

Voltas, a Tata Group company, is one of India's leading air conditioning and engineering services company. In FY16, Voltas derived 47% & 44% of its turnover from Electro-mechanical Projects (EMP) & Unitary Cooling Products (UCP) segment respectively.

Key Developments

Robust brand equity, asset-light business model & strong parentage:

Voltas enjoys a good brand pull in the under-penetrated AC category. Notably, Voltas pursues an asset light business model as it resorts to outsourcing and strategic tie-ups, thereby enabling it to optimise its operating costs. More importantly, Voltas being a Tata group company (Tata's stake at 30%) ensures better corporate governance standards.

Maintaining leadership in AC segment:

Currently, Voltas holds a dominant 22% market share in AC segment in India. The company has been able to successfully maintain its leadership position on account of several factors: 1) wide distribution network (over 11,000 touch-points), 2) broad-based portfolio, 3) strong post-sale support (including 5-year warranty on compressor) and (4) strong advertising focus.

Performance below par during FY12-16:

During FY12-16, revenues of Voltas grew at a mere 3.1% CAGR due to sluggish performance of the EMP and Engineering Products & Services (EPS) segments.. However, the UCP segment acted as a saviour (the segment registered revenue CAGR of 13.5%) for Voltas with the launch of new models in both window and split categories.

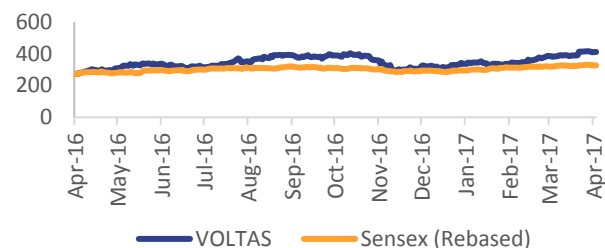
Market Data

CMP (Rs.)	412
Face Value	1.0
52 week H/L (Rs.)	425/271
Adj. all time High (Rs.)	425
Decline from 52WH (%)	3.1
Rise from 52WL (%)	52.0
Beta	0.9
Mkt. Cap (Rs.Cr)	13,617
Enterprise Value(Rs. Cr)	12,762

Fiscal Year Ended

	FY14	FY15	FY16
Total revenue (Rs.cr)	5,266	5,183	5,857
Adj. PAT (Rs.cr)	224	338	345
Share Capital (Rs.Cr)	33	33	33
EPS (Rs.)	6.8	10.2	10.4
P/E (x)	60.8	40.3	39.5
P/BV (x)	7.5	6.5	5.7
ROE (%)	13.0	17.2	15.3

One year Price Chart

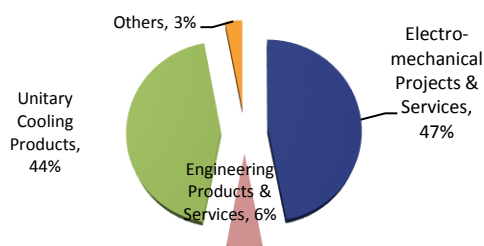


Shareholding	Dec-16	Sep-16	Diff.
Promoters (%)	30.3	30.3	-
Public (%)	69.7	69.7	-
Others (%)	-	-	-

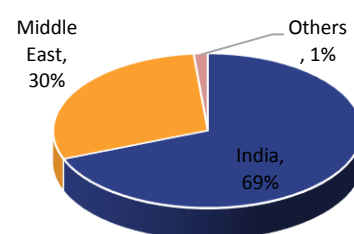
Voltas Ltd: Business Overview

Voltas, a Tata Group company incorporated in 1954, is one of India's leading air conditioning and engineering services company. It offers engineering solutions in areas such as air conditioning, refrigeration, electro-mechanical projects, textile machinery, mining & construction equipment, material handling equipment and water management & treatment etc. It operates mainly in three segments namely Electro-mechanical Projects (EMP) (47% of revenues), Unitary Cooling Products (UCP) (44% of revenues) and Engineering Products and Services (EPS) (6% of revenues). While Middle East contributed ~30% to the consolidated sales in FY16, India contributed ~70%. It has 3 manufacturing facilities located at Thane, Dadra and Pantnagar.

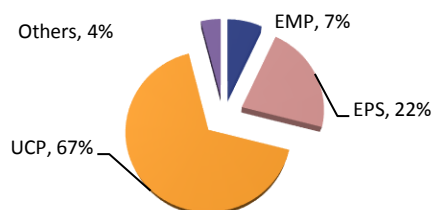
Segment-wise Revenue Breakup (FY16)



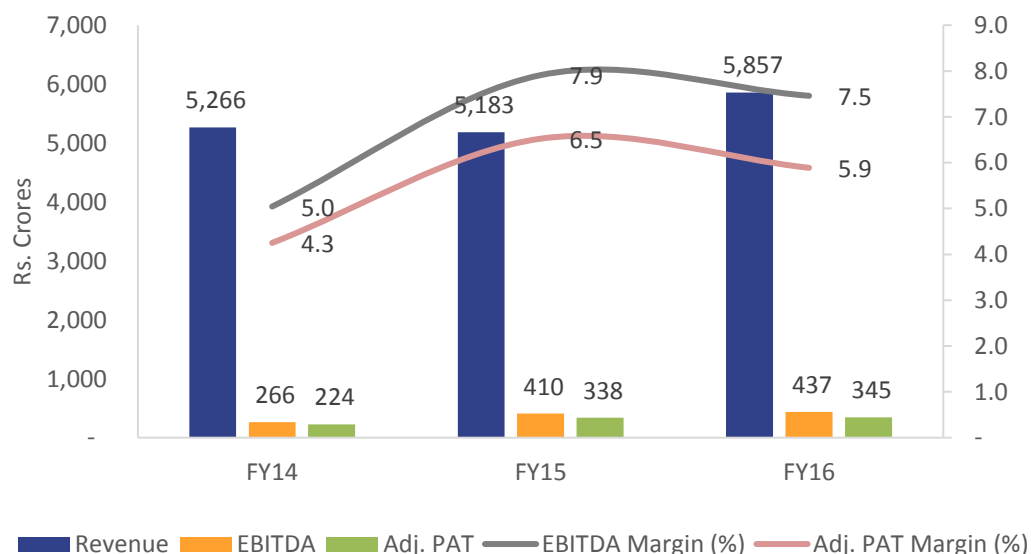
Revenue by geography (FY16)



Consolidated EBIT Contribution (FY16)

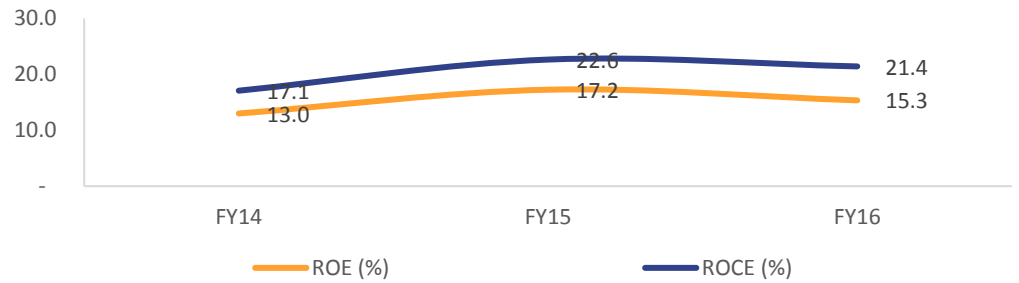


Financial snapshot of Voltas



Source: Company, In-house research

Return ratios trend

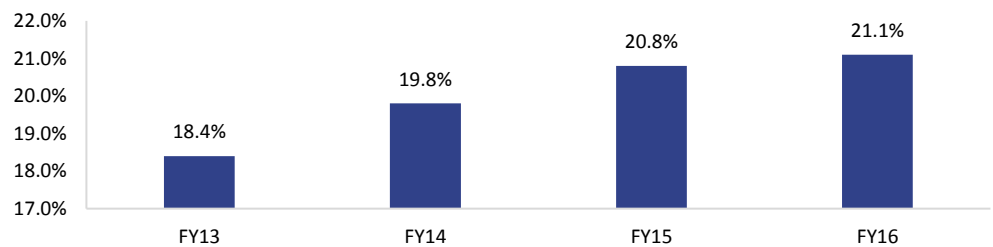


Source: Company, In-house research

Sustaining market leadership in AC business

Voltas' unitary cooling products (UCP) division includes air conditioners (windows and split), deep freezers, chest coolers, visi coolers, water coolers and water dispensers. In FY16, the UCP segment contributed 44% to the consolidated sales & it has reported 11% sales CAGR during FY11-16. Importantly, the contribution of the UCP segment to the consolidated EBIT has increased from 32% in FY11 to 67% in FY16. Over the last several years, Voltas has maintained its market share in the UCP segment owing to its strong brand equity, efficient distribution channels and competitive pricing despite facing stiff competition from MNC & new players. Even in FY16, when there were unseasonal rains in North India, Voltas maintained its leadership position in this segment with market share of 21%. Given strong summer in this fiscal (FY17), Voltas continued to hold a dominant 22% market share in AC segment. More importantly, UCP segment posted robust growth of 25% YoY in H1FY17 with a decent 220bps YoY rise in EBIT margin to 14.1%.

Market share on the rise

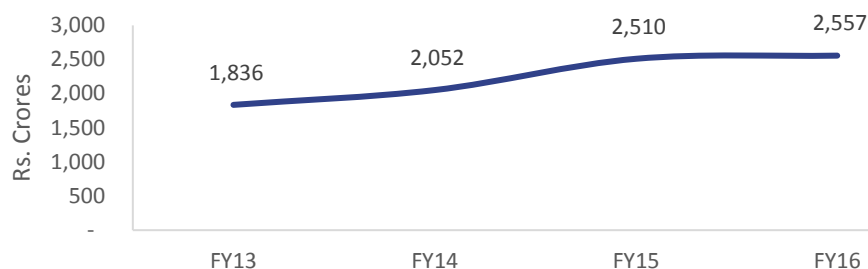


Source: Company, In-house research

Launching new models in the air cooler space

The company forayed into the air-cooler space in FY16. While Voltas initially launched a few models in FY16, during the current season (CY2016) Voltas launched nearly 15 models of various capacities on pan India basis. As a result, the new product category of air-coolers recorded sales of 50,000 units in its first full summer season nation-wide after selective launch in a few states last year (FY16 sales stood at 70,000 units). Voltas has sold about 50,000 units in H1FY17 moving up to the 4th position in the market.

UCP segment growth trend



Source: Company, In-house research

EMP business - 47% of sales

Execution of turnkey projects related to mechanical, electrical & public health (MEP) segment comes under company's electromechanical project & services (EMP) business. Interestingly, in the past, Voltas has executed major MEP 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). However, EMP business of Voltas faced headwinds in the past few years (the segment registered revenue decline of 3% CAGR over FY11-16) due to weak ordering activity, slow execution & cost overruns. While EMP revenue grew 23% YoY in FY16 to Rs27.2bn mainly driven by pick-up in execution of new projects in Qatar, the overall project execution environment in domestic and Middle East markets still remains challenging.

Order book position of the company

Voltas' current total order book stands at Rs4,252cr, reflecting book-to-bill ratio of 1.6x, of which Rs2,187cr is contributed by the domestic markets. During Q2FY17, orders worth Rs382cr were booked & this included Rs121cr order for a water treatment plant at Agra smart City. Currently, the company is working on the rural electrification projects in MP, Metro rail projects and water purification projects in the domestic market.

About Rs2,065cr of order book is contributed by the international markets. The international order book largely consists of Middle East contracts, mostly Qatar and Abu Dhabi.

Performance below par during FY12-16

During FY12-16, revenues of Voltas grew at a mere 3.1% CAGR due to sluggish performance of the EMP and Engineering Products & Services (EPS) segments. The EMP segment underperformed (the segment registered ~4% revenue CAGR decline over FY12-16) due to a delay in execution of projects, cost overruns, rising competition and weak ordering activity in India & Middle East. Besides, the performance of the EPS segment (posted revenue decline of 2.6% CAGR) remained muted owing to implementation of mining ban across various states coupled with slowdown in textile machinery business. However, the UCP segment acted as a saviour (the segment registered revenue CAGR of 13.5%) for Voltas with the launch of new models in both window and split categories.

Weak performance of EMP segment led to margin decline

During FY12-16, EBITDA margin of Voltas remained in the range of 4-8%. Notably, EBITDA margin in FY13 plummeted to ~4% on the backdrop of sharp cost overruns due to delay in execution of projects. Voltas recorded an EBIT loss of Rs49cr in EMP segment during FY13 as against Rs309cr EBIT profit recorded during FY10 (Voltas posted decade-high EBIT in EMP segment in FY10). However, the margins of UCP segment held relatively steady during the period under review and provided support to overall margins. This coupled with execution of higher margin projects helped improve the EBITDA margin to 7.5% in FY16.

Balance sheet remains healthy

Voltas pursues an asset light business model as it resorts to outsourcing and strategic tie-ups, thereby enabling it to control its operating costs. Since FY13, Voltas has been generating strong operating cash flows (OCF) over the years. During FY13-16, OCF has grown at a CAGR of ~48%. As of March'16, Voltas is a net debt free company, with cash & cash equivalents of Rs1,654cr. The working capital position witnessed healthy improvement with debtor days reducing from 95 to 81 YoY and inventory days declining from 88 to 79 YoY in FY16. Likewise, working capital as a percentage of sales fell from 9.7% in FY15 to 8.4% in FY16.

Balance Sheet (Consolidated)

(Rs.Cr)	FY14	FY15	FY16
Share Capital	33	33	33
Reserve and surplus	1,786	2,069	2,362
Net Worth	1,819	2,102	2,395
Minority Interest	14	16	26
Total Debt	263	122	260
Other non-current liabilities	120	128	154
Total Equity & Liabilities	2,216	2,368	2,835
Net Fixed Assets	209	189	221
Capital WIP	2	4	1
Goodwill	80	80	72
Investments	732	1,094	1,526
Net current assets	894	751	689
Deferred tax assets (net)	24	35	51
Other non-current assets	276	215	274
Total Assets	2,216	2,368	2,835

Cash Flow (Consolidated)

Y/E (Rs. Cr)	FY14	FY15	FY16
Net profit/loss before tax & extraordinary items	340	514	552
Net cashflow from operating activities	295	311	275
Net cash used in investing activities	(285)	(104)	(367)
Net cash used from financing activities	(79)	(236)	36
Net inc/dec in cash and cash equivalents	(68)	(29)	(56)

Financial performance snapshot

Net sales of the company stood at Rs. 5,857 Crores in FY16, a growth of 13.0% as compared to Rs. 5,183 Crores in FY15. The operating expenses of the company increased by 13.6% YoY to Rs. 5,420 Crores from Rs. 4,773 Crores during the year. The company's EBITDA grew by 6.6% YoY to Rs. 437 Crores in FY16 from Rs. 410 Crores in FY15. EBITDA margin contracted by 45bps to 7.5% in FY16 from 7.9% in FY15. Adjusted profit increased by 2.0% to Rs. 345 Crores in FY16 from Rs. 338 Crores in FY15. Adj. PAT Margin contracted by 64 bps to 5.9% from 6.5% during the period under review.

Profit & Loss Account (Consolidated)

(Rs.Cr)	FY14	FY15	FY16
Net revenue	5,266	5,183	5,857
Expenses	5,000	4,773	5,420
EBITDA	266	410	437
Depreciation	25	28	28
EBIT	241	382	409
Interest cost	23	23	15
Other Income	100	109	118
Profit Before Tax	318	467	511
Tax	94	128	160
Profit After Tax	224	340	351
Minority Interest	0	3	9
P/L from Associates	-	2	2
Adjusted PAT	224	338	345
E/o expense / (income)	22	46	41
Reported Profit	245	384	386

Key Ratios (Consolidated)

	FY14	FY15	FY16
EBITDA Margin (%)	5.0	7.9	7.5
EBIT Margin (%)	4.6	7.4	7.0
NPM (%)	4.3	6.5	5.9
ROCE (%)	17.1	22.6	21.4
ROE (%)	13.0	17.2	15.3
EPS (Rs.)	6.8	10.2	10.4
P/E (x)	49.9	33.0	32.4
BVPS (Rs.)	55.0	63.6	72.4
P/BVPS (x)	6.1	5.3	4.7
EV/EBITDA (x)	42.0	27.0	25.8



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