30.3
Institutions	46.6	46.6
Others	23.4	23.4
Total	100.0	100.0

Key Financials

Year	Net Sales	%growth	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY17	60,328	5.5	9.6%	5,296	31.5	15.4	33.8	16.0	21.5
FY18	64,279	6.5	10.3%	5,735	13.5	17.5	29.8	14.7	19.9
FY19E	73,747	14.7	9.1%	5,341	(6.9)	16.3	32.0	12.4	17.6
FY20E	79,314	7.5	9.8%	6,112	14.4	18.6	28.0	12.8	17.8

Q3FY19 Result highlights

Voltas (VOLT) reported below expected topline impacted by lower UCP sales. Topline grew 9% yoy at Rs14.8bn (Exp: Rs15.4bn). EBITDA increased 6.2% yoy at Rs1.16bn. (Exp Rs1.24bn). Margin for the quarter down 20bps to 7.8% (Exp: 8.1%). Other income grew 105% yoy at Rs548mn. The increase is on account of mark-to-market gains on investments. Loss from JV is reported at Rs308mn as against profit of Rs29mn yoy. This is on account of higher operating and marketing expenses for Voltas-Beko. With long-term demand drivers in place, we believe the Voltas-Arcelik JV is set to garner a sizable market share over time.

Segment wise Performance

EMP Seg: (59% of sales/ 51% of EBIT)

Sales increased 16% yoy to Rs8.7bn (Exp: Rs9bn). EBIT margin up 40bps yoy at 7.9% reflecting better quality of orders and efficient execution both in domestic and international business. Order Book at Rs 48.8bn. EMP segment has order book of Rs50bn 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. Management seeing good traction in rural electrification orders. It also entered into facility management and water management segment.

UCP seg: (35% of sales/33% of EBIT)

Sales down 3% yoy to Rs5.25bn (Exp: Rs5.53bn) for the quarter. Voltas improved its room AC market share from 23.2% to 24% yoy for 9MFY19. EBIT margin for the segment has gone down by 450bps yoy to 8.5% (Exp: 9%) due to rise in raw material cost, INR depreciation and hike in custom duty.

Engg Products Seg: (6% of sales/16% of EBIT)

Sales up 20% YoY to Rs832mn (Exp: Rs834mn). EBIT margin down 390bps at 26.4%.

Outlook: Voltas is well positioned to maintain market share and margins despite intense competition and shift towards inverters. In projects business, robust order inflows in domestic market offsets the subdued demand from middle-east. 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 valuing EMP segment at 20x FY20E earnings and UCP segment at 30x FY20E earnings. We recommend 'BUY' with target price of Rs619.

**Result Update @Dalal & Broacha****Concall Highlights****UCP segment**

For 9MFY19 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. For the quarter Voltas posted 3% volume decline.

Management expects sales to pick up from March-April and numbers to improve in Q4 and Q1. Currently company is holding 2months inventory in UCP segment as against 2.5mts qoq.

Voltas announced to set up AC manufacturing and assembly unit in Tirupati. The plant will be spread over 66acres and would reduce import dependency of Voltas. Company will focus on reducing imports of completely build units through increasing manufacturing at this plant. Capex to be incurred is Rs500cr and plant is likely to get commence by H2FY20E.

Voltas reported loss from JVs/associates at Rs300mn. Management clarified it includes loss incurred from Voltas-Beko JV. Increase in marketing, brand building and advertising spend increased loss for the segment. It is likely to come down once sales pick-up.

Voltas launched 44SKUs in refrigerator followed by 40 in WM, 12Microwaves and 7in dishwasher. Management said initial response has been positive. Company has also launched Voltas brand shops in Tier-II and Tier-III cities.

Assembly unit at Sanand for white goods is likely to commission in CY19E. This will reduce dependency on imports for white goods.

Management maintained its margin guidance at 11% and expects margin to improve once sales pick up.

EMP Division

EMP segment has order book of Rs50bn 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. Mgmt seeing good traction in rural electrification orders. It also entered into facility management and water management segments

One of the JV partner in Europe has declared bankruptcy. Therefore, Voltas has taken provision of Rs130mn against Canadian JV.


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Quarterly Financials

Voltas Quarterly Result	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)
Total operating income	14917.8	13649.5	9.3	14213.6	5.0
Stock	(970.7)	(492.6)	97.1	227.2	(527.2)
Raw material	(9935.3)	(9182.4)	8.2	(10527.0)	(5.6)
Employee costs	(1601.1)	(1502.6)	6.6	(1723.0)	(7.1)
Other expenses	(1254.0)	(1383.0)	(9.3)	(1105.4)	13.4
Total expenditure	(13761.1)	(12560.6)	9.6	(13128.2)	4.8
EBITDA	1156.7	1088.9	6.2	1085.4	6.6
Interest	(132.3)	(18.9)	600.0	(64.0)	106.7
Depreciation	(61.6)	(60.7)	1.5	(59.5)	3.5
Other income	547.8	267.6	104.7	460.8	18.9
PBT	1510.6	1276.9	18.3	1422.7	6.2
Tax	(304.3)	(301.2)	1.0	(330.7)	(8.0)
Reported net profit	1206.3	975.7	23.6	1092.0	10.5
Extraordinary items	(425.5)	0.0	NM	(22.1)	NA
APAT	780.8	975.7		1069.9	
Minority interest and profit from associates	0.0	19.1	(20.0)	0.0	
PAT for equity holders	780.8	994.8	(21.5)	1069.9	(27.0)
as % of net revenues					
Raw material	73	71		72	
Staff expenses	10.7	11		12.1	
Other operating expenses	8.4	10		8	
EBITDA	7.8	8.0		8	
PBT margin	10	9		10	
Effective tax rate	20	24		23	
Net profit	5.2	7		8	
EPS	2.4	3.0	(20.0)	3.3	(28.5)

Segment results					
Revenues					
Unitary cooling products	5,259.2	5,421.7	-3.0%	4,410	19.3
Engineering products and services	831.6	695.2	20%	729	14.1
Electromechanical projects	8,752.3	7,533.7	16%	9,015	-2.9
Total	14,847.7	13,649.5	9%	14,160	4.9
Results					
Unitary cooling products	446.8	704.5	-37%	278	61.0
Engineering products and services	219.2	210.8	4%	289	-24.1
Electromechanical projects	691.8	533.9	30%	759	-8.9
Total	1,248.2	1,305.6	-4%	1,400	-10.8
EBIT margin (%)					
Unitary cooling products	8.5	13.0		6.3	
Engineering products and services	26.4	30.3		39.7	
Electromechanical projects	7.9	7.1		8.4	


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Result Update @Dalal & Broacha
Financials

Profit & Loss (Rs Mn)	FY17	FY18	FY19E	FY20E
Net Sales	60,328	64,279	73,747	79,314
Raw Materials	(42,359)	(45,675)	(53,338)	(56,822)
Employee Cost	(6,184)	(5,867)	(6,637)	(7,138)
Other Expenses	(5,994)	(6,110)	(7,032)	(7,563)
Cost of Sales	(54,537)	(57,652)	(67,008)	(71,524)
Operating Profit	5,791	6,626	6,739	7,791
Depreciation	(244)	(244)	(252)	(337)
PBIT	5,546	6,383	6,487	7,453
Other Income	1,998	1,741	1,430	1,411
Interest	(160)	(119)	(288)	(133)
Profit Before Tax	7,384	8,005	7,629	8,732
Provision for Tax	(2,088)	(2,270)	(2,289)	(2,619)
PAT	5,296	5,735	5,341	6,112
Extra ordinary Items	11	6	0	0
Minority interest & Ass. Profits	(217)	38	47	51
Adj. PAT	5,090	5,779	5,388	6,163

Cash Flow Statement (Rs Mn)	FY17	FY18	FY19E	FY20E
Pre tax Profit	7203	8049	7629	8732
Add: Dep. & Amortization	245	244	252	337
Total tax paid	1819	2492	2289	2619
Other Adjustments	(5518)	(6037)	(5673)	(6466)
Cash Profit	3748	4748	4497	5222
(Inc) / Dec in				
Sundry Debtors	(869)	(1162)	(2313)	(1360)
Inventories	(1823)	940	(1197)	(704)
Loans & Advances	1207	(3819)	(2313)	(1360)
Current liabilities & Trade payables	2018	2545	5014	2807
Change in Working Capital	533	(1495)	(809)	(617)
CF from Operating Activities	4281	3253	3688	4606
CF from Investing Activities	(738)	(1992)	1224	1106
CF from Financing Activities	(2083)	(1738)	(1588)	(1621)
Net changes in cash	1459	(477)	3323	4764
Cash at the start of year	1855	3314	2837	6160
Cash at the end of year	3314	2837	6160	11073

Balance Sheet (Rs Mn)	FY17	FY18	FY19E	FY20E
Equity Capital	331	331	331	331
Reserves	32,735	38,721	42,808	47,483
Net Worth	33,066	39,052	43,138	47,814
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
Capital Employed	35,061	40,792	44,933	49,664
Gross Block	4,603	4,700	4,960	6,960
Accumulated Depreciation	(2,784)	(2,899)	(3,151)	(3,488)
Net Block	1,819	1,801	1,809	3,472
Capital WIP	6	41	41	41
Total Fixed Assets	1,825	1,842	1,850	3,513
Investments	23,858	28,706	28,706	28,706
Inventories	9,070	8,130	9,327	10,032
Sundry debtors	14,541	15,703	18,016	19,376
Cash & bank	3,314	2,837	6,160	11,073
Loans & advances and Other CA	11,882	15,700	18,013	19,373
Current Liabilities	(26,943)	(29,443)	(34,032)	(36,601)
Provisions	(2,685)	(2,729)	(3,154)	(3,392)
Working Capital	9,180	10,198	14,330	20,011
Deferred Tax Liabilities	198	46	46	46
Capital Deployed	35,061	40,792	44,933	50,621

Ratios	FY17	FY18	FY19E	FY20E
OPM	9.6	10.3	9.1	9.8
NPM	8.8	8.9	7.2	7.7
Tax Rate %	(28.3)	(28.4)	(30.0)	(30.0)
Growth Ratio (%)				
Net Sales	5.5	6.5	14.7	7.5
Operating Profit	33.7	14.4	1.7	15.6
PAT	31.5	13.5	(6.8)	14.4
Per Share				
Earning Per Share (EPS)	15.4	17.5	16.3	18.6
Cash Earnings (CPS)	16.8	18.1	16.9	19.5
Dividend	2.6	3.5	3.3	3.7
Book Value	100.0	118.1	130.4	144.6
Free Cash flow	12.3	8.8	10.4	7.9
Valuation Ratios				
P/E (x)	33.8	29.8	32.0	28.0
P/B (x)	6.0	5.1	4.6	4.1
EV / Sales	3.3	3.1	2.3	2.3
EV / EBITDA	34.0	29.7	24.9	21.5
FCF Yield (%)	2.1	1.5	1.8	1.4
Div. Yield (%)	0.4	0.6	0.5	0.6
Return Ratios (%)				
ROE	16.0	14.7	12.4	12.8
ROCE*	21.5	19.9	17.6	17.8



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms. Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Ms. Abhilasha Satale	abhilasha.satale@dalal-broacha.com	022 67141135	Senior Analyst
Mr. Avinash Tanawade	avinash.tanawade@dalal-broacha.com	022 67141439	BFSI
Mrs. Nidhi Babaria	nidhi.babaria@dalal-broacha.com	022 67141450	Associate
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate
Mr. Tanush Mehta	tanush.mehta@dalal-broacha.com	022 67141441	Associate

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, equity.research@dalal-broacha.com