# Voltas Ltd (VOLTAS)

₹ 475

## Strong performance led by cooling segment...

**Rating matrix**

| | | |
|---|---|---|
| Rating | : | Buy |
| Target | : | ₹ 525 |
| Target Period | : | 12 months |
| Potential Upside | : | 10% |

**What's Changed?**

| | |
|---|---|
| Target | Changed from ₹ 400 to ₹ 525 |
| EPS FY18E | Changed from ₹ 16.5 to ₹ 18.8 |
| EPS FY19E | Changed from ₹ 19.0 to ₹ 21.7 |
| Rating | Unchanged |

**Quarterly Performance**

| | Q4FY17 | Q3FY16 | YoY (%) | Q3FY17 | QoQ (%) |
|---|---|---|---|---|---|
| Revenue | 2,058.3 | 1,863.4 | 10.5 | 1,200.1 | 71.5 |
| EBITDA | 221.9 | 180.8 | 22.7 | 89.0 | 149.5 |
| EBITDA (%) | 10.8 | 9.7 | 108bps | 7.4 | 337bps |
| PAT | 200.5 | 164.2 | 22.1 | 80.2 | 150.0 |

**Key Financials**

| ₹ Crore | FY16 | FY17E | FY18E | FY19E |
|---|---|---|---|---|
| Net Sales | 5,747 | 6,095 | 6,942 | 7,988 |
| EBITDA | 433.0 | 579.1 | 726.3 | 854.8 |
| Net Profit | 393.1 | 511.4 | 616.3 | 723.2 |
| EPS (₹) | 11.9 | 15.5 | 18.6 | 21.9 |

**Valuation summary**

| | FY16 | FY17E | FY18E | FY19E |
|---|---|---|---|---|
| P/E | 40.0 | 30.7 | 25.5 | 21.7 |
| Target P/E | 44.1 | 33.9 | 28.2 | 24.0 |
| EV / EBITDA | 35.0 | 26.5 | 21.2 | 17.9 |
| P/BV | 5.6 | 4.8 | 4.8 | 4.2 |
| RoNW (%) | 13.3 | 15.5 | 19.0 | 19.2 |
| RoCE (%) | 17.5 | 21.5 | 26.2 | 26.5 |
| Mcap/sales | 2.7 | 2.6 | 2.3 | 2.0 |

**Stock data**

| Particular | Amount |
|---|---|
| Market Capitalization (₹ Crore) | 15,709.9 |
| Total Debt (FY17) (₹ Crore) | 170.9 |
| Cash and Investments (FY17) (₹ Crore) | 522.6 |
| EV (₹ Crore) | 15,358.2 |
| 52 week H/L | 484 / 287 |
| Equity capital (₹ Crore) | 33.1 |
| Face value (₹) | 1.0 |

**Price performance (%)**

| | 1M | 3M | 6M | 12M |
|---|---|---|---|---|
| V-Guard | (3.7) | 19.6 | 47.7 | 110.6 |
| Havells India | (5.2) | 12.3 | 38.5 | 23.3 |
| Bajaj Electricals | (0.7) | 31.9 | 59.5 | 43.9 |
| Symphony | (8.7) | 2.6 | 6.1 | 15.5 |
| Voltas Ltd | 14.0 | 33.3 | 58.3 | 41.0 |

**Research Analyst**

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- Voltas' Q4FY17 consolidated revenues recorded growth of ~11% YoY led by strong performance of the unitary cooling product (UCP) segment wherein segment revenue grew 28% YoY. Strong sales growth in the UCP segment was largely due to supportive weather and launch of new product range during the period. Despite intense competition, Voltas continues to be the market leader in the room air conditioner segment with a market share of 21.4% during FY17
- Strong EBITDA margin (up ~110 bps YoY) was largely due to EMPS business (EBIT margin up ~255 bps YoY at 5.7%) supported by positive closure of some old projects. Despite higher advertisement expenditure profitability of the UCP remained flat at 16.4% owing to a change in product mix. We have modelled revenue, earnings CAGR of 14%, 19% led by strong recovery in EMPS segment

### AC segment to get boost from government's structural reform

We believe consumer durable companies will be key beneficiaries of the government's key reforms like implementation of Pay Commission. While the Pay Commission boosted the disposable income of 1.4 crore government employees, better yield on crops due to good monsoon would increase the spending power of rural buyers. Voltas' unitary cooling product (UCP) segment contributes ~50% to sales and recorded ~12% CAGR in FY11-17. A strong brand coupled with over 6500 dealers (90% of segment sales through dealers) has helped raise its market share (in ACs) from 14% in FY10 to ~21% in FY17. Given the relatively stable margin and high operating cash flow, the UCP segment has provided strong support to the company's profitability by maintaining lower working capital requirement in the segment. Additionally, to tap India's growing consumer market and to leverage its existing dealer network, Voltas would also enter other white goods category (refrigerator, washing machines, microwave, etc) with the help of Turkey based Arçelik AS. We believe Voltas being the market leader in the AC segment is likely to get a boost from rising aspiration level and pay hike (would help in boosting semi urban and urban demand).

### Focus more on execution of projects to reduce working capital

Due to adverse macroeconomic conditions, Voltas faced a severe working capital crunch on account of the slow pace of execution and delayed payments. To reduce working capital requirements and improve profitability, Voltas adopted a strategy to remain selective in the choice of new project undertakings with a ticket size in the range of ₹ 300-400 crore. Apart from this, the company is focusing on improving the EBITDA margin from here, by bidding for higher margin (of ~5%) products.

### Consumer facing business to support valuation

Despite various challenges such as demonetisation and rising input prices, Voltas has retained its top position with 21% market share in the RAC segment, due to its strong reach in tier-II and tier-III cities. Strong fundamentals (net cash status, RoCE and RoE of 22%, 16%), dividend payout of ~22% and ability to pass on rising input prices (to maintain EBITDA margin) and lowest penetration of AC in India (among other white goods items) suggests the long-term growth story of Voltas will remain intact. Under our SOTP based valuation, we value the UCP segment by ascribing PE multiple of 30x FY19 earnings. We ascribe a PE multiple of 8x FY19E earning to EMPS business and 7x FY19E earnings to EPS segment. We maintain our **BUY** recommendation with a revised target price of ₹ 525/share (based on 24x FY19E earnings).

## Variance analysis

| | Q4FY17 | Q4FY17E | Q4FY16 | YoY (%) | Q3FY17 | QoQ (%) | Comments |
|---|---|---|---|---|---|---|---|
| Revenue | 2,058.3 | 1,848.7 | 1,863.4 | 10.5 | 1,200.1 | 71.5 | Better-than-expected sales growth was mainly due to strong performance of UCP segment (launch of new products and inventory build-up at dealer's level before start of summer). However, slow execution of some projects had restricted consolidated sales growth at 10.5% YoY |
| Other Income | 38.6 | 59.2 | 39.3 | -1.7 | 59.7 | -35.3 | |
| | | | | | | | |
| Raw Material Exp | 1,121.3 | 1,018.9 | 1,049.3 | 6.9 | 578.3 | 93.9 | |
| Employee Exp | 148.5 | 165.2 | 174.0 | -14.7 | 147.8 | 0.4 | |
| Purchase of Traded goods | 363.9 | 285.5 | 291.5 | 24.8 | 239.2 | 52.1 | |
| Other Expenses | 202.7 | 165.2 | 167.7 | 20.9 | 145.8 | 39.0 | |
| | | | | | | | |
| EBITDA | 221.9 | 213.8 | 180.8 | 22.7 | 89.0 | 149.5 | |
| EBITDA Margin (%) | 10.8 | 11.6 | 9.7 | 108 bps | 7.4 | 337 bps | Increase in EBITDA margin was largely due to growth in profitability of EMPS segment (by 254 bps YoY) due to positive closure of certain old projects |
| Depreciation | 5.6 | 9.2 | 7.5 | -25.3 | 6.0 | -5.7 | |
| Interest | 5.8 | 5.2 | 5.4 | 6.3 | 2.2 | 165.9 | |
| Exceptional items | -0.2 | 0.0 | -26.8 | NM | 0.0 | NM | |
| PBT | 249.3 | 258.6 | 233.9 | 6.6 | 140.5 | 77.4 | |
| Total Tax | 49.6 | 55.6 | 67.1 | -26.1 | 43.7 | 13.4 | |
| PAT | 200.5 | 198.1 | 164.2 | 22.1 | 80.2 | 150.0 | Lower depreciation coupled with expansion in EBITDA margin helped drive PAT growth during the period |
| Key Metrics | | | | | | | |
| EMPS | 829 | 737 | 906 | -8.5 | 703 | 18.0 | EMPS revenue declined owing to slower-than-expected progress on some international projects |
| EPS | 107 | 88 | 93 | 15.0 | 81 | 1.6 | Sales growth in EPS segment is attributable to a better operating performance in Mozambique and a gradual recovery in domestic road development |
| UCP | 1086 | 1011 | 850 | 27.7 | 411 | 164.2 | Sharp volume growth in the wake of an intense summer and launch of new SKUs under cooling product categories drove sales |

*Source: Company, ICICIdirect.com Research*

## Change in estimates

| (₹ Crore) | FY18E | | | FY19E | | | Comments |
|---|---|---|---|---|---|---|---|
| | Old | New | % Change | Old | New | % Change | |
| Revenue | 6,761.1 | 6,941.9 | 2.7 | 8,029.5 | 7,988.2 | (0.5) | We have changed our estimates marginally considering the strong performance of the UCP segment led by new product launches. This coupled with entering consumer segment through new JVC would help drive sales, going forward. This will negate the impact of slower revenue growth of EMPS segment owing to the company's strategy to bid for only quality orders. We have modelled consolidated revenue CAGR of 15% for FY17-19E led by UCP sales CAGR of ~23% |
| EBITDA | 622.0 | 726.3 | 16.8 | 736.8 | 854.8 | 16.0 | |
| EBITDA Margin % | 9.2 | 10.5 | 126bps | 9.2 | 10.7 | 150bps | We believe a strong recovery in the margin of project business (owing to the company's strategy to bid quality orders) will be a key driver for consolidated margin expansion. Also, the company would benefit from strong brand by passing on the rising cost of raw material to its customers, thus maintaining higher margin in the UCP segment. Hence, the EBITDA margin would remain at elevated level |
| PAT | 545.5 | 616.3 | 13.0 | 629.0 | 723.2 | 15.0 | |
| EPS (₹) | 16.5 | 18.6 | 13.0 | 19.0 | 21.9 | 15.0 | |

*Source: Company, ICICIdirect.com Research*

## Assumptions

| | | Current | | | Earlier | | Comments |
|---|---|---|---|---|---|---|---|
| | FY16 | FY17E | FY18E | FY19E | FY18E | FY19E | |
| EMPS | 28.1 | -6.1 | 5.5 | 4.5 | 11.1 | 14.0 | We model revenue CAGR of ~5% in the EMPS segment in FY17-19E, considering the company's plan to bid only for quality orders |
| EPS | 2.9 | -10.5 | -1.0 | 3.0 | -0.9 | 3.0 | |
| UCP | 0.4 | 20.9 | 22.7 | 24.0 | 20.2 | 23.9 | We estimate sales CAGR of ~23% for FY16-19E led by ~15% volume growth in the RAC segment. In addition, other segments like commerical refrigerators and air cooler segment would also help drive sales, going forward |

*Source: Company, ICICIdirect.com Research*

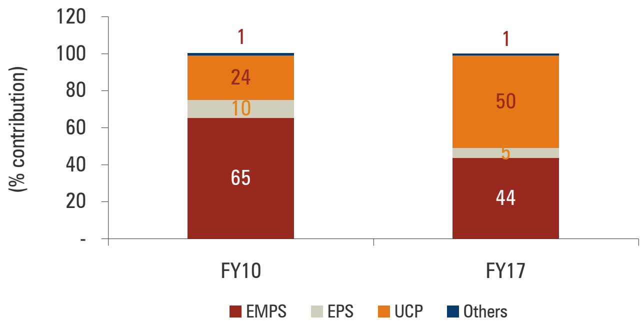
# Company Analysis

## Market leader in cooling segment

Voltas is primarily an assembler and not a manufacturer of ACs as it outsources various accessories of ACs (like compressors) and assembles at its Pantnagar plant (Uttarakhand). The segment contributes ~44% to the consolidated topline and recorded ~10% sales CAGR in FY11-16. Voltas' UCP division includes air conditioners (windows and split), deep freezers, chest coolers, visi coolers, water coolers and water dispensers. Room air conditioners (RAC) contribute 75% to the segment revenue while ~25% revenue comes from institutional cooling products.

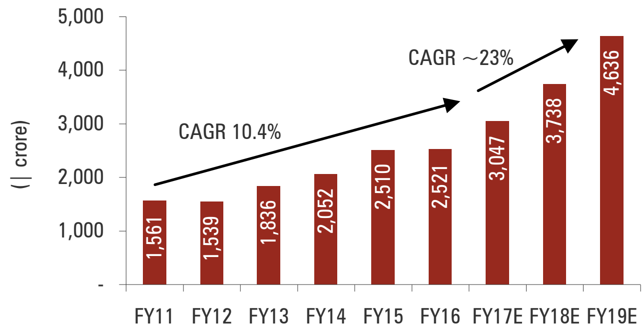
Universal Comfort Products (UCPL) is the company's wholly-owned subsidiary and manufacturing (assembling) arm for room ACs. The subsidiary has increased its total assembling capacity from 4,45,000 in FY12 to 7,70,000 in FY14. Voltas has retained its market leadership position by introducing new models like 'all weather AC' and "all star AC". In the RAC segment, Voltas' product mix of split and window AC is at 75% split AC against industry average of 70%. A strong brand coupled with over 6500 dealers in India (sells 90% of segment sales through dealers) has helped Voltas improve its market share (in AC) from 14% in FY10 to 21% in FY17. Despite various challenges such as demonetisation and rising input prices Voltas has retained its top position in the RAC segment, due to its strong reach in tier-II and tier-III cities. We believe Voltas, being the market leader in the AC segment, would benefit from India's structural growth. In addition, low penetration levels, easy availability of finance options, replacement demand and energy efficiency products, growing consumer electronics' retail stores, online shopping along with growing number of middle class households in India would fuel demand in this industry. We have modelled UCP division revenue CAGR of ~23% for FY17-19E for the company.

**Exhibit 1: Segment wise contribution (%)**




*Source: Company, ICICIdirect.com Research*

**Exhibit 2: UCP revenues to witness robust growth during FY17-19E**




*Source: Company, ICICIdirect.com Research*

The EBIT of the UCP segment recorded a strong CAGR of 18% in FY11-17. Its contribution to the total EBIT improved significantly from 32% in FY11 to 71% in FY17

## Strong segment margin with asset light model keeping b/s lighter

Voltas follows an asset light model for its UCP division wherein it has an assembling capacity of 7,70,000 units in Uttarakhand. Given the relatively stable margin and high operating cash flow, the UCP segment has provided strong support to the company's profitability by maintaining lower working capital requirement in the segment. The EBIT of the UCP segment recorded a strong CAGR of 18% in FY11-17 while its contribution to the total EBIT improved significantly from 32% in FY11 to 71% during FY17. This has resulted in a strong RoCE of the UCP segment in the range of ~40-43% over the last three years. Further, an asset light model with low capex requirement has generated positive free cash flow in FY13-14 (despite EMPS segment making EBIT loss of ~ ₹ 40 crore in FY14), translating into higher return ratios. We believe the company would be able to further improve its already elevated return ratios in the segment given minimal capex requirement.

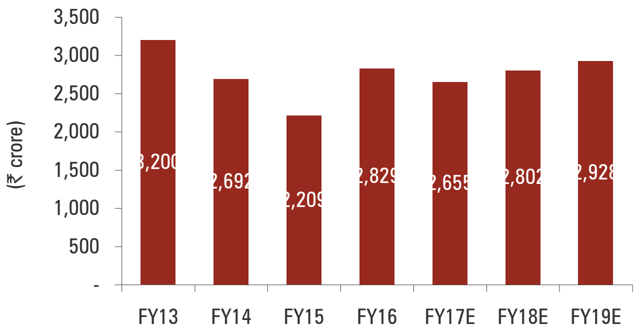
The electromechanical project & services division contributes over 44% to the topline and is further diversified in terms of geography. The company has executed major MEP/HVAC&R projects in Dubai, Abu Dhabi, Qatar, Jeddah, Bahrain and Singapore

## Strong MEP player, victim of poor macro condition

Execution of turnkey projects related to mechanical, electrical & public health (MEP) segment comes under Voltas' electromechanical project & services (EMPS) business. The company commenced its business by providing heat ventilation air conditioning & refrigeration (HVAC&R) services to medium to large office buildings, retail outlets or for industrial projects (such as installation of AC systems in power plants) wherein humidity and temperature must be closely regulated. Over the years, Voltas has expanded its scope of work from only an HVAC&R player to MEP projects (includes both domestic and international). MEP projects encompass mechanical, electrical and public health in which HVAC is a sub-category of mechanical. Voltas' scope of work includes design, engineering, procurement & construction, to commissioning, operation and maintenance, which makes it an end to end MEP player.

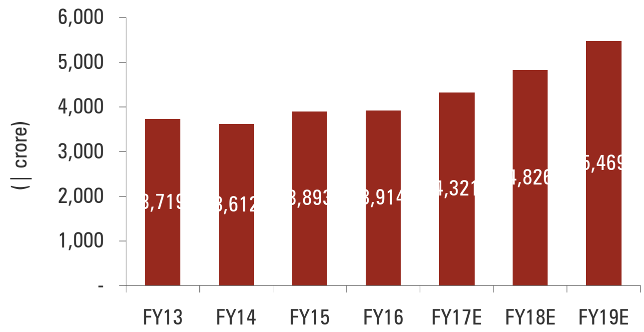
The EMPS division contributes ~44% to the topline and is further diversified in terms of geography. The company has executed major MEP/HVAC&R projects with its strategic partner in Dubai, Abu Dhabi, Qatar, Jeddah, Bahrain and Singapore. These projects include Burj Khalifa (Dubai), Ferrari Experience (Abu Dhabi) and Barwa City Qatar. We expect the EMPS segment revenues to record a CAGR of ~5% in FY17-19E with the strategy to focus on profitability by bidding for small size, high margin projects and their timely execution. Over the years, the proportion of international orders in total order has declined significantly. This indicates the company's strategy to focus on higher margin domestic orders. The lower sales estimates can be attributed to a delay in execution of projects, rising competition and slow project awarding activity in India and Middle East countries.

**Exhibit 3: Electro-mechanical project and services revenues (₹ crore)**




*Source: Company, ICICIdirect.com Research*

**Exhibit 4: Electro-mechanical project and services order book (₹ crore)**




*Source: Company, ICICIdirect.com Research*

The topline is expected to grow at a CAGR of ~14% during FY17-19E to ₹ 7988 crore in FY19E from ₹ 6095 crore during FY17 led by 23% CAGR growth in the UCP segment

### Focus more on execution of projects to reduce working capital

Due to adverse macroeconomic conditions, Voltas faced a severe working capital crunch on account of the slow pace of execution and delayed payments. It has been observed that large ticket overseas projects (like Sidra Medical in Qatar) have played spoilsport for Voltas as working capital as percentage of sales increased sharply from 1.3% in FY09 to ~10% by the end of FY14. This is also clearly evident from the sharp increase in the EMPS segmental capital employed (excluding unallocated items) from ₹ 222 crore during FY10 to ₹ 708 crore during FY13, on account of a decline in advances and dispute related to Sidra projects. To reduce the working capital requirement and improve profitability, the company is now focusing more on timely execution of projects and claim settlement. In this regard, Voltas adopted a strategy to remain selective in the choice of new project undertakings with a ticket size in the range of ₹ 300-400 crore. Also, the execution period of new orders (domestic & international) would be in the range of about 15 months. Apart from this, the management is confident of improving the EBITDA margin from here on as Voltas is now focusing on bidding for international projects with a minimum EBITDA margin of 5% with domestic project EBITDA margin slightly better than international projects. Out of ₹ 4321 crore worth of the total order book, the international order book (largely from GCC countries) was at ₹ 1763 crore. Most orders would command at least 5% of margins.

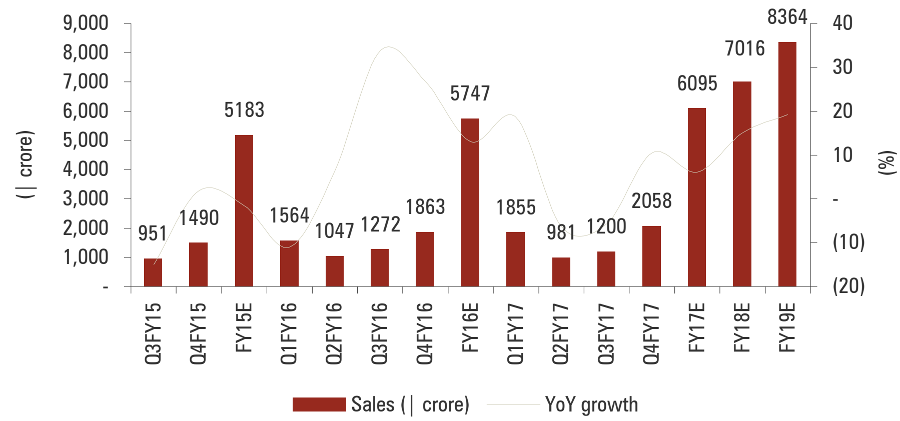
### Demand revival to drive topline

Voltas' Q4FY17 consolidated revenues recorded growth of ~11% YoY led by the strong performance of the unitary cooling product (UCP) segment wherein segment revenue grew 28% YoY. Strong sales growth in the UCP segment was largely due to supportive weather and launch of new product range during the period. Despite intense competition Voltas continues to be the market leader in the room air conditioner segment.

To reduce the working capital requirement and improve profitability, the company is now focusing more on the timely execution of projects and claim settlement. In this regard, Voltas has adopted a strategy to remain selective in the choice of new project undertakings with a ticket size in the range of ₹ 300-400 crore

The performance of the EPS segment was largely driven by the strong performance of the Mozambique business. Further, under the cooling segment, we have modelled segment sales CAGR of ~23% for FY17-19E on the back of growing disposable income level, consistent demand from tier-II and tier-III cities and a progressive shift in consumer's perception of air conditioners from a luxury to a necessity product. Additionally, we believe consumer durable companies will be key beneficiaries of the government's key reforms like implementation of pay hike. While the Seventh Pay Commission boosted the disposable income of 1.4 crore government employees, better yield on crops due to good monsoon would increase the spending power of rural buyers. Under the EMPS segment, we have built in segment revenue CAGR of ~5% on the back of slow awarding of projects across Middle East regions (largely due to a decline in crude prices) and India.

Exhibit 5: Consolidated net sales to grow at ~11% CAGR in FY16-19E, driven by UCP division




*Source: Company, ICICIdirect.com Research*

## Joint venture to tap India's consumer durable market

Voltas Ltd and Ardutch BV (a subsidiary of Arçelik AS Turkey's largest industrial and services group), have agreed to establish a joint venture company (JVC) in India, to enter the consumer durables market in the country. The new company to be incorporated in India will be an equal partnership joint venture with initial investment of ~₹ 680 crore. The proposed JVC will leverage the strong brand presence and wide sales and distribution network of Voltas. Arçelik will bring to the JVC its strong R&D and manufacturing prowess, in addition to a wide product range and global sourcing capabilities. Beko, the global brand of Arçelik AŞ, has been the fastest growing home appliances brand of Europe for the past seven years. The brand is the market leader in UK and the No. 1 freestanding white goods brand of Europe. The complementary strengths of the two partners will help build a sustainable consumer durables business in India. The proposed JVC will launch refrigerators, washing machines, microwaves and other white goods / domestic appliances in India. A manufacturing facility will be set up in the country and the JVC will also source products from Arçelik's global manufacturing facilities and vendor base. The management has guided that the products would be launched ahead of the festive season.

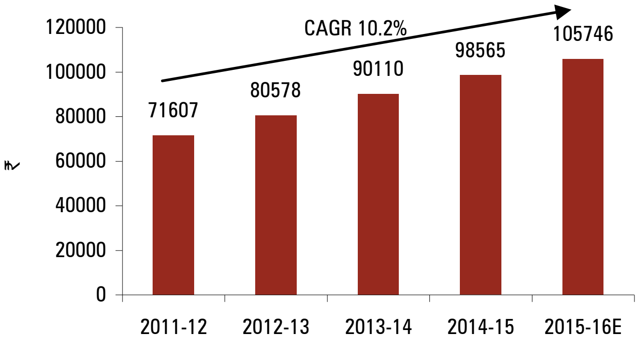
## Levers for next leg of growth: Urbanisation, lower penetration, rising income level

Of the total 246 million Indian households, about 66% (164 million) own fans. Only 4% (9.4 million) of households own air conditioners and 8% (19.8% million) own coolers

In spite of growing aspiration levels, the majority of Indian homes remained untouched by air conditioning, as overall AC penetration in India remained at ~4%, significantly lower than other developing countries. Of the total 246 million (mn) Indian households, about 66% (164 mn) own fans. Only 4% (9.4 mn) of households own air conditioners and 8% (19.8% mn) own coolers. Rising preference for air coolers is also one of the few reasons for lower penetration, specifically in rural India (due to price difference of products and electricity consumption). However, growing per capita income (at ~10% CAGR) coupled with a progressive shift in consumers' perception of air conditioners from that of a luxury to a necessity would help drive demand for RAC in India.

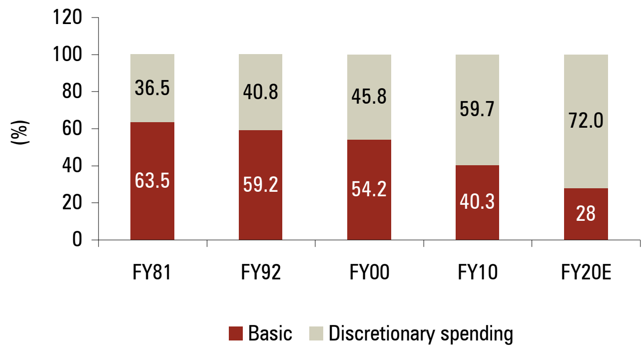
Further, in the medium term, we believe implementation of the Seventh Pay Commission and expectations of better monsoons will bring cheer to leading consumer durable companies (especially white goods manufacturer). Historical numbers suggest that consumer companies (discretionary companies under I-direct coverage) have recorded strong volume CAGR in the range of 9-20% YoY in FY09-12 post implementation of the Sixth CPC As a result, urban centric white good products like air conditioners, refrigerators and washing machines recorded a sharp volume jump of ~11%, 9% and 17%, respectively. Going forward, we believe revenue growth will revive under the UCP segment (CAGR ~23%) in FY17-19E led by higher discretionary expenditure (post implementation of the Seventh CPC), government initiative to double farmer income by 2022, Housing for All by 2022, target to electrify 18000 villages by 2018 and thrust to push infrastructure spending.

**Exhibit 6: India per capita income expected to cross ₹ 1 lakh mark**




*Source: CSO, ICICIdirect.com, Research*

**Exhibit 7: Rising share of discretionary spending**



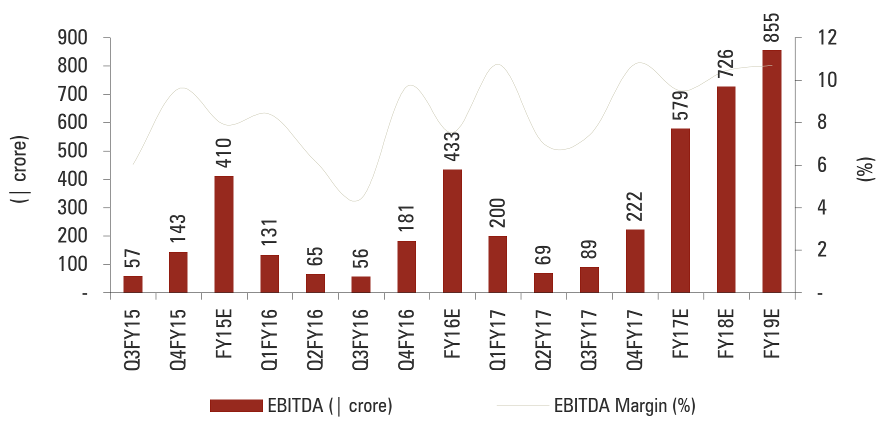

*Source: Industry, ICICIdirect.com, Research*

## Execution of higher margin projects, UCP segment do drive profitability

EBITDA margins plunged sharply in FY14 to ~5% on the back of a sharp cost overrun due to a delay in execution of projects. Voltas recorded an EBIT loss of ₹ 39.5 crore in the EMPS segment in FY14 vs. ₹ 309 crore EBIT profit recorded during FY10. However, the UCP segment recorded a relatively steadier margin in FY10-17 and provided support to overall margins. This coupled with execution of higher margin projects helped improve the EBITDA margin to 9.5% in FY17. We believe sustained growth in revenue from the UCP segment (higher proportion of premium product sales) and a gradual recovery in EMPS segment (due to timely execution of new projects) will aid margins. We have modelled EBITDA margin of ~10.5%, 10.7% for FY18E, FY19E, respectively, considering the improved project execution cycle and focus on higher margin orders, going forward. However, our margin estimates are still below FY10 level, considering the rising competition in the EMPS and RAC segments.

With a recovery in the EMPS margin (as new orders commands margin of ~5%) coupled with strong margin of UCP segment (EBIT margin ~13% in FY17-19E) and EMPS segment (EBIT margin ~4% in FY17-19E), respectively, we expect net profit to grow at a CAGR of 19% in FY17-19E

**Exhibit 8: EBITDA margins to improve on execution of higher margin project**

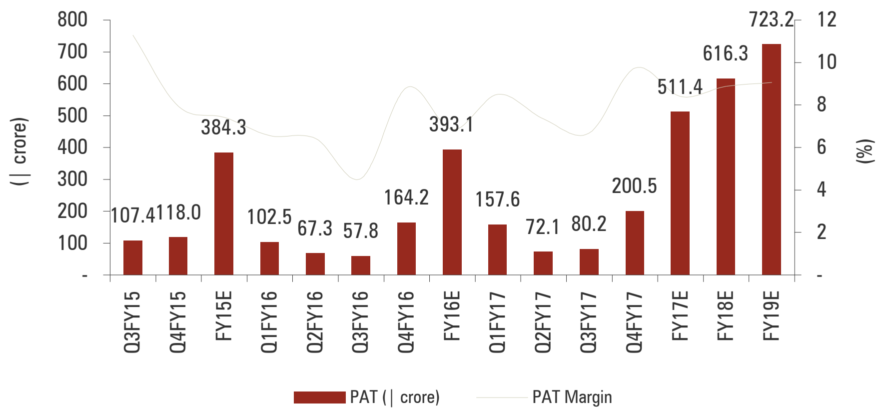



*Source: Company, ICICIdirect.com Research*

### Recovery in margin of project business leads to growth in profit

The UCP segment cushioned the bottomline and helped generate positive cash flows despite the poor performance of the EMPS and EPS segment. With the sustained performance of the UCP segment, recovery in margin of the EMPS segment (execution of higher margin projects) would drive bottomline, going forward. We believe the bottomline of the company will record a CAGR of ~19% in FY16-18E.

**Exhibit 9: Net profit to grow at ~18% CAGR in FY16-19E supported by margin recovery**




*Source: Company, ICICIdirect.com Research*

## Outlook and valuation

Despite various challenges such as demonetisation and rising input prices Voltas has retained its top position with 21% market share in the RAC segment, due to its strong reach in tier-II and tier-III cities. Strong fundamentals (net cash status, RoCE and RoE of 22%, 16%), dividend payout of ~22% and ability to pass on the rising input prices (to maintained EBITDA margin) and lowest penetration of AC in India (among other white goods items) suggests the long-term growth story of Voltas will remain intact. Under our SOTP based valuation, we value the UCP segment by ascribing PE multiple of 30x FY19 earnings. We ascribe a PE multiple of 8x FY19E earning to EMPS business and 7x FY19E earnings to EPS segment. We maintain our **BUY** recommendation with a revised target price of ₹ 525/share (based on 24x FY19E earnings).

**Exhibit 10: Sum of the parts valuation**

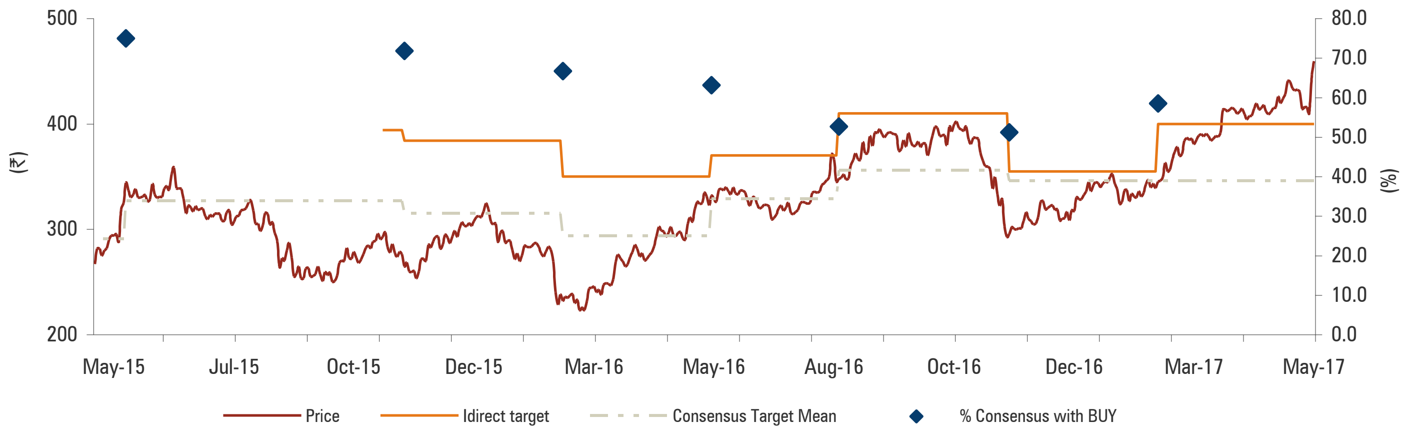
| Segment | EPS (₹) | PE(x) | Fair value |
|---|---|---|---|
| EMPS | 4.3 | 8 | 33 |
| EPS | 2.3 | 7 | 16 |
| UCP | 15.8 | 30 | 475 |
| Target Price | | | 525 |
| CMP | | | 475 |
| upside/(Downside) (%) | | | 10 |

*Source: Company, ICICIdirect.com Research*

**Exhibit 11: Valuation**

| | Sales (₹ cr) | Growth (%) | EPS (₹) | Growth (%) | PE (x) | EV/EBITDA (x) | RoNW (%) | RoCE (%) |
|---|---|---|---|---|---|---|---|---|
| FY16 | 5746.7 | | 11.9 | | 40.0 | 35.0 | 13.3 | 17.5 |
| FY17E | 6095.0 | 6.1 | 15.5 | 30.1 | 30.7 | 26.5 | 15.5 | 21.5 |
| FY18E | 6941.9 | 13.9 | 18.6 | 20.5 | 25.5 | 21.2 | 19.0 | 26.2 |
| FY19E | 7988.2 | 15.1 | 21.9 | 17.4 | 21.7 | 17.9 | 19.2 | 26.5 |

## Recommendation history vs. consensus




*Source: Bloomberg, Company, ICICIdirect.com Research*

## Key events

| Date | Event |
|---|---|
| Mar-10 | Secures two orders worth ₹ 300 crore for electro-mechanical projects for the most prestigious and noteworthy 'new generation' airports in India, viz. Kolkata's Netaji Subhas Chandra Bose International (NSCBI) airport and Chennai International airport |
| Oct-10 | Completes execution of turnkey engineering solutions for multi-million dollar, Formula One Yas Marina Grand Prix Circuit project, Abu Dhabi |
| May-10 | Signs MoU with Mustafa Sultan Enterprises LLC, Muscat, Sultanate of Oman to form JV for execution of electro-mechanical (MEP) projects in Sultanate of Oman. This would facilitate Voltas' entry in MEP segment in Sultanate of Oman |
| Dec-10 | Clarifies regarding Chennai office premises that it has renewed lease for a further period of 30 years and neither bought nor sold the land |
| Dec-10 | Forms JV agreement with Olayan Financing Company, Riyadh to form a joint venture company in the Kingdom of Saudi Arabia |
| May-11 | Introduced its new, powerful range of AC (0.75 T to 3 tons) and plans to penetrate further with a varied set of 70 air conditioners |
| Apr-11 | Increases its shareholding in Lalbuksh Voltas Engineering Services & Trading LLC from 49% to 60% in Sultanate of Oman |
| Aug-12 | Transfers its entire shareholding (95.57%) in Simto Inv Company Ltd to Tata Investment Corporation Ltd for a consideration of ₹ 29.68 crore |
| Nov-12 | Transfers 34% shareholding in Voltas Material Handling Pvt Ltd for a consideration of ₹ 58 crore in favour of Linde Material Handling Asia Pacific Pte Ltd, Singapore, an affiliate of KION Group |
| Oct-13 | Purchases balance shareholding (16.33%) of Rohini Industrial Electricals Ltd (RIEL) from promoters. Accordingly, RIEL becomes wholly-owned subsidiary of the company |
| Feb-14 | Forms JV with Dow Chemical Pacific (Singapore) Pte. Ltd. to tap the growing water and waste water treatment market in India |
| Nov-14 | Carries out e-auction process for a sale of 7 acre land in Thane (Mumbai) for a consideration of of ₹ 236 crore |

*Source: Company, ICICIdirect.com Research*

## Top 10 Shareholders

| Rank | Name | Latest Filing Date | % O/S | Position (m) | Change (m) |
|---|---|---|---|---|---|
| 1 | Tata Group of Companies | 31-Mar-17 | 30.3 | 100.3 | 0.0 |
| 2 | Franklin Templeton Asset Management (India) Pvt. Ltd. | 31-Mar-17 | 8.2 | 27.0 | -0.1 |
| 3 | Life Insurance Corporation of India | 31-Mar-17 | 6.9 | 22.8 | -0.1 |
| 4 | Franklin Advisers, Inc. | 31-Mar-17 | 4.9 | 16.3 | -0.5 |
| 5 | HDFC Asset Management Co., Ltd. | 31-Mar-16 | 4.1 | 13.5 | 3.0 |
| 6 | IDFC Asset Management Company Private Limited | 30-Sep-16 | 2.3 | 7.7 | -0.1 |
| 7 | Standard Life Investments Ltd. | 31-Mar-17 | 2.2 | 7.4 | -0.1 |
| 8 | SBI Funds Management Pvt. Ltd. | 31-Mar-17 | 2.0 | 6.7 | 2.2 |
| 9 | Hasham Investment & Trading Co., Pvt. Ltd. | 31-Dec-16 | 1.6 | 5.3 | -0.4 |
| 10 | Prazim Trading & Investment Co. Pvt. Ltd. | 31-Mar-17 | 1.6 | 5.3 | 5.3 |

*Source: Reuters, ICICIdirect.com Research*

## Shareholding Pattern

| (in %) | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 |
|---|---|---|---|---|---|
| Promoter | 30.3 | 30.3 | 30.3 | 30.3 | 30.3 |
| FII | 19.5 | 20.5 | 22.4 | 22.6 | 20.7 |
| DII | 29.0 | 27.9 | 26.8 | 26.6 | 26.0 |
| Others | 21.3 | 21.4 | 20.6 | 20.5 | 23.0 |

## Recent Activity

| Investor name | | | Investor name | | |
|---|---|---|---|---|---|
| Investor name | Value (m) | Shares(m) | Investor name | Value (m) | Shares(m) |
| Prazim Trading & Investment Co. Pvt. Ltd. | 33.6 | 5.3 | Norges Bank Investment Management (NBIM) | -19.6 | -4.1 |
| T. Rowe Price Hong Kong Limited | 20.1 | 4.2 | T. Rowe Price International (UK) Ltd. | -10.8 | -1.7 |
| SBI Funds Management Pvt. Ltd. | 14.2 | 2.2 | Principal Global Investors (Equity) | -3.6 | -0.8 |
| Kuwait Investment Authority | 4.5 | 0.7 | Franklin Advisers, Inc. | -3.4 | -0.5 |
| Birla Sun Life Asset Management Company Ltd. | 3.2 | 0.5 | Hasham Investment & Trading Co., Pvt. Ltd. | -2.1 | -0.4 |

*Source: Reuters, ICICIdirect.com Research*

# Financial summary

| Profit and loss statement | | | | ₹ Crore |
|---|---|---|---|---|
| (Year-end March) | FY16 | FY17E | FY18E | FY19E |
| Net Sales | 5,746.7 | 6,095.0 | 6,941.9 | 7,988.2 |
| Expenses | | | | |
| Raw Material Expenses | 3,355.5 | 3,416.2 | 3,695.5 | 4,270.2 |
| (inc)/Dec in stocks | 59.3 | (190.3) | - | - |
| Purchase of traded goods | 672.3 | 1,009.9 | 1,113.8 | 1,287.7 |
| Employee Expenses | 635.1 | 618.4 | 733.0 | 804.8 |
| Other expenses | 591.4 | 661.6 | 673.2 | 770.7 |
| Total Operating Expenditure | 5,313.7 | 5,515.9 | 6,215.6 | 7,133.3 |
| EBITDA | 433.0 | 579.1 | 726.3 | 854.8 |
| Other Income | 136.7 | 199.8 | 208.0 | 236.4 |
| Interest | 15.8 | 16.0 | 13.8 | 14.3 |
| PBDT | 553.9 | 762.9 | 920.5 | 1,076.9 |
| Depreciation | 26.4 | 24.5 | 27.8 | 32.0 |
| PBT before Exceptional Items | 527.5 | 738.4 | 892.7 | 1,044.9 |
| Less: Exceptional Items | (28.9) | (1.1) | - | - |
| Total Tax | 169.6 | 208.9 | 257.2 | 302.4 |
| PAT before MI | 386.9 | 530.7 | 635.5 | 742.5 |
| Minority Interest | - | - | - | - |
| PAT after MI | 386.9 | 530.7 | 635.5 | 742.5 |
| Profit from Associates | 6.2 | (19.3) | (19.3) | (19.3) |
| PAT | 393.1 | 511.4 | 616.3 | 723.2 |
| EPS | 11.3 | 15.4 | 18.6 | 21.9 |

*Source: Company, ICICIdirect.com Research*

| Cash flow statement | | | | ₹ Crore |
|---|---|---|---|---|
| (Year-end March) | FY16 | FY17E | FY18E | FY19E |
| Profit after Tax | 393.1 | 511.4 | 616.3 | 723.2 |
| Depreciation | 26.4 | 24.5 | 27.8 | 32.0 |
| Cash Flow before working capital cha | 435.3 | 551.9 | 657.9 | 769.6 |
| Net Increase in Current Assets | (255.3) | (186.1) | (395.3) | (644.9) |
| Net Increase in Current Liabilities | 133.8 | 202.4 | 411.6 | 315.8 |
| Net cash flow from operating Acti | 313.7 | 568.3 | 674.2 | 440.4 |
| Long term loans and advances | 13.8 | 23.1 | (10.1) | (12.4) |
| Other non current assets | 73.5 | 14.2 | (2.4) | (3.0) |
| Liquid Investments | (867.6) | (306.4) | - | (100.0) |
| (Purchase)/Sale of Fixed Assets | (68.4) | (18.6) | (35.0) | (40.0) |
| Others | 2.5 | 12.5 | - | - |
| Net Cash flow from Investing Acti | (846.1) | (275.2) | (47.5) | (155.5) |
| Proceeds/(Repament) loans | 149.1 | (99.8) | 5.0 | 8.0 |
| Total Outflow on account of dividend | (100.6) | (135.4) | (135.4) | (193.5) |
| Others | 393.1 | 104.5 | (552.9) | (14.3) |
| Net Cash flow from Financing Acti | 441.6 | (130.7) | (683.3) | (199.8) |
| Net Cash flow | (90.9) | 162.4 | (56.6) | 85.2 |
| Cash and Cash Equivalent at the begin | 251.6 | 160.7 | 323.1 | 266.5 |
| Cash | 160.7 | 323.1 | 266.5 | 351.7 |

*Source: Company, ICICIdirect.com Research*

| Balance sheet | | | | ₹ Crore |
|---|---|---|---|---|
| (Year-end March) | FY16 | FY17E | FY18E | FY19E |
| Equity Capital | 33.1 | 33.1 | 33.1 | 33.1 |
| Reserve and Surplus | 2,770.4 | 3,267.0 | 3,208.7 | 3,738.5 |
| Total Shareholders funds | 2,803.5 | 3,300.0 | 3,241.8 | 3,771.5 |
| Total Debt | 270.7 | 170.9 | 175.9 | 183.9 |
| Deferred Tax Liability | 9.7 | 10.7 | 10.7 | 10.7 |
| Other Non Current Liabilities | 27.5 | 28.7 | 28.7 | 28.7 |
| Total Liability | 3,111.3 | 3,510.4 | 3,457.2 | 3,994.9 |
| Net Block | 234.2 | 229.0 | 236.2 | 244.1 |
| Total Fixed Assets | 235.5 | 229.6 | 236.7 | 244.7 |
| Other Investments | 1,278.2 | 2,068.3 | 2,068.3 | 2,168.3 |
| Goodwill on Consolidation | 72.3 | 72.3 | 72.3 | 72.3 |
| Deferred Tax Assets | 40.7 | 30.5 | 30.5 | 30.5 |
| Long term loans and advances | 95.5 | 72.4 | 82.5 | 94.9 |
| Other non current assets | 31.8 | 17.6 | 20.0 | 23.1 |
| Liquid Investments | 683.3 | 199.5 | 199.5 | 199.5 |
| Inventory | 724.7 | 907.0 | 1,084.1 | 1,247.5 |
| Debtors | 1,367.2 | 1,454.1 | 1,656.2 | 1,969.7 |
| Cash | 160.7 | 323.1 | 266.5 | 351.7 |
| Loans and Advances | 3.9 | 3.5 | 3.9 | 4.5 |
| Other Current Assets | 1,177.7 | 1,095.0 | 1,110.7 | 1,278.1 |
| Net Current Assets | 674.1 | 820.1 | 747.2 | 1,161.5 |
| Total Assets | 3,111.3 | 3,510.4 | 3,457.1 | 3,994.9 |

*Source: Company, ICICIdirect.com Research*

| Key ratios | | | | |
|---|---|---|---|---|
| (Year-end March) | FY16 | FY17E | FY18E | FY19E |
| Per Share Data | | | | |
| EPS | 11.9 | 15.5 | 18.6 | 21.9 |
| Cash EPS | 12.7 | 16.2 | 19.5 | 22.8 |
| BV | 84.8 | 99.8 | 98.0 | 114.0 |
| DPS | 3.0 | 4.1 | 4.1 | 5.9 |
| Operating Ratios | | | | |
| EBITDA margin | 7.5 | 9.5 | 10.5 | 10.7 |
| PAT margin | 6.5 | 8.4 | 8.9 | 9.1 |
| Return Ratios | | | | |
| RoE | 13.3 | 15.5 | 19.0 | 19.2 |
| RoCE | 17.5 | 21.5 | 26.2 | 26.5 |
| RoIC | 14.5 | 15.9 | 19.5 | 19.7 |
| Valuation Ratios | | | | |
| EV / EBITDA | 35.0 | 26.5 | 21.2 | 17.9 |
| P/E | 40.0 | 30.7 | 25.5 | 21.7 |
| EV / Net Sales | 2.6 | 2.5 | 2.2 | 1.9 |
| Sales / Equity | 2.0 | 1.8 | 2.1 | 2.1 |
| Market Cap / Sales | 2.7 | 2.6 | 2.3 | 2.0 |
| Price to Book Value | 5.6 | 4.8 | 4.8 | 4.2 |
| Turnover Ratios | | | | |
| Asset turnover | 1.8 | 1.7 | 2.0 | 2.0 |
| Debtors Days | 86.8 | 87.1 | 87.1 | 90.0 |
| Creditors Days | 111.1 | 119.4 | 119.4 | 110.0 |
| Solvency Ratios | | | | |
| Debt / Equity | 0.1 | 0.1 | 0.1 | 0.0 |
| Current Ratio | 1.6 | 1.5 | 1.5 | 1.6 |
| Quick Ratio | 1.3 | 1.1 | 1.1 | 1.2 |

*Source: Company, ICICIdirect.com Research*

## ICICIdirect.com coverage universe (Consumer Discretionery)

| Sector / Company | CMP (₹) | TP(₹) | Rating | M Cap (₹ Cr) | EPS (₹) FY17E | FY18E | FY19E | P/E (x) FY17E | FY18E | FY19E | EV/EBITDA (x) FY17E | FY18E | FY19E | RoCE (%) FY17E | FY18E | FY19E | RoE (%) FY17E | FY18E | FY19E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Asian Paints (ASIPAI) | 1,099 | 1,204 | Hold | 105,416 | 21.0 | 23.4 | 27.4 | 52.3 | 47.0 | 40.1 | 34.4 | 32.1 | 26.8 | 33.2 | 30.6 | 31.2 | 26.5 | 25.8 | 26.1 |
| Bajaj Electricals (BAJELE) | 345 | 280 | Hold | 3,442 | 10.0 | 13.6 | 16.4 | 34.5 | 25.4 | 21.0 | 15.0 | 13.1 | 11.3 | 24.0 | 25.1 | 25.6 | 12.2 | 14.8 | 15.7 |
| Havells India (HAVIND) | 449 | 570 | Buy | 28,013 | 8.6 | 12.1 | 15.7 | 52.0 | 37.0 | 28.5 | 31.9 | 24.8 | 19.7 | 23.0 | 26.5 | 28.0 | 17.4 | 21.2 | 22.5 |
| Kansai Nerolac (KANNER) | 393 | 445 | Buy | 21,180 | 9.4 | 10.0 | 11.5 | 41.9 | 39.1 | 34.2 | 29.0 | 27.2 | 23.4 | 26.2 | 26.6 | 27.0 | 18.0 | 18.5 | 18.7 |
| Pidilite Industries (PIDIND) | 729 | 827 | Buy | 37,371 | 16.8 | 18.2 | 21.2 | 43.3 | 40.0 | 34.4 | 28.6 | 26.5 | 22.8 | 33.0 | 32.5 | 33.0 | 24.9 | 24.6 | 24.9 |
| Essel Propack (ESSPRO) | 250 | 270 | Hold | 3,927 | 12.5 | 14.1 | 16.8 | 20.1 | 17.7 | 14.9 | 10.7 | 9.2 | 7.9 | 17.6 | 17.7 | 19.2 | 17.4 | 15.3 | 16.0 |
| Supreme Indus (SUPIND) | 1,145 | 1,285 | Buy | 14,545 | 33.7 | 36.6 | 43.7 | 34.0 | 31.3 | 26.2 | 19.3 | 17.1 | 14.5 | 30.0 | 32.6 | 35.1 | 25.3 | 26.5 | 27.7 |
| Symphony (SYMLIM) | 1,320 | 1,623 | Buy | 9,234 | 23.7 | 33.4 | 42.1 | 55.8 | 39.6 | 31.3 | 45.7 | 31.0 | 24.2 | 48.4 | 50.6 | 56.2 | 36.1 | 38.3 | 42.3 |
| V-Guard Ind (VGUARD) | 182 | 165 | Hold | 7,729 | 3.6 | 4.0 | 4.8 | 50.9 | 45.6 | 37.6 | 35.5 | 32.2 | 26.3 | 32.3 | 31.2 | 31.1 | 23.8 | 23.8 | 23.7 |
| Voltas Ltd (VOLTAS) | 475 | 525 | Buy | 15,710 | 15.5 | 18.6 | 21.9 | 30.7 | 25.5 | 21.7 | 26.5 | 21.2 | 17.9 | 21.5 | 26.2 | 26.5 | 15.5 | 19.0 | 19.2 |

*Source: Company, ICICIdirect.com Research*

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