

Voltas Ltd - Positive

Subdued performance

Voltas reported weak set of numbers largely due to weak growth in its UCP business. Revenue grew 3% yoy as the channel was focused on liquidating its inventory. The company's market share in the air conditioning segment increased from 22% in 9M FY18 to 24% in 9M FY19. Increased input costs, hike in customs duty and pricing pressure on account of high channel inventory led to 450bps yoy contraction in UCP margin to 8.5% in Q3 FY19. The impact of weak numbers from UCP business was somewhat offset by strong performance in the other two segments. EMPS segment continued to register strong growth as execution has picked up. EMPS margin expanded 82bps yoy to 7.9% led by timely execution of high margin orders both in international and domestic market. EMPS order book as of December'19 stood at Rs.50bn, of which Rs.31bn is domestic book and rest is international. The company's consistency in order execution and winning good quality orders, makes us positive on EMPS division. YTD FY19 has been muted for UCP segment, however in the long run the segment would gain from increased inclination towards energy efficient units, higher disposable income, increased penetration in tier 2 and 3 markets and localization. Based on the above facts, we remain positive on Voltas.

New facility to help save on cost and time

Voltas plans to construct a new facility on 65 acres land at Tirupati with a total investment of Rs.5bn spent over a period of time. This facility will have a capacity of 1mn units and will initially produce and assemble air conditioner and related cooling products. Voltas will have easy access to eastern port, thereby saving on logistic costs on import of critical components from China and South-east Asia. It will also help Voltas to increase its footprint in the southern market. The products from the factory will start rolling out from H2 FY20.

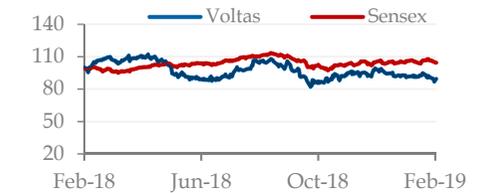
CMP (Rs) 522

Stock data (As on Feb 15, 2019)

Sensex:	35,809
52 Week h/l (Rs)	665/471
Market cap (Rs mn)	172,722
Enterprise value (Rs mn)	175,621
6m Avg t/o (Rs mn):	742
FV (Rs):	1
Div yield (%):	0.8
Bloomberg code:	VOLT IN
BSE code:	500575
NSE code:	VOLTAS

Sector: Consumer Electricals

Stock performance



Shareholding pattern (As of Dec'18 end)

Promoter	30.3%
FII+DII	47.5%
Others	22.2%

Exhibit 1: Result table

Y/e 31 Mar (Rs m)	Q3 FY19	Q3 FY18	% yoy	Q2 FY19	% qoq
Net sales	14,918	13,747	8.5	14,214	5.0
Material costs	(10,906)	(9,675)	12.7	(10,300)	5.9
Personnel costs	(1,601)	(1,503)	6.6	(1,723)	(7.1)
Other overheads	(1,254)	(1,427)	(12.1)	(1,105)	13.4
Operating profit	1,157	1,142	1.3	1,085	6.6
OPM (%)	7.8	8.3	(55) bps	7.6	12 bps
Depreciation	(62)	(61)	1.5	(60)	3.5
Interest	(132)	(19)	600.0	(64)	107.0
Other income	548	215	155.3	461	18.9
Extra ordinary items	(426)	29	-	(22)	1,825
PBT	1,085	1,306	(16.9)	1,401	(22.5)
Tax	(304)	(301)	1.0	(331)	(8.0)
PAT	781	1,004	(22.3)	1,070	(27.0)

Source: Company, YSL

CONFERENCE CALL HIGHLIGHTS

UCP Segment

- ✓ The revenue de-grew by 3% yoy, on account of muted demand in Air conditioner (AC) industry during Diwali festive season and also it had a soft second summer. Moreover, last year Q3 acted as a higher base, on account of a strong 32% yoy growth, due to pre-buying as energy norms for fixed speed AC's were getting revised from January'18. Also, the company has been selective in increasing the product pricing in the past 2-3 quarters, as the competitive intensity remained high, with increasing costs adding to the pain.
- ✓ Inverter AC's now contributed ~40% to the split AC sales, while window AC's accounted for ~20% of the overall AC sales.
- ✓ Voltas expanded its brand shops in cities such as Ranchi, West Bokaro, Faridabad and Jamshedpur. The brand shops will display all the latest consumer durable products including ACs, air coolers, commercial refrigeration products from brand Voltas. It will also showcase Voltbek products such as refrigerators, washing machines, microwaves/ovens and dishwashers.
- ✓ Voltas became no. 2 player in the air cooler category. YTD FY19 air cooler industry demand was weaker due to its very seasonal nature of business.
- ✓ The company is investing in its own moulds for few selected IDU's and for some air cooler models. These moulds will come to production soon. Currently, the IDU's are directly imported from China. With production of its own moulds, the company would only import critical components from China.
- ✓ **Voltbek** launched several products in Q2 FY19, including 44 SKUs of refrigerators, 40 SKUs of washing machines, 12 SKUs of microwaves/ovens and 7 SKUs of dishwashers. This launch in Q2

FY19 was backed by significant amount of branding and promotion activities. Now the JV is building up its distribution network. Civil work at Sanand factory has been initiated and the products are expected to be rolled out by end of CY19.

EMPS

- ✓ In international operations, company is looking to strengthen its order book by bagging orders in facility management and water management solutions. In Q3 FY19, international book saw an inflow of Rs.3.4bn and the total book stood at Rs.19bn as of Decemeber'18.
- ✓ A provision of Rs.130mn has been made and recorded under exceptional item. This is in regards to an MEP project in Middle east, where the company's subsidiary is executing the order as a subcontractor. In this project, one of the main contractor from the JV partner has filed for compulsory liquidation in UK in January'18. Hence, there have been delays in certification on these projects. Management cited that they will continue its effort to recover the same.
- ✓ In domestic market, majority of orders are coming from the electrification and infrastructure space. The company's focus is on procuring government funded projects with reasonable assurance of cash. Order inflow in domestic market stood at Rs.7.3bn and the total domestic book stood at Rs.31bn as of Decemeber'18.

EPS

- ✓ Voltas continued its focus on after-sales business in textile industry, as the industry is passing through a tough phase.
- ✓ In Mining and Construction Equipment segment, Mozambique operations was the performance driver.

Exhibit 2: Cost analysis

As a % of net sales	Q3 FY19	Q3 FY18	bps yoy	Q2 FY19	bps qoq
Material costs	73.1	70.4	273	72.5	64
Personnel Costs	10.7	10.9	(20)	12.1	(139)
Other overheads	8.4	10.4	(198)	7.8	63
Total costs	92.2	91.7	55	92.4	(12)

Source: Company, YSL

Exhibit 3: Segmental analysis

(Rs mn)	Q3 FY19	Q3 FY18	% yoy	Q2 FY19	% qoq
Revenue					
EMPS	8,752	7,534	16.2	9,015	(2.9)
EPS	832	695	19.6	729	14.1
UCP	5,259	5,422	(3.0)	4,410	19.3
Total	14,843	13,651	8.7	14,154	4.9
EBIT					
EMPS	692	534	29.6	759	(8.9)
EPS	219	211	4.0	290	(24.4)
UCP	447	705	(36.6)	278	61.0
Total	1,358	1,449	(6.3)	1,327	2.4
EBITM (%)					
			bps yoy		bps qoq
EMPS	7.9	7.1	82	8.4	(52)
EPS	26.4	30.3	(396)	39.8	(1,343)
UCP	8.5	13.0	(450)	6.3	220
Blended	9.1	10.6	(147)	9.4	(23)

Source: Company, YSL

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