



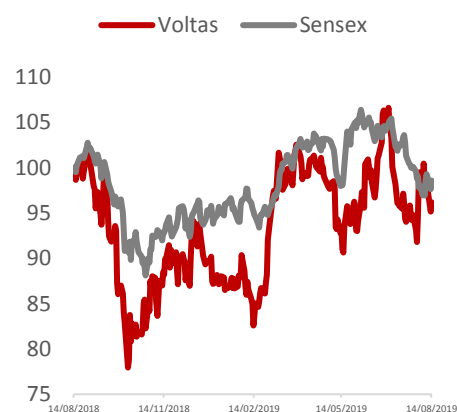
BUY

Current Price	605
Target Price	681
Upside/Downside	13%
52 Week Range	471/662

Key Share Data

Market Cap (Rs.bn)	201
Market Cap (US\$ mn)	2838
No of o/s shares (mn)	331
Face Value	1
Monthly Avg. vol (BSE+NSE) Nos'000	1730
BSE Code	500575
NSE Code	VOLTAS
Bloomberg	VOLT IN

Price performance



% Shareholding	Jun-19	Mar-19
Promoters	63.85	30.30
DII	4.01	15.92
FII	15.75	22.20
Others	31.69	31.58
Total	100	100

Key Financials

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY18	64,279	6.5	6,626	10.31%	5,735	13.5	17.5	33.9	14.7	19.9
FY19	69,851	8.7	4,664.3	6.68%	4,322	(24.6)	13.2	44.8	10.3	14.4
FY20E	83,105	19.0	8,064.3	9.70%	5,813	34.5	17.7	33.4	12.5	17.5
FY21E	93,073	12.0	9,747	10.47%	6,914	18.9	20.9	28.3	13.4	18.7

Voltas performed better than our expectation on account of **Robust growth of 47% in the Unitary Cooling Segment (UCP)**

The Sales were up 24% YoY to Rs. 26540 mn as against estimated of Rs. 2562 mn. The EBITDA was up by 20% YoY to Rs. 2912 mn as against estimated of Rs. 2909mn. The EBITDA margin stood at 11% as against 11.32% (-32bps), which were in line with estimates. The Interest costs were up 60% YoY to Rs.44mn and Deprecation was higher by 30% YoY to Rs 77mn.The Other Income was higher by 53% to Rs433mn as against Rs282mn in the same quarter last year. Profit before tax (Excluding loss of share of associates and exceptional loss) was up by 23% YoY to Rs 3224mn. The PBT including loss of share of share of associates and exceptional loss stood at Rs. 2580 mn, lower by 0.2% YoY. The share of loss is mainly for Voltas Beko JV of Rs. 213.5 mn and exceptional loss is on account Voluntary Retirement scheme for permanent employees of Rs. 430.3 mn. The Tax rate was at 28.44% vs 28.99% YoY. The Adjusted PAT was lower by 11% YoY to Rs. 1663mn as against estimated of Rs 2080 mn (Without adjusting for exceptional Loss).

The Segmental Performance is as follows –

EMP Segment (31% of sales/ 21% of EBIT) had declined by 5% YoY generating a revenue of Rs.8241.2mn. as against estimated of Rs11071mn. The EBIT margin stood at 7.95% as against 10.16% YoY.

The UCP segment (66% of sales/72% of EBIT) was the growth driver for the company having a robust growth of 47% YoY to Rs. 17487mn as against estimated of Rs 14769mn. The market share of the company stood at 24.1% in air conditioners market The EBIT margin in the said segment stood at 13.14% as against 12.53%.

Their third segment, the engineering segment (3% of sales/7% of EBIT) witnessed a sales decline of 4% YoY to Rs. Rs.736.6mn generating an EBIT margin at 32.37% as against 34.68% YoY.

Valuation & Outlook

Voltas being one of the largest player in the AC Industry (market share of 24%), is well set to be a beneficiary of increase in AC penetration and consumer demand. The company's EMP segment would also be showing great traction account of government capex. At CMP 605, Voltas is trading at 28.3x FY21E at an EPS of INR 20.9. We recommend a BUY with a Target Price of INR 681.



Conference Call Key Takeaways –

1. As of Q1FY20, Voltas is having a market share of 24.1% and is currently, the 2nd largest player in the Inverter AC segment. As of the current quarter Inverter AC sales accounted for 50% of the total UCP sales generated by Voltas. The company also mentioned that they have 70-80 SKU's in AC's across India. The management also guided that split AC and Window AC sales accounted for 77% and 23% of the total AC sales, respectively.
2. During Q1FY20, high temperatures across India generated good demand thereby lowering inventory levels for the quarter. The company also guided that no price hike was taken due to low sales in FY19 and high inventory level.
3. The company's order book was at INR 47560mn of which INR 18520 mn was towards international projects and INR 24040 mn in Domestic projects. The company books Domestic orders worth INR 4490 mn and International orders worth INR 2310 mn.
4. The Middle East still remains a challenge due to various factors, however, some orders were opened up by the government recently from which some orders are expected to flow in.
5. The company's water and rural electrification business is witnessing traction and the company eyes huge opportunity there on account of various government initiatives and schemes. The company also announced its keen interest to enter Solar Panels Installation business.
6. The company undertook many branding activities for promoting Voltas Beko and the management is confident on the way Voltas Beko is expanding its footprints. The management also guided that post commencement of Sanand facility, Voltas-beko would have a wide range of products to penetrate deep into the Indian market.
7. The impact of duty hike which was announced in the budget recently would be seen in the coming quarters. Hence, manufacturing air conditioners domestically is a long term vision for the company (Voltas had sourced 50% of the AC's internationally in FY19) Currently, the Outdoor Units (ODU's) are manufactured locally and compressors (35-40% of the cost of the air conditioners) are imported as manufacturing them is complex.
8. The ELSS order for 50,000 units is taken at a decent margin and will not harm the overall margins of the company. The management also guided that the AC supplied to ELSS is different from the AC that are being sold as ELSS is having its primary focus on energy efficiency.
9. The engineering division witnessed lower traction due to various textile companies undertaking planned shutdown due to lower demand domestically and internationally.



VOLTAS Q1FY20 Results (In INR mn)					
Particulars	Q1FY20	Q1FY19	Q4FY19	YoY	QoQ
Revenue for Operations	26540	21481	20628	24%	29%
COGS	19802	15626	15790		
Gross Profit	6738	5855	4838	15%	39%
GP%	25%	27%	23%		
Employee Expenses	1632	1431	1664	14%	-2%
% of Sales	6%	7%	8%		
Other expenses	2194	1992	1732	10%	27%
% of Sales	8%	9%	8%		
EBITDA	2912	2432	1443	20%	102%
EBITDA %	10.97%	11.32%	7.00%		
Depreciation	77	59	59	30%	30%
Interest	44	27	106	60%	-59%
Other Income	433	282	572	53%	-24%
PBT	3224	2627	1849	23%	
PBT %	12%	12%	9%		
Tax	917	762	239		
Tax Rate %	28.44%	28.99%	12.90%		
PAT	2307	1866	1611	24%	
PAT%	9%	9%	8%		
Share of Profit	-213.5	5	-193.3		
Exceptional loss	-430.3				
Adjusted PAT	1663	1871	1417	-11%	17%
EPS	4.99	5.56	4.22		



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Profit & Loss (Rs Mn)	FY18	FY19	FY20E	FY21E
Net Sales	64,279	69,851	83,105	93,073
Raw Materials	-45,675	-52,622	-59,636	-66,074
Employee Cost	-5,867	-6,482	-7,479	-8,377
Other Expenses	-6,110	-6,083	-7,925	-8,875
Cost of Sales	-57,652	-65,187	-75,040	-83,326
Operating Profit	6,626	4,664	8,064	9,747
Depreciation	-244	-240	-337	-470
PBIT	6,383	4,425	7,727	9,277
Other Income	1,741	1,862	710	712
Interest	-119	-330	-133	-114
Profit Before Tax	8,005	5,957	8,304	9,877
Provision for Tax	-2,270	-1,635	-2,491	-2,962
PAT	5,735	4,322	5,813	6,914
Extra ordinary Items	6	0	0	1
Minority interest & Ass. Profits	38	47	51	0
Adj. PAT	5,779	4,369	5,864	6,915

Balance Sheet (Rs Mn)	FY18	FY19	FY20E	FY21E
Equity Capital	331	331	331	331
Reserves	38,721	41,552	46,001	51,245
Net Worth	39,052	41,883	46,332	51,576
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	43,677	48,182	53,426
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	8,835	10,511	11,772
Sundry debtors	15,703	17,064	20,302	22,737
Cash & bank	2,837	3,938	5,311	7,920
Loans & advances and Other CA	15,700	17,061	20,299	22,733
Current Liabilities	-29,443	-32,234	-38,350	-42,950
Provisions	-2,729	-2,988	-3,555	-3,981
Working Capital	10,198	11,676	14,518	18,231
Deferred Tax Liabilities	46	46	46	46
Capital Deployed	40,792	43,665	48,170	53,413

Cash Flow Statement (Rs Mn)	FY18	FY19	FY20E	FY21E
Pre tax Profit	8049	5321	8304	9875
Add: Dep. & Amortization	244	240	337	470
Total tax paid	2492	1635	2491	2962
Other Adjustments	(6037)	(4755)	(5508)	(6523)
Cash Profit	4748	2440	5624	6784
(Inc) / Dec in				
Sundry Debtors	(1162)	(1361)	(3238)	(2435)
Inventories	940	(705)	(1676)	(1261)
Loans & Advances	(3819)	(1361)	(3237)	(2435)
Current liabilities & Trade payables	2545	3050	6683	5026
Change in Working Capital	(1495)	(377)	(1468)	(1104)
CF from Operating Activities	3253	2063	4156	5680
CF from Investing Activities	(1992)	269	(1233)	(1288)
CF from Financing Activities	(1738)	(1231)	(1549)	(1783)
Net changes in cash	(477)	1101	1374	2608
Cash at the start of year	3314	2837	3938	5311
Cash at the end of year	2837	3938	5311	7920

Ratios	FY18	FY19	FY20E	FY21E
OPM	10.3	6.7	9.7	10.5
NPM	8.9	6.2	7.0	7.4
Tax Rate %	(28.4)	(27.4)	(30.0)	(30.0)
Growth Ratio (%)				
Net Sales	6.5	8.7	19.0	12.0
Operating Profit	14.4	(29.6)	72.9	20.9
PAT	13.5	(24.4)	34.2	17.9
Per Share				
Earning Per Share (EPS)	17.5	13.2	17.7	20.9
Cash Earnings (CPS)	18.1	13.8	18.6	22.3
Dividend	3.5	2.3	3.6	4.2
Book Value	118.1	126.7	140.1	156.0
Free Cash flow	8.8	5.5	6.5	11.1
Valuation Ratios				
P/E (x)	33.9	44.8	33.4	28.3
P/B (x)	5.1	4.7	4.3	3.8
EV / Sales	3.1	2.8	2.3	2.1
EV / EBITDA	29.7	41.4	24.0	20.0
FCF Yield (%)	1.5	0.9	1.1	1.9
Div. Yield (%)	0.6	0.4	0.6	0.7
Return Ratios (%)				
ROE	14.7	10.3	12.5	13.4
ROCE*	19.9	14.4	17.5	18.7



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