India Equity Analytics
Company Update

VOLTAS

NEUTRAL

Voltas Ltd.

28-Dec-16

Result Update	
CMP	313
Target Price	330
Previous Target Price	345
Upside	6%
Change from Previous	-

Market Data	
BSE Code	500575
NSE Symbol	VOLTAS
52wk Range H/L	406/211
Mkt Capital (Rs Cr)	10,372
Av. Volume	1694
Nifty	7947

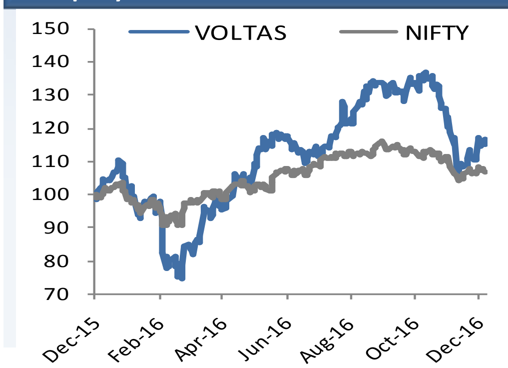
Stock Performance

	1Month	1Year	YTD
Absolute	7.9	14.5	1.4
Rel.to Nifty	5.2	9.5	3.6

Share Holding Pattern-%

	2QFY17	1QFY17	4QFY16
Promoter	30.3	30.3	30.3
Public	69.7	69.7	69.7
Others	--	--	--
Total	100	100	100

Company Vs NIFTY



Bibha Kashyap
research.insti@microsec.in

Impact of Demonetisation

Initial impact of demonetisation in the month of November was bit low because people are still using the old currency notes. However,December has seen a bigger impact especially in the Tier III and tier IV towns where it has been impacted to the tune of more than 50 %. And in the bigger cities, the impact of this is about 25-30% on consumer durable business. Management believes that demonetization impact is not likely to be substantial as it has occurred during seasonally weak quarter for UCP segment and things are likely to stabilize in coming 2-3 months.

Key Highlights:

Voltas reoprted its 2QFY17 results which is in line with our estimates.The Consolidated Sales/Income from Operations for the quarter ended September 30, 2016 was Rs. 972 cr as compared to Rs. 1044 cr in the corresponding quarter last year owing to lower revenues in International Projects. However, Profit before tax was higher by 22%, at Rs. 125 cr as compared to Rs.103 cr last year. Profit after tax was also higher by 15%, at Rs. 74 cr as compared to Rs. 65 cr last year. EBITDA margin improved 84bps YoY to 7.0% on higher profitability in UC; this, coupled with higher other incomeEMPS booked an Rs 120cr order for a water treatment plant in Agra, taking its total order book to Rs 4250cr (+13.8% YoY). Unitary cooling segment grew a robust 13.5% YoY, driven by inventory restocking on higher demand during the festive season.

Outlook and Valuation

The company is cautious in taking new orders in the EMPS segment and its focus is primarily on Govt. projects i.e. smart cities, rural electrification and water treatment wherein execution cycle is steady and payments are secured. Management expects profitability to improve after closing most of its low-margin and loss-making legacy projects by end-FY17. Going forward we expect near-term earnings to be under pressure due to lower sales and margin in the UCP segment and continued subdued performance in EMPS segment. Right now we are not seeing any major uptick in demand so we revised our estimates with flat revenue growth from 5% to 0.7% in FY17E and presently we are "NEUTRAL" on this stock at a revised target of Rs 330 (from Rs 345).

Rs in Cr

Financials	*FY13*	*FY14*	*FY15*	*FY16*	*FY17E*
Sales	*5531*	*5266*	*5183*	*5857*	*5896*
EBITDA	*245*	*266*	*410*	*437*	*419*
Net Profit	*207*	*245*	*384*	*386*	*337*
EBIDTA%	*4.4%*	*5.0%*	*7.9%*	*7.5%*	*7.1%*
P/E	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*

Segment wise performance:

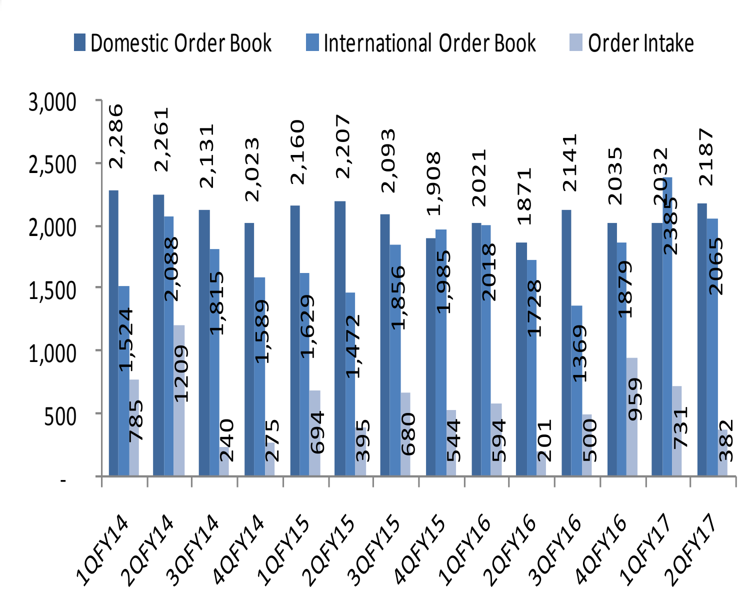
Electro-Mechanical Projects and Services: Segment Revenue for the quarter was lower at Rs. 543 cr as compared to Rs. 635 cr in the corresponding quarter last year partly owing to slower than expected progress on certain projects. Segment Result was Rs. 5 cr as compared to Rs. 17 cr, last year. Order Book of the Segment stood higher at Rs. 4252 cr as compared to Rs. 3736 cr in the same quarter last year. Orders booked during the quarter include Rs. 121 cr for water treatment plant for Agra smart city.

Engineering Products and Services: Segment Revenue and Result for the quarter were Rs. 75 cr and Rs 30 cr as compared to Rs. 96 cr and Rs 34 cr, respectively in the corresponding quarter last year. The industrial environment in India for both, Textile and Mining businesses remains challenging for capital equipment sales, due to the weak investment cycle.

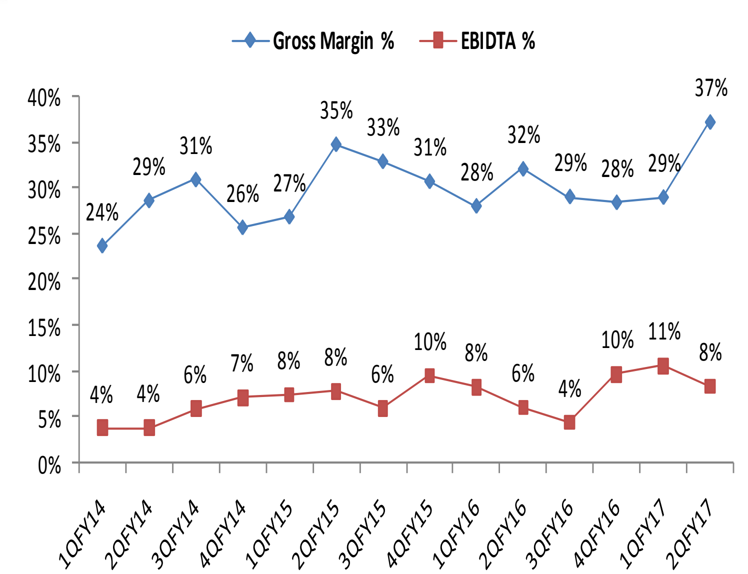
Unitary Cooling Products for Comfort and Commercial use: Voltas continues to be the market leader for the Room Air Conditioners in India. Segment Revenue was higher at Rs. 354 cr as compared to Rs. 312 cr in the corresponding quarter last year, on account of improved volumes and greater festive season demand. Segment Result was also higher at Rs. 41 cr as compared to Rs. 34 cr in the corresponding quarter last year.

Segment Revenue (Cr)	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Electro-mechanical projects	693	671	643	686	622	525	461	600	556	621	722	819	580	543
Engineering Product and services	111	126	112	99	111	87	81	81	70	96	111	93	69	75
Unitary cooling Products	787	264	347	654	1,001	345	384	781	949	314	435	859	1,196	354
Total	**1,591**	**1,062**	**1,102**	**1,439**	**1,735**	**957**	**926**	**1,461**	**1,575**	**1,031**	**1,268**	**1,770**	**1,845**	**973**

EMP order book position (Rs in Cr)



Trend of Gross margin & EBITDA margin(%):



Investment arguments:

→ Company sustained its leadership in the UCP segment(i.e. 22%) which will help to register better sales growth in the current quarter.

→ Company sold 50000 units coolers last quarter and mabagement expects their marketing efforts to benefit volumes going ahead and as per the management Air cooler will grow ahead of market.

→ The company has been selective in taking new orders with minimum margins of 4-5% in the international market. Its aspirational EBIT margin target remains at 4-5% for the international market in FY17.

→ The company has cut prices selectively on few products with selective sale promotions due to the higher competitive pressures.

→ Despite the aggressive competition, the company retained its market leadership position with 22% market share.

New efficiency norms for ACs from January

Seeking to reduce carbon emissions, the government said that a new efficiency rating system for air-conditioners, based on Indian climatic conditions, will be made compulsory for all models starting January 2018.All air-conditioners will need energy-saving and intelligent regulation of compressors in place of the conventional thermostat-triggered cut-offs, said the Bureau of Energy Efficiency (BEE), the standard setter for appliances. Today, ACs with this technology is costlier by about Rs.7000-8000 a unit. But as more units adopt it, cost will come down. As per the management, Company is ready to comply with the new guidelines set by BEE for 2018. They will continue to provide energy-efficient products to their customers.

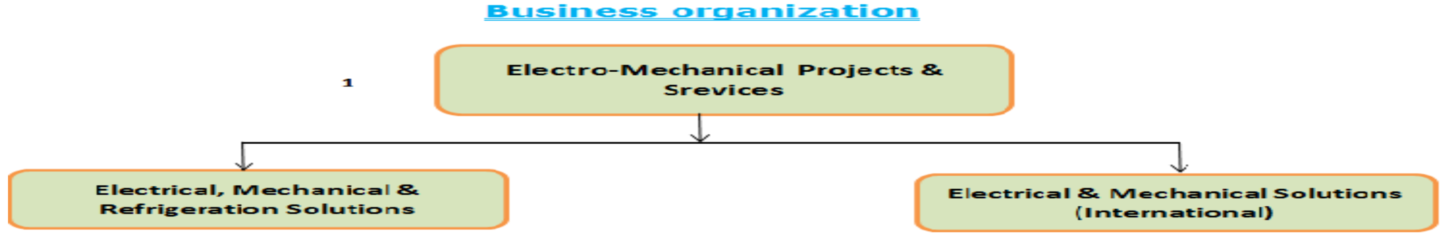
The Government's initiatives on creating new Smart Cities and upgradation of the infrastructure of existing cities represents an area of significant potential. The Company's expertise at installation, testing, commissioning and operation of sensor networks across some of the world's largest building complexes and its existing infrastructure of support technicians and service partners, positions it effectively to handle the complex task of managing the maintenance of Smart City information networks.

In International front, Despite the declining oil prices, spend on infrastructure will get a boost especially in Dubai and Qatar owing to the EXPO 2020 and FIFA world cup 2022. Voltas remains one of the few large MEP contractors with required project qualifications and domain expertise. Voltas continues to be a preferred contractor in the Middle East, holds the Company in good stead against competition for these mega events.

About the Company:

Voltas Limited is an India-based air-conditioning and engineering company. Its segments include Electro-mechanical Projects and Services, Engineering Products and Services, and Unitary Cooling Products for Comfort and Commercial use. The electro-mechanical projects and services include electrical, mechanical and refrigeration solutions and electrical and mechanical solutions international. , Engineering products and services includes textile machinery and mining and construction equipment. The unitary cooling products are sub-divided into: air conditioners, commercial refrigeration and water cooler and dispensers. The Company's operating subsidiaries include Universal Comfort Products Limited, Auto Aircon (India) Limited, Saudi Ensas Company for Engineering Services WLL, Weathermaker Limited and Lalbuksh Voltas Engineering Services & Trading LLC.

Business organization



Financials Snap Shot

INCOME STATEMENT

	FY14	FY15	FY16	FY17E
Revenue	5266	5183	5857	5896
Other Income	100	109	118	130
Total Revenue	5366	5292	5975	6025
COGS	3854	3597	4126	4180
GPM	1	1	1	1
Other Expenses	551	586	625	619
EBITDA	266	410	437	419
EBITDA Margin (%)	5%	8%	7%	7%
Depreciation	25	28	28	32
EBIT	241	382	409	387
Interest	23	23	15	26
PBT	318	467	511	490
Tax	94	128	160	153
Tax Rate (%)	30%	27%	31%	31%
Reported PAT	245	384	386	337
Dividend Paid	62	72	87	101
No. of Shares	33	33	33	33

RATIOS

	FY14	FY15	FY16	FY17E
EPS	7.4	11.6	11.7	10.2
Book Value	55.0	63.5	72.4	79.5
DPS	1.9	2.2	2.6	3.0
Payout (incl. Div. Tax.)	25%	19%	23%	30%
Valuation(x)				
P/E	21.7	24.1	23.6	32.6
Price / Book Value	2.9	4.4	3.8	4.2
Dividend Yield (%)	1.16%	0.77%	0.96%	0.92%
Profitability Ratios				
RoE	13%	18%	16%	13%
RoCE	13%	18%	17%	15%
Turnover Ratios				
Asset Turnover (x)	1.1	1.1	1.0	1.0
Debtors (No. of Days)	92.5	94.3	81.4	89.4
Inventory (No. of Days)	85.3	88.0	79.0	84.1
Creditors (No. of Days)	112.8	108.6	108.7	108.7
Net Debt/Equity (x)	0.00	0.00	0.00	0.00

BALANCE SHEET

	FY14	FY15	FY16	FY17E
Share Capital	33	33	33	33
Reserves	1786	2069	2362	2598
Net Worth	1819	2102	2395	2631
Long term Debt	5	5	0	0
Short term Debt	258	117	260	262
Deferred Tax	2	2	2	2
Total Capital Employed	1825	2107	2395	2631
Net Fixed Assets	210	193	222	227
Capital WIP	2	4	0	0
Debtors	1335	1339	1307	1444
Cash & Bank Balances	282	252	197	193
Trade payables	1627	1541	1745	1757
Total Provisions	279	354	408	424
Net Current Assets	1487	1218	1356	1532
Total Assets	4746	4888	5599	5874

CASH FLOW STATEMENT

	FY14	FY15	FY16	FY17E
OP/(Loss) before Tax	340	514	552	490
Depreciation	25	28	28	32
Direct Taxes Paid	89	104	153	153
OP before WC changes	351	341	505	548
CF from Op. Activity	230	311	275	284
	0	0	0	86
CAPEX	25	34	52	37
CF from Inv. Activity	(285)	(104)	(367)	(189)
Repayment of LTB	0	0	0	0
Interest Paid	23	23	14	0
Divd Paid (incl Tax)	57	71	88	101
CF from Fin. Activity	(79)	(236)	36	(99)
Inc/(Dec) in Cash	(134)	(29)	(56)	(4)
Add: Opening Balance	407	273	243	197
Closing Balance	273	243	188	193

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Offices No: 6 , 5th floor Tower- IInd,
Stellar IT Park Plot No. C -25 , Sector – 62 ,
Noida – 201309 . Delhi NCR Phone : +91-120-4155509
Email: research.insti@microsec.in, Website: www.microsec.in