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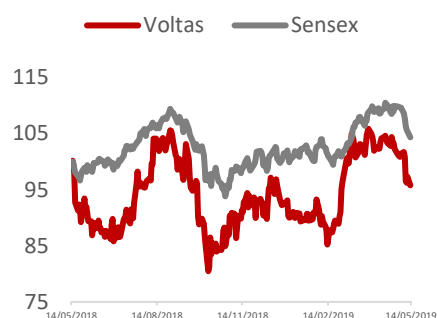
BUY

Current Price	572
Target Price	681
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 Avg. vol (BSE+NSE) Nos(In 000's)	2339
BSE Code	500575
NSE Code	VOLTAS
Bloomberg	VOLT IN

Price performance



% 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	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

Q4FY19 Result highlights

Voltas (VOLT) reported below expected topline impacted by lower UCP (Unitary Cooling Products) sales. The Sales was up 0.71% yoy at Rs20.6bn (Exp: Rs22.5bn). EBITDA down 43% yoy to Rs1443mn (Exp: Rs2519mn). EBITDA margin down 540bps yoy to 7% (Exp: 12%). Interest up 145% yoy to Rs105mn. Depreciation down 2% yoy to Rs59mn. PAT down 27% yoy to Rs1417mn (Exp: Rs1901mn) Loss from JV is reported at Rs190mn as against Rs10mn 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: (48% of sales/ 25% of EBIT)

Sales increased 12% yoy to Rs9.767bn (Exp: Rs11bn). EBIT margin up at 4.5% vs 7.6% yoy. Order Book at Rs 49.7bn. Order inflows during the quarter stood at Rs3.93bn for domestic segment and Rs6.26bn for international segment. Overall order inflows at Rs10bn as against Rs12.3bn yoy. Management seeing good traction in rural electrification orders.

UCP : (49% of sales/59% of EBIT)

Sales down 6% yoy to Rs9.9bn (Exp: Rs11bn) for the quarter. Sales impacted on account of late arrival of summer shifting sales to next quarter. EBIT margin for the segment has gone down by 680bps yoy to 10.4% due to rise in raw material cost, INR depreciation and hike in custom duty.

Engineering Products Seg: (3% of sales/16% of EBIT)

Sales down 6% YoY to Rs785mn (Exp: Rs1bn). EBIT margin up 400bps yoy at 34%.

Outlook: Late onset of monsoon have shifted UCP sales to Q1. We expect UCP sales to improve as Voltas has gained market share even in challenging environment. 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 reduce our margin expectations for UCP division from 12% earlier to 11% in-line with management guidance. 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 Rs681.



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Concall Highlights

UCP Segment:

The A/c industry de-grew by 3% in FY19 due to inability to pass on the cost increase and increase in custom duty rates. However, Voltas has been able to grow better than industry by growing 6% yoy for FY19. It has improved market share from 22.1% to 23.9%. Further, delayed onset of summer and increase channel inventory has pushed the Q4FY19 sales to Q1FY20.

In the UCP segment, the air cooler segment has also witnessed a de-growth. However the shift from the unorganized to organize market is a positive sign. The company launched 13 SKUs this year.

Voltas has launched adjustable inverter ACs for summer 2019. These ACs run at different cooling capabilities catering to the different cooling needs of the user and come with the unique value proposition of 'Flexibe AC Technology'. This new range is also environment friendly, smart, intelligent and increases savings for the customer.

Voltas witnessed margin pressure during the quarter as competitive intensity curtailed price increases. Management is deterrent to take any price increase in the near term due to competitive pressures and maintains margin guidance at 11%.

In commercial refrigeration, there are wide category of products, most of which is B2B. The category is highly dependent on institutional orders hence, the orders are lumpy in nature.

The Energy Rating for the A/cs is still under discussion with the Government. Hence, the classification is still not clear and once this Energy labelling norms are rolled out, 3star a/c would be 2star a/c and so on.

EMP Segment:

The EMP segment grew by 12%, however weak margins were witnessed. This was due to reasons like, settlement of costs of projects etc, which takes place, making the margins unsustainable. As project execution is lumpy margin in this segment is volatile. The Management has guided for sustainable margin of 7-7.5%.

The company focuses on Govt. and Govt. funded projects and have seen new tenders being floated. On the international side of the business Voltas won a new project in Bahrain. Further, under the international markets, Middle east remains the key market.

Voltas Beko:

This JV covers products like washing machines, refrigerators, microwave ovens and dishwashers. The company will be in the investment phase for the next 3 years. Hence, the losses would continue. In the Voltas Beko – The product is imported from Thailand and china and the import duty has impacted the cost. Further, 32 refrigerators, 5 washing machines and 12 Top loading Machines were launched. Overall all touchpoints of 15000 are covered for Voltas-Beko.



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The company mentioned that the indoor part of the A/c is imported. Voltas's Tirupati and Sanand facility is likely to be operational in H2FY20E, which would thereafter increase the internal sourcing, resulting in improving of its gross margin.

Under the Voltas Beko, modern retail and standard distribution channels are being tracked to grow the sales. However brand shop way of sales would be key preference as certain products like dishwasher can be marketed there only. Voltas has opened more than 100brand shops and aspire to increase the same to 400-500 stores over next 2-3 years.



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Quarterly Financials

Voltas Quarterly Result	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)
Total operating income	20628.4	20483.8	0.7	14917.8	38.3
Stock	440.0	913.4	(51.8)	(970.7)	(145.3)
Raw material	(16230.1)	(15924.8)	1.9	(9935.3)	63.4
Employee costs	(1663.7)	(1434.2)	16.0	(1601.1)	3.9
Other expenses	(1731.5)	(1506.6)	14.9	(1254.0)	38.1
Total expenditure	(19185.3)	(17952.2)	6.9	(13761.1)	39.4
EBITDA	1443.1	2531.6	(43.0)	1156.7	24.8
Interest	(106.3)	(43.4)	144.9	(132.3)	(19.7)
Depreciation	(59.3)	(60.7)	(2.3)	(61.6)	(3.7)
Other income	571.8	437.9	30.6	547.8	4.4
PBT	1849.3	2865.4	(35.5)	1510.6	22.4
Tax	(238.6)	(899.7)	(73.5)	(304.3)	(21.6)
Reported net profit	1610.7	1965.7	(18.1)	1206.3	33.5
Extraordinary items	0.0	(13.9)	NM	(117.7)	NA
APAT	1610.7	1951.8		1088.6	
Minority interest and profit from associates	(193.3)	(9.9)	(17.5)	(307.8)	
PAT for equity holders	1417.4	1955.8	(27.5)	780.8	81.5
as % of net revenues					
Raw material	77	73		73	
Staff expenses	8.1	7		10.7	
Other operating expenses	8.4	7		8	
EBITDA	7.0	12.4		8	
PBT margin	9	14		10	
Effective tax rate	13	31		20	
Net profit	6.9	10		5	
EPS	4.9	5.9		3.3	

Segment results					
Revenues					
Unitary cooling products	9,975.7	10,644.9	-6.3%	5,259	89.7
Engineering products and services	784.7	834.4	-6%	832	-5.6
Electromechanical projects	9,760.0	8,735.4	12%	8,752	11.5
Total	20,524.5	20,213.0	2%	14,848	38.2
Results					
Unitary cooling products	1,036.8	1,830.4	-43%	447	132.1
Engineering products and services	274.1	249.0	10%	219	25.0
Electromechanical projects	440.7	664.8	-34%	692	-36.3
Total	1,655.9	2,855.5	-42%	1,248	32.7
EBIT margin (%)					
Unitary cooling products	10.4	17.2		8.5	
Engineering products and services	34.9	29.8		26.4	
Electromechanical projects	4.5	7.6		7.9	



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Financials

Profit & Loss (Rs Mn)	FY18	FY19	FY20E	FY21E
Net Sales	64,279	73,747	83,622	94,017
Raw Materials	(45,675)	(53,503)	(60,026)	(66,778)
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)	(67,172)	(75,526)	(84,205)
Operating Profit	6,626	6,574	8,096	9,812
Depreciation	(244)	(252)	(337)	(470)
PBIT	6,383	6,323	7,759	9,343
Other Income	1,741	1,430	1,238	1,148
Interest	(119)	(288)	(133)	(114)
Profit Before Tax	8,005	7,465	8,864	10,379
Provision for Tax	(2,270)	(2,239)	(2,659)	(3,113)
PAT	5,735	5,225	6,205	7,266
Extra ordinary Items	6	0	0	1
Minority interest & Ass. Profits	38	47	51	0
Adj. PAT	5,779	5,272	6,256	7,267

Cash Flow Statement (Rs Mn)	FY18	FY19	FY20E	FY21E
Pre tax Profit	8049	7465	8864	10377
Add: Dep. & Amortization	244	252	337	470
Total tax paid	2492	2239	2659	3113
Other Adjustments	(6037)	(5574)	(6372)	(7260)
Cash Profit	4748	4382	5488	6699
(Inc) / Dec in				
Sundry Debtors	(1162)	(2313)	(2412)	(2539)
Inventories	940	(1197)	(1249)	(1315)
Loans & Advances	(3819)	(2313)	(2412)	(2539)
Current liabilities & Trade payables	2545	5014	4980	5242
Change in Working Capital	(1495)	(809)	(1094)	(1152)
CF from Operating Activities	3253	3573	4394	5547
CF from Investing Activities	(1992)	(163)	(706)	(852)
CF from Financing Activities	(1738)	(1561)	(1644)	(1868)
Net changes in cash	(477)	1849	2045	2828
Cash at the start of year	3314	2837	4686	6731
Cash at the end of year	2837	4686	6731	9559

Balance Sheet (Rs Mn)	FY18	FY19	FY20E	FY21E
Equity Capital	331	331	331	331
Reserves	38,721	42,720	47,466	52,977
Net Worth	39,052	43,051	47,797	53,307
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	44,845	49,647	55,158
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	4,686	6,731	9,559
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	12,856	15,995	19,974
Deferred Tax Liabilities	46	46	46	46
Capital Deployed	40,792	44,845	49,647	55,157

Ratios	FY18	FY19	FY20E	FY21E
OPM	10.3	8.9	9.7	10.4
NPM	8.9	7.1	7.4	7.7
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	(0.8)	23.1	21.2
PAT	13.5	(8.8)	18.7	16.1
Per Share				
Earning Per Share (EPS)	17.5	15.9	18.9	22.0
Cash Earnings (CPS)	18.1	16.6	19.8	23.4
Dividend	3.5	3.2	3.8	4.4
Book Value	118.1	130.2	144.5	161.2
Free Cash flow	8.8	10.0	7.2	10.7
Valuation Ratios				
P/E (x)	33.9	37.1	31.3	26.9
P/B (x)	5.1	4.6	4.2	3.7
EV / Sales	3.1	2.6	2.3	2.0
EV / EBITDA	29.7	29.3	23.8	19.7
FCF Yield (%)	1.5	1.7	1.3	1.9
Div. Yield (%)	0.6	0.5	0.6	0.7
Return Ratios (%)				
ROE	14.7	12.1	13.0	13.6
ROCE*	19.9	17.3	18.1	19.0



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