

Voltas

Performance Highlights

Quarterly highlights - Consolidated

Y/E March (₹ cr)	1QFY17	1QFY16	% chg (yoy)
Gross Sales	1,845	1,561	18.2
EBITDA	189	128	47.6
Adj. PAT	157	103	52.8

Source: Company, Angel Research;

Voltas reported a strong set of numbers for 1QFY2017. Top-line at ₹1,845cr is higher than our expectation and up 18.2% yoy, led by strong UCP segment sales. UCP segment impressed us with 28.9% yoy increase in revenue to ₹1,196cr (65% of overall 1QFY2017 revenues). EBITDA margins for the quarter expanded by 204bps yoy at 10.3%. With most of the legacy projects nearing completion, the EMP segment reported 1.9% EBIT margin, against 1.5% in corresponding quarter of previous year. Better than expected UCP segment sales coupled with higher other income helped the company report a PAT of ₹158cr, up 53.7% on yoy basis. On adjusting for ~₹1cr of exceptional item, Adj. PAT grew 52.8% yoy to ₹157cr.

Another positive is strong order inflows of ₹1,083cr for the quarter. Order Book for EMP segment as of 1QFY2017-end stands at ₹4,417cr (order book [OB] to LTM ratio of 1.6x).

Valuation: We expect Voltas to report a strong 13.3% top-line and 18.1% bottom-line CAGR during FY2016-18E, respectively. On considering the case for improvement in all of its business segments' performances, we expect improved profitability and better investment return ratios for the company, going forward. We assign Voltas 25.0x PE multiple to our FY2018E EPS estimate of ₹16.3/share and arrive at price target of ₹407. This reflects 17% upside potential from the stock's current market price. **Accordingly, we continue to maintain BUY rating on the stock.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Net Sales	5,531	5,266	5,183	5,857	6,511	7,514
% chg	6.7	(4.8)	(1.6)	13.0	11.2	15.4
Net Profit	208	245	384	386	427	538
% chg	28.2	18.1	56.6	0.3	10.8	26.0
EBITDA (%)	4.4	5.0	7.9	7.5	7.9	8.7
EPS (₹)	6.3	7.4	11.6	11.7	12.9	16.3
P/E (x)	55.5	47.0	30.0	29.9	27.0	21.4
P/BV (x)	7.1	6.3	5.5	4.8	4.3	3.7
Adj. RoE (%)	12.8	14.2	19.6	17.1	16.7	18.5
RoCE (%)	19.3	22.4	36.4	42.2	46.4	52.7
EV/Sales (x)	2.1	2.2	2.2	2.0	1.8	1.5
EV/EBITDA (x)	46.9	43.3	27.8	26.5	22.3	17.6

Source: Company, Angel Research; Note: CMP as of August 3, 2016; It needs to be noted that yoy growth for FY2017E is not comparable as FY2016 continues to be reported under Indian GAAP.

BUY

CMP	₹349
Target Price	₹407

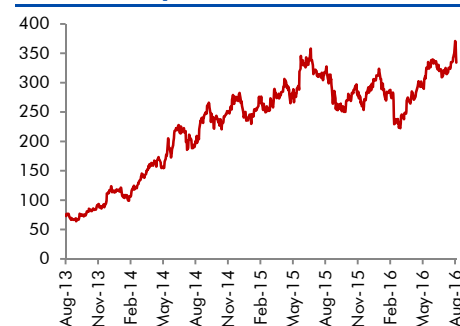
Investment Period	12 Months
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Stock Info	
Sector	Construction & Eng.
Market Cap (₹ cr)	11,531
Net debt (₹ cr)	63
Beta	1.4
52 Week High / Low	376/211
Avg. Daily Volume	1,911,833
Face Value (₹)	1
BSE Sensex	27,714
Nifty	8,551
Reuters Code	VOLT.BO
Bloomberg Code	VOLT@IB

Shareholding Pattern (%)	
Promoters	30.3
MF / Banks / Indian Fls	28.1
FII / NRIs / OCBs	20.5
Indian Public / Others	21.1

Abs. (%)	3m	1yr	3yr
Sensex	9.7	(1.8)	44.5
Voltas	20.3	7.3	365.9

3-Year Daily Price Chart



Source: Company, Angel Research

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Exhibit 1: Quarterly Performance (Consolidated)

Particulars (₹ cr)	1QFY17	1QFY16	% chg (yoy)
Gross Sales	1,845	1,561	18.2
Total Expenditure	1,656	1,433	15.5
Excise Duty	5	6	(11.5)
Cost of materials consumed	994	934	6.4
Purchase of stock-in-trade	323	192	68.8
Employee benefits Expense	163	149	9.2
Other Expenses	171	153	11.9
EBITDA	189	128	47.6
EBIDTA %	10.3	8.2	
Depreciation	7	6	11.0
EBIT	183	122	49.3
Interest and Financial Charges	5	3	44.0
Other Income	46	28	65.2
PBT before Exceptional Items	224	147	52.5
Exceptional Items	1	0	
PBT	225	147	53.1
Tax	65	45	
% of PBT	28.9	30.8	
PAT from Ord. activities	160	102	57.1
Share of profit/ (loss) of associate	(0)	2	nmf
Minority interest in (profit)/ loss	(2)	(1)	
PAT	158	103	53.7
Other Comprehensive Income	26	(5)	nmf
Total Comprehensive Income	184	98	88.3
Adj. PAT	157	103	52.8
Adj. PAT %	8.5	6.6	
Dil. EPS	4.76	3.10	53.5

Source: Company, Angel Research; Note: nmf- Not meaningful; *Reported as per Ind AS, FY2016 numbers & other remaining quarters continue to be reported as per Indian GAAP; It needs to be noted that yoy growth for FY2017E is not comparable as FY2016 continues to be reported under Indian GAAP

Strong UCP segment execution leads to strong 1Q sales

Voltas reported better than expected top-line numbers mainly driven by strong execution across their EMP & and sales across their UCP segment. Voltas reported 18.2% yoy gross sales growth to ₹1,845cr.

UCP segment impressed us with 28.9% yoy increase in gross sales to ₹1,196cr (65% of 1QFY2017 revenues). UCP segment benefitted from strong AC sales as well as strong traction seen across their Air Cooler sales. Voltas sold ~50,000 Air Coolers in 1FY2017 (vs. ~70,000 units in FY2016). Voltas has been able to retain its numero-uno position commanding ~22% share in Multi-brand outlet sales in 1QFY2017.

Also, EMP and EPS segments reported better than expected gross sales numbers at ₹580cr and ₹69cr, respectively.

EBITDA margin expands yoy to 10.3%

Higher than expected contribution from UCP segment led to surprise on EBITDA margin front at 10.3% for 1QFY2017. Voltas reported 204bps yoy EBITDA margin expansion to 10.3%. The company reported 6.4% yoy increase in raw material costs, lower than the yoy gross sales growth, thereby contributing to the EBITDA margin expansion.

With most of the EMP segment legacy projects having completed, this segment reported 1.9% EBIT margin, against 1.5% margin in 1QFY2016. Despite strong AC sales, 68.8% yoy increase in purchase of stock-in-trade, led to restricted UCP segment EBIT margin expansion to 14.9% in 1QFY2017 (vs 12.2% in 1QFY2016).

Adj.PAT margin expands to 8.5%

Better than expected sales at UCP segment, coupled with higher other income helped the company report Core business PAT of ₹158cr, which is up 53.7% on yoy basis. Reported PAT numbers also benefitted on account of higher other income, which increased 65.2% yoy to ₹46cr (reflecting impact of increased current investments and cash balance). On adjusting for ~₹1cr of exceptional item, Adj. PAT grew 52.8% yoy to ₹157cr.

On considering impact of comprehensive other income (includes ₹26cr of gain on revaluation of longer term equity investments) total comprehensive income grew 88.3% yoy to ₹184cr.

Order Book grows 12.9% yoy to ₹4,417cr

Voltas reported 12.9% yoy increase in its Order book to ₹4,417cr (OB to LTM ratio of 1.6x), reflecting ₹1,083cr of Order wins during 1QFY2017. Amongst the projects won during the quarter, key ones include (1) ₹530cr order for MEP works of a Mall in Qatar, and (2) ₹201cr order for MEP works of a Commercial Building in Qatar.

Valuation

At the current market price of ₹349, the stock is trading at FY2017E and FY2018E P/E of 27.0x and 21.4x, respectively. With 7th pay commission to be implemented, inflation under control, rate cut cycle expected to continue, coupled with Voltas' strong positioning in Air Conditioning market, we believe that the company should continue to report strong growth in UCP segment, going forward.

In FY2016, UCP segment contributed ~67% of consol. EBIT. Also, completion of low margin EMP projects and increased contribution of high margin projects indicate that EBIT margins of EMP segment would improve from 1.4% in FY2016 to 5.0% in FY2018E. On the whole, we expect Voltas to report a top-line and bottom-line CAGR of 13.3% and 18.1% during FY2016-18E, respectively. Our growth assumption captures (a) pick-up in international award activity, which should lead to top-line growth as well as EMP segment EBIT margin expansion, and (b) continued growth in domestic AC sales, with Voltas being able to retain its 'numero uno' status. Noticeably in the last few years, the EBIT mix of Voltas has shifted from being heavily dependent on the EMP segment to a now dominant share of the UCP segment. Contribution of UCP segment in consol. EBIT has increased from 32% in FY2011 to 67% in FY2016. We expect the same to be over 61% levels during FY2016-18E. Considering the shift in the consol. EBIT mix, positive cues, and case for improvement in the business segments' performances, we expect scope for improved profitability and better investment return ratios, going forward. We assign Voltas 25.0x PE multiple to our FY2018E EPS estimate of ₹16.3/share and arrive at a price target of ₹407. Given the upside from current levels, **we maintain Buy rating on the stock.**

Investment Arguments

Growth in UCP segment to continue: Voltas has maintained 20%+ market share in the domestic air-conditioning market despite stiff competition from MNC players. Its 'numero uno' position is owing to its (1) wide distribution network (10,000-11,000 touch-points), (2) wide portfolio of 65+ models, (3) strong post-sale support (including 5-year warranty on compressor), and (4) strong advertising focus with the company being among top 5 media spenders in the AC segment. With economic indicators turning favorable, the company's competitive positioning should help the UCP segment report a 19.5% top-line and 16.6% EBIT CAGR, respectively, during FY2016-18E.

Gradual recovery in the EMP business: Voltas' EMP business was adversely affected due to weak awarding environment, slow execution and cost over-runs. In the run-up to the Qatar World Cup 2022 and Dubai Expo 2020, we expect international awarding activity to gradually catch-up from FY2017E onwards. Surge in order book should translate to uptick in execution (we expect 10.7% top-line CAGR during FY2016-18E). With legacy projects almost completed and contribution of high margin projects kicking-in, we expect the segment's margins to expand from 1.4% in FY2016 to 5.0% in FY2018E.

Balance Sheet strength: Voltas pursues an asset light business model and in the due course of business it resorts to outsourcing and strategic tie-ups, thereby enabling it to control its operating costs and generate high profitability. As a result, we expect Voltas to revert to its earlier trend of higher RoEs. Given the asset light business model, the company has been generating strong cash flows (it generated ₹1,029cr of cash flows from business during FY2013-16). As of 4QFY2016-end, Voltas is a debt free company (on net basis), with cash & liquid investment balance of ₹863.8cr.

Risks & Concerns

- AC sales contributed ~50% of FY2016 consolidated revenues. Given that Voltas is present only in the AC business across the entire Consumer Durables space, loss of major market share could act as a risk to our estimates. Any such development could lead to lower than expected EBIT contribution to the consol. profits and our estimates.
- Revenues from the EPS segment are based on agreement for supplying Textile, Mining & Construction equipment. Any termination of such agreements shall impact our forecasted revenues for the segment.
- Most of the long term international projects are fixed price contracts and in the due course of its business, Voltas also imports. Any adverse currency fluctuations may impact the raw material pricing as well as margins.
- Cancellation of Qatar World Cup 2022 or Expo 2020 could affect our EMP segment assumptions.

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Net Sales	5,531	5,266	5,183	5,857	6,511	7,514
% Chg	6.7	(4.8)	(1.6)	13.0	11.2	15.4
Total Expenditure	5,287	5,000	4,773	5,421	5,995	6,859
Cost of RM Consumed	4,167	3,854	3,597	4,126	4,568	5,242
Employee benefits Expense	633	595	590	670	746	845
Other Expenses	487	551	586	625	681	771
EBITDA	244	266	410	437	516	655
% Chg	(27.5)	8.9	54.4	6.6	18.1	26.9
EBIDTA %	4.4	5.0	7.9	7.5	7.9	8.7
Depreciation	28	25	28	28	31	33
EBIT	216	241	382	409	485	622
% Chg	(28.6)	11.4	58.7	7.1	18.5	28.3
Interest and Fin. Charges	38	23	23	15	15	9
Other Income	90	100	109	118	131	142
PBT	268	318	467	511	600	755
Exceptional Items	12	22	46	41	0	0
Prior Period Adjustments	0	0	0	0	0	0
Tax	73	94	128	160	174	219
% of PBT	27.2	29.6	27.3	31.3	29.0	29.0
PAT from ordinary activities	207	246	386	392	426	536
Share of Profit / (loss of Associate) & Minority Interest in (profit)/ loss	1	(0)	(2)	(7)	1	3
PAT	208	245	384	386	427	538
% Chg	28.2	18.1	56.6	0.3	10.8	26.0
PAT %	3.8	4.7	7.4	6.6	6.6	7.2
Diluted EPS	6.3	7.4	11.6	11.7	12.9	16.3
% Chg	28.2	18.1	56.6	0.3	10.8	26.0

Note: 1QFY2016 & 1QFY2017 numbers are reported as per Ind AS, FY2016 numbers & other quarters continue to be reported as per Indian GAAP.

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Sources of Funds						
Equity Capital	33	33	33	33	33	33
Reserves & Surplus Total	1,593	1,786	2,069	2,362	2,675	3,064
Networth	1,626	1,819	2,102	2,395	2,708	3,097
Total Debt	261	263	122	260	155	100
Minority Interest	12	14	16	26	26	26
Long-term Liabilities & Provision	120	122	130	156	166	180
Total Liabilities	2,019	2,218	2,370	2,837	3,055	3,402
Application of Funds						
Gross Block	406	459	455	508	534	560
Accumulated Depreciation	195	251	266	294	325	358
Net Block	211	209	189	215	209	202
Capital WIP	0	2	4	8	6	7
Goodwill	89	80	80	72	72	72
Investments	407	732	1,094	1,526	1,609	1,844
Deferred Tax Assets	24	26	37	53	53	53
Inventories	978	901	867	893	1,013	1,190
Sundry Debtors	1,362	1,335	1,339	1,307	1,538	1,765
Cash and Bank Balance	350	282	252	197	186	131
Loans & Advances & Oth. Current Assets	1,041	1,027	922	1,167	1,174	1,338
Current Liabilities	2,548	2,527	2,519	2,762	2,969	3,375
Net Current Assets	1,183	1,018	861	802	942	1,048
Other Assets	104	152	105	162	165	176
Total Assets	2,019	2,218	2,370	2,837	3,055	3,402

Note: 1QFY2016 & 1QFY2017 numbers are reported as per Ind AS, FY2016 numbers & other quarters continue to be reported as per Indian GAAP.

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	243	257	434	511	600	755
Depreciation	22	19	22	28	31	33
Other Adjustments	(147)	(40)	(248)	47	(75)	(83)
Change in Working Capital	21	164	83	(26)	(144)	(159)
Interest & Fin. Charges (net)	17	8	10	11	10	5
Direct taxes paid	(92)	(74)	(80)	(160)	(174)	(219)
Cash Flow from Operations	64	334	221	411	249	332
(Inc)/ Dec in Fixed Assets	8	(20)	210	(57)	(23)	(27)
(Inc)/ Dec in Invest. & Int. recd.	36	(273)	(269)	(432)	(3)	(145)
Cash Flow from Investing	44	(292)	(59)	(489)	(26)	(173)
Inc./ (Dec.) in Borrowings	34	(19)	(140)	138	(105)	(55)
Issue/ (Buy Back) of Equity	0	0	0	0	0	0
Dividend Paid (Incl. Tax)	(61)	(57)	(64)	(92)	(114)	(150)
Finance Cost	(26)	(17)	(16)	(15)	(15)	(9)
Cash Flow from Financing	(53)	(93)	(221)	30	(234)	(214)
Inc./ (Dec.) in Cash	54	(51)	(59)	(47)	(11)	(55)
Opening Cash balances	200	255	203	144	97	86
Closing Cash balances	255	203	144	97	86	31

Note: 1QFY2016 & 1QFY2017 numbers are reported as per Ind AS, FY2016 numbers & other quarters continue to be reported as per Indian GAAP.

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratio (x)						
P/E (on FDEPS)	55.5	47.0	30.0	29.9	27.0	21.4
P/CEPS	48.9	42.7	28.0	27.9	25.1	20.2
Dividend yield (%)	0.5%	0.5%	0.6%	0.7%	0.9%	1.1%
EV/Sales	2.1	2.2	2.2	2.0	1.8	1.5
EV/EBITDA	46.9	43.3	27.8	26.5	22.3	17.6
EV / Total Assets	5.7	5.2	4.8	4.1	3.8	3.4
Per Share Data (₹)						
EPS (Diluted)	6.3	7.4	11.6	11.7	12.9	16.3
Cash EPS	7.1	8.2	12.5	12.5	13.9	17.3
DPS	1.9	1.9	2.3	2.4	3.0	3.9
Book Value	49.1	55.0	63.5	72.4	81.9	93.6
Returns (%)						
RoCE (Pre-tax)	19.3	22.4	36.4	42.2	46.4	52.7
Angel RoIC (Pre-tax)	16.2	16.4	22.1	19.8	21.5	23.9
RoE	12.8	14.2	19.6	17.1	16.7	18.5
Turnover ratios (x)						
Asset Turnover (Gross Block) (x)	13.6	12.2	11.3	12.2	12.5	13.7
Inventory / Sales (days)	65	65	62	55	53	54
Receivables (days)	90	93	94	82	80	80
Payables (days)	113	116	112	102	100	95
NWC days	41	43	45	35	33	38
Leverage Ratios (x)						
Net D/E ratio (x)	(0.1)	(0.0)	(0.1)	0.0	(0.0)	(0.0)
Interest Coverage Ratio (x)	8.0	15.1	21.1	34.4	41.0	81.1

Note: 1QFY2016 & 1QFY2017 numbers are reported as per Ind AS, FY2016 numbers & other quarters continue to be reported as per Indian GAAP.

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Disclosure of Interest Statement

Voltas

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)