

Voltas Ltd.**₹530*****It Works Every Time...!!!*****Accumulate**

Feb 22, 2019

Company Background

Voltas Limited is India's largest air conditioning company, incorporated in 6th September 1954 under the Tata group. Voltas offers engineering solutions for a wide spectrum of industries in areas such as heating, ventilation & air conditioning, refrigeration, electro-mechanical projects, electrification, water management & treatment, cold chain solutions, building management systems, indoor air quality, textile machinery, and mining and construction equipment. Voltas is the market leader in room air conditioners in India with the market share of more than 25%. Its operations have been organized into three independent business-specific clusters like; Electro-Mechanical Projects and Services, Engineering Products & Services, and Unitary Cooling Products. It's manufacturing units located at Thane Maharashtra, Dadra, a Union Territory and Pantnagar in Uttaranchal. The company has overseas offices in UAE (Abu Dhabi, Dubai), Bahrain, Qatar (Doha), Kingdom of Saudi Arabia (Jeddah) and Singapore. Voltbek Home Appliances Pvt Ltd, a Joint venture laid ground to start construction of its first manufacturing facility, spread over 60 acres, in Sanand, in Gujarat. This facility will be manufacturing Home Appliances that include refrigerators and washing machines.

Key Highlights

- ➔ Consolidated revenue, segment wise like; Electro-mechanical Projects and Services with 45%, Engineering Products and Services with 5% and Unitary Cooling Products for Comfort and Commercial use with 50% and with a turnover of ₹ 64,278.7 crore for FY18.
- ➔ It currently imports indoor units and compressors whereas outdoor units are assembled at its Pantnagar facility for requirements in the northern region. For rest of India, it is outsourced to domestic OEMs. By FY20, company plans to manufacture its own molds for indoor units to de-risk its business model from Chinese imports.
- ➔ Company recently launched a range of products like; washing machine, refrigerator, dishwasher and microwave oven categories with the help of its Joint Venture as under the brand name of Voltas Beko.

Key Financials

Year Ended 31 st	Mar 16	Mar 17	Mar 18
Revenue (INR mn)	54,014.0	57,410.2	60,713.6
Rev. growth (%)	(3.13)	6.29	5.75
EBITDA (INR mn)	5,151.0	6,788.0	7,094.9
Net profit (INR mn)	3,493.5	4,861.9	5,012.3
Shares outstanding (mn)	330.8	330.8	330.8
EPS (INR)	10.4	14.7	15.2
EPS growth (%)	9.47	41.35	3.06
P/E (x)	26.63	28.04	40.96
RONW (%)	13.98	17.71	15.43
ROCE (%)	18.29	22.68	20.46

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Info Codes

Reuters	: VOLT.BO
Bloomberg	: VOLT.IN
NSE	: VOLTAS
BSE	: 500575

Market Data

52 Wk Range (₹)	: 471/665
Shares in Issue (mn)	: 330.8
Market. Cap (bn)	: 175.36
BSE 2 Wk Avg Vol	: 59,000

Share Holding Pattern (%)

Public & Others	: 17.94
Promoters	: 30.30
Corporate Holding	: 03.04
Foreign Institution	: 15.42
Institutions	: 32.95
Govt Holding	: 00.35

Investment Theme

Company's JV (Voltas Beko) launched consumer durable product in September 2018. The JV has planned to source the products from China, Thailand and Turkey and at a later stage will be manufactured at its upcoming plant in Sanand, Gujarat. Which is expected to begin production in the current financial year. Both the companies will invest equally. The joint venture will launch more than 100 products over the next 3 years. Voltas Beko plans to add 10,000 additional outlets for its range in washing machine and refrigerators. Along with that, Voltas is also adding 500 more exclusive brand outlets over the next two years and plans to take it to over 1,000 in the next 3-4 years, already started the process of expansion of outlets. The JV will launch more new products in the market, these products will help to improve top-bottom lines in the future.

Don't leave home without it...!!!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 16	Mar 17	% Chg	Mar 18	% Chg
Net Operating Income	51,487.7	54,103.6	5.1	58,087.7	7.4
Other Income	2,257.8	2,684.4	18.9	2,391.0	(10.9)
Change in Stocks	(790.2)	2,053.5	(359.9)	(997.6)	(148.6)
Fuel Charges	38,854.3	42,673.9	9.8	42,968.9	0.7
Employee Exp.	4,120.7	4,065.5	(1.3)	4,223.0	3.9
Indirect Taxes	268.5	622.2	131.7	234.9	(62.2)
Other Exp.	4,560.8	4,691.9	2.9	4,959.4	5.7
Operating Exp.	47,804.3	52,053.5	8.9	52,386.2	0.6
Operating Profit	5,151.0	6,788.0	31.8	7,094.9	4.5
Total Interest	80.6	96.6	19.9	75.0	(22.4)
Gross Profit	5,070.4	6,691.4	32.0	7,019.9	4.9
Net Dep.	190.9	181.2	(5.1)	192.3	6.1
Total Taxation	1,386.0	1,648.3	18.9	1,815.3	10.1
Net Profit/Loss	3,493.5	4,861.9	39.2	5,012.3	3.1

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 15	Mar 16	Mar 17	Mar 18
SOURCES OF FUNDS	19,516.4	22,082.4	30,629.7	35,882.5
Equity Share capital	330.7	330.8	330.8	330.8
Reserves & Surplus	18,064.4	20,456.7	29,517.4	34,808.8
Long Term Liabilities	187.1	263.5	2.0	9.7
Long Term Provisions	934.2	1,031.4	779.5	733.2
USES OF FUNDS	19,516.4	22,082.4	30,629.8	35,882.5
Gross Block	3,590.2	4,013.3	4,328.1	4,398.2
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	2,032.6	2,192.8	2,265.9	2,342.2
Net Block	1,557.6	1,820.5	2,062.2	2,056.0
Capital Work in Progress	44.1	10.9	5.5	33.4
Investments	7,570.2	9,874.4	22,138.6	23,839.3
Current Assets	30,842.1	30,451.9	30,758.1	37,628.8
Less : Current Liabilities	22,961.1	22,611.6	25,333.6	28,873.6
Total Net Current Assets	7,881.0	7,840.3	5,424.5	8,755.2
Misc. Expenses not writtenoff	2,463.5	2,536.3	999.0	1,198.6
NOTE				
Book Value of Unquoted Investments	11,100.6	15,938.9	20,600.7	25,155.4
Market Value of Quoted Investments	3,693.7	3,359.9	3,360.1	4,913.4
Contingent Liabilities	14,349.9	8,324.4	16,477.2	18,279.4
Dividend (%)	225.0	260.0	350.0	400.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 18	Jun 18	Sep 18	Dec 18
Net Sales	18,446.1	19,753.3	12,761.3	13,770.3
Cost Of Sales	16,691.7	18,185.2	12,041.9	13,406.5
Operating Profit	1,754.4	1,568.1	719.4	363.8
Other Income	776.3	400.4	1,236.3	636.9
Adjusted PBDIT	2,530.7	1,968.5	1,955.7	1,000.7
Financial Expenses	34.0	7.8	40.1	103.4
Depreciation	47.8	48.5	48.7	50.3
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	2,448.9	1,912.2	1,866.9	847.0
Tax Charges	676.8	631.0	382.6	222.9
Reported Profit	1,772.1	1,281.2	1,484.3	624.1
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	1,772.1	1,281.2	1,484.3	624.1

52 Week Index Relative Percentage Appreciation

Voltas vs SENSEX
Risks Associated

- ➔ In H1FY19 room air-conditioner (AC) sales saw muted growth of 6% as a result of unseasonal rains and hailstorms across North and South India. Although in Q3FY19 sales witnessed a pick-up in the western region due to a rise in temperature, rest of India saw slight sales given a seasonally weak quarter. It may reduce the overall sales of the Voltas.
- ➔ During the H1FY19, Unitary Cooling Products sales down by 4.43% to ₹ 16,193.3 million, Electro-Mechanical Projects and Services sales improved by 67.83% to ₹ 14,829.4 million and the last segment Engineering Products and Services sales also marginally down by 4.42% to ₹ 1,500.2 million as compare to the same period in the previous year.
- ➔ Voltas is unable to hike the prices within AC segment, because of weaker demand in the segment and the higher inventory prevailing in the system.

Scope of Growth

- ➔ During the FY18, Voltas launched India's first Window Air Conditioner with DC Inverter technology. With this launch, Voltas has strengthened its commitment of continuously bringing latest technology in the Indian market.
- ➔ During the Q3FY19, it announced the launch of Smart ACs that can be controlled using simple voice commands with Amazon Alexa. This new range including the Voltas Inverter Split AC and Voltas Split AC is available exclusively on Amazon India website. The new technology will enhance the sales.
- ➔ During the Q3FY19, the company has launched some of Brand Stores in Ranchi, Bokaro and Faridabad, as part of the expansion of outlets. Company planning to open 1,000 outlets in the next 3-4 years, for its washing machine and refrigerators sales.

In a Nutshell

Voltas Ltd is India's largest air conditioning company. It conducts its entire business under 3 key heads; namely Unitary Cooling Products, Electro-Mechanical Projects & Services and Engineering Products & Services. Voltas is the market leader in room air conditioners in India with the market share of more than 25%. Company has 9 subsidiaries, 5 joint ventures and 2 associate companies as on 31 March, 2018. Voltbek Home Appliances Pvt Ltd, a Joint venture company, started the construction of its first manufacturing facility, spread over 60 acres, in Sanand, an upcoming industrial hub in Gujarat. This facility will be manufacturing Home Appliances that include refrigerators and washing machines. The JV, Voltas Beko, plans to add 10,000 additional outlets for its range of washing machine and refrigerators. Along with that, Voltas is also adding 500 more exclusive brand outlets over the next two years and plans to take it to over 1,000 in the next 3-4 years. It currently imports indoor units and compressors whereas outdoor units are assembled at its Pantnagar facility for requirements in the northern region. For the rest of India, it is outsourced to domestic OEMs. By FY20, the company plans to manufacture its own molds for indoor units to de-risk its business model from Chinese imports. On a consolidated basis, company had net sales revenue improved by 6.15% to ₹ 64,043.8 million, Operating profit improved by 10.57% to ₹ 8,411.8 million and net profit also rose by 11.16% to ₹ 5,779 million for FY18. Out of its total sales revenue, Unitary Cooling Products and Electro-mechanical Projects and Services were contributed 50% and 45% respectively. These two are major business segments of the Voltas.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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