

How does our one year outlook change?

- We expect UCP segment to grow by ~25% y-o-y in FY17E driven by a strong growth in room air conditioners (above average summer season) and traction in new products (air coolers). EBIT margin is expected to be healthy at ~14% on the back of shift in product mix, operating leverage and benign raw material/input prices. This should sustain overall EBITDA margin higher at 8.6% in FY17E (vs. 7.5% in FY16)
- Voltas' EMP segment should witness traction in execution (10% yoy growth) driven by better order inflow (Rs. 28.5bn, 15% yoy growth). EBIT margin should see an improvement (~3% in FY17E vs. 1.4% in FY16) from a low base. In our view, further improvement prospects is capped due to risk of cost over-runs across existing projects.
- We expect growth in the engineering segment to be ~5% yoy going forward and expect EBIT margin to be ~28% (vs. 30% in FY16) as execution of a few high margin mining contracts are completed
- We expect Voltas to maintain its market leadership in the UCP segment and gradual recovery in the EMP segment augers well for the overall earnings. We maintain our 'Buy' rating with a SoTP target price of Rs. 392 (25x FY18E earnings for UCP and engineering segments and 20x for the EMP segment)

How does our 3 year outlook change?

- We are positive on VOLT's product (room a/c) business. Being a market leader, VOLT would benefit from a pick up in the room air conditioner volumes. Also strong growth potential in the newly launched product – air coolers - is expected to be additional growth driver for the UCP segment
- Order inflow traction in the project segment should gradually recover by back-ended pick up in ordering in the domestic markets and gradual recovery in MENA region ordering (linked to recovery in oil prices)

1QFY17 Update				04 August, 2016	
Promoters	30.3			Bloomberg	VOLT IN
Institutions	48.7			Shares o/s	331mn
Public	21.0			Market Cap	Rs. 113.7bn
	1m	3m	12m	52-wk High-Low	Rs. 376-211
VOLT	9%	16%	8%	3m Avg. Daily Vol	Rs. 615mn
Sensex	2%	10%	-2%	Index	BSE 200
CG Index	-3%	13%	-18%		

Key estimate revision - Consolidated

	FY17E			FY18E		
	Old	New	Change	Old	New	Change
Revenue	66,745	66,676	-0.1%	76,746	76,702	-0.1%
EBITDA	5,138	5,741	11.7%	6,324	6,928	9.5%
Margin (%)	7.7%	8.6%	91 bps	8.2%	9.0%	79 bps
PAT	4,029	4,519	12.2%	4,796	5,327	11.1%
PAT Margin	6.0%	6.8%	74 bps	6.2%	6.9%	69 bps
EPS	12.0	13.5	12.2%	14.3	15.9	11.1%

All figures in Rs. mn, except EPS, which is in Rs.

Financial summary - Consolidated

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E (x)	RoE (%)
FY16	58,574	4,370	3,515	10.4	33.0	15.6
FY17E	66,676	5,741	4,519	13.5	25.6	17.6
FY18E	76,702	6,928	5,327	15.9	21.6	18.3

Quarterly Financial Results
CMP
Rs.344
Target
Rs. 392
Rating
BUY
Consol Quarterly' Financial Result (Consolidated)

Rs. mn\Period	30-Jun-16	30-Jun-15	YoY Growth	30-Jun-15	QoQ Growth
Revenues	18,500	15,585	18.7%	18,888	-2.1%
Material cost	13,171	11,256	17.0%	13,517	-2.6%
Employee cost	1,628	1,490	9.2%	1,830	-11.1%
Other expenditure	1,707	1,526	11.9%	1,688	1.1%
Operating Expenses	16,505	14,272	15.6%	17,035	-3.1%
EBITDA	1,995	1,313	52.0%	1,853	7.7%
EBITDA margins	10.8%	8.4%	236bps	9.8%	98bps
Depreciation	66	59	11.0%	80	-18.3%
Other income	357	248	44.0%	478	-25.3%
EBIT	2,287	1,502	52.3%	2,251	1.6%
Interest	48	34	44.0%	59	-18.4%
PBT	2,239	1,468	52.5%	2,191	2.2%
Tax	651	452	44.0%	664	-2.0%
Effective tax rate	29.1%	30.8%		30.3%	
PAT	1,588	1,017	56.2%	1,528	4.0%
PAT margin	8.6%	6.5%	206bps	8.1%	50bps

Voltas (Revenue Rs. mn)	FY14	FY15	FY16	FY17E	FY18E
Electro-Mechanical Projects	26,924	22,085	27,172	29,889	33,774
yoy growth (%)	-16%	-18%	23%	10%	13%
Engineering Products	4,482	3,601	3,702	3,887	4,276
yoy growth (%)	4%	-20%	3%	5%	10%
Unitary Cooling products	20,524	25,105	25,566	31,958	37,710
yoy growth (%)	12%	22%	2%	25%	18%
Others	520	661	1,885	942	942
yoy growth (%)	4%	27%	185%	-50%	0%
Total	52,437	51,443	58,318	66,676	76,702
yoy growth (%)	-5%	-2%	13%	14%	15%

Voltas (EBIT Margin %)	FY14	FY15	FY16	FY17E	FY18E
Electro-mechanical projects & services	-1.5	1.0	1.4	3.0	4.0
Engineering products & services	27.8	30.0	30.5	28.0	28.0
Unitary Cooling products	12.3	13.9	13.2	14.0	14.0
Total	6.5	9.5	8.6	10.3	10.7

Abridged Financial Statements (Consolidated)

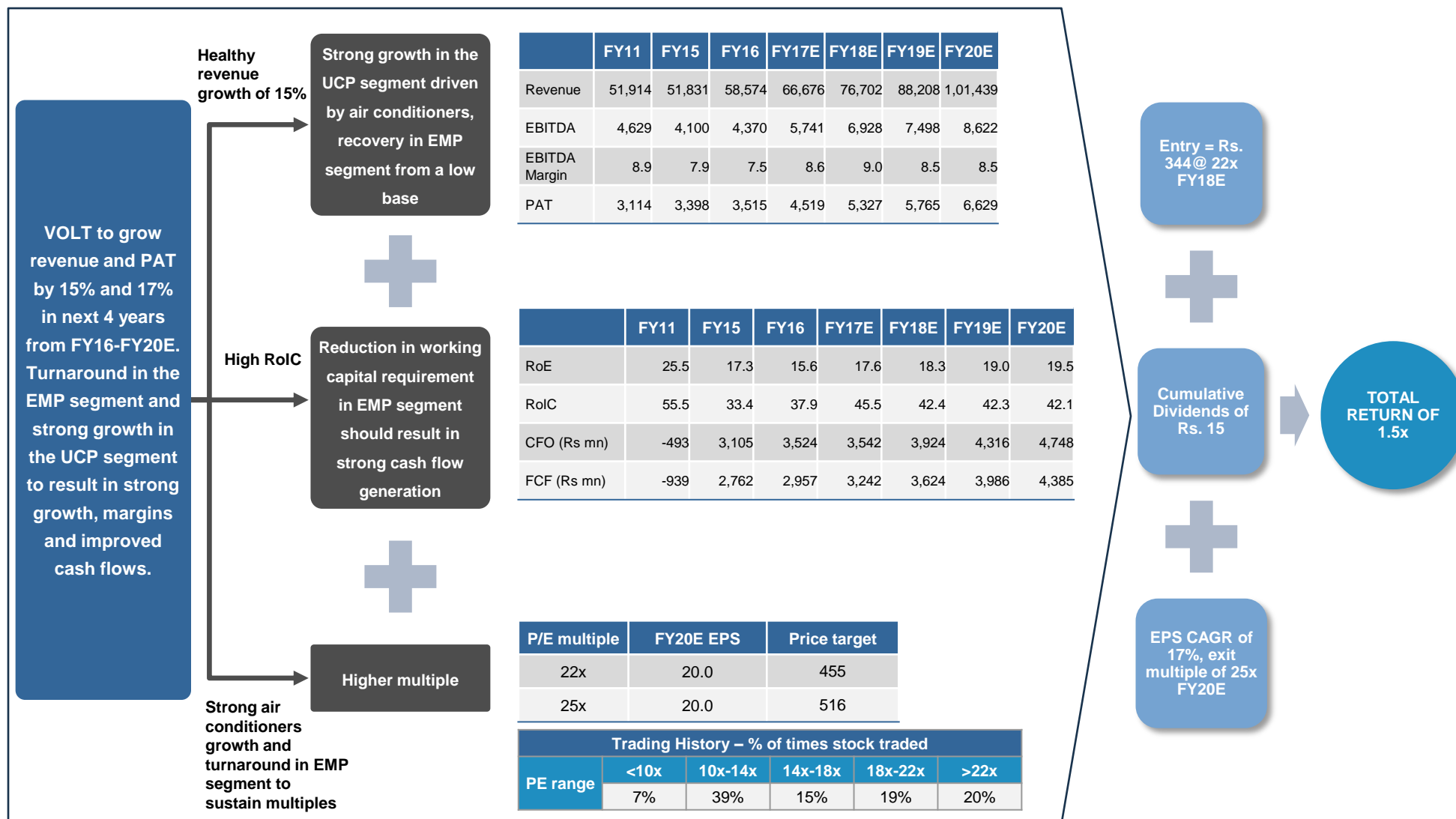
Rs. mn	FY15	FY16	FY17E	FY18E
Profit & Loss				
Revenues	51,831	58,574	66,676	76,702
EBITDA	4,100	4,370	5,741	6,928
Other Income	1,087	1,176	1,411	1,623
Depreciation	280	278	299	314
EBIT	4,907	5,268	6,853	8,237
Interest	233	153	208	166
PBT	4,674	5,114	6,645	8,070
PAT	3,398	3,515	4,519	5,327
Balance Sheet				
Net Worth	21,021	23,952	27,300	31,028
Deferred Tax	-349	-511	-511	-511
Total debt	1,217	2,600	2,080	1,664
Total Networth and liabilities	22,049	26,299	29,128	32,439
Gross Fixed assets	5,068	5,680	5,980	6,280
Net fixed assets	1,890	2,224	2,225	2,211
CWIP	44	0	0	0
Investments	10,939	15,258	16,258	17,258
Inventories	8,670	8,927	10,960	12,609
Sundry Debtors	14,029	13,066	16,441	18,913
Cash and bank balances	2,516	1,971	2,107	2,615
Loans and advances	9,426	13,291	14,301	16,445
Current liabilities	26,263	29,160	33,887	38,334
Net current assets	8,378	8,095	9,922	12,248
Total assets	22,049	26,299	29,128	32,439
Cash Flows				
Cash flow s from Operations	3,105	3,524	3,542	3,924
Cash flow s from Investing	-1,035	-4,886	-1,300	-1,300
Cash flow s from Financing	-2,360	197	-2,105	-2,116

Key metrics

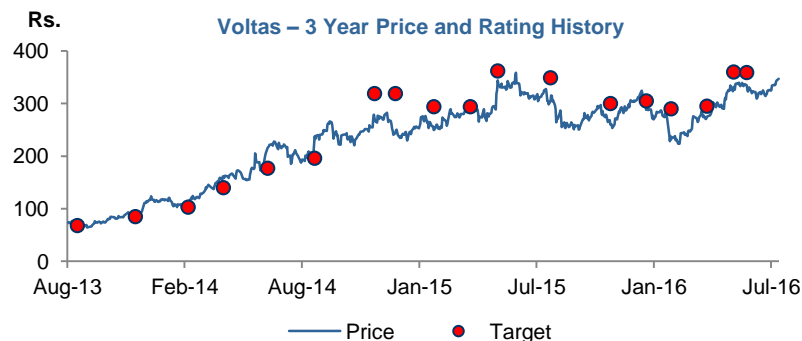
	FY15	FY16	FY17E	FY18E
Growth ratios				
Sales	-1.6%	13.0%	13.8%	15.0%
EBITDA	54.4%	6.6%	31.4%	20.7%
PAT	51.5%	3.4%	28.6%	17.9%
Margin ratios				
EBITDA	7.9%	7.5%	8.6%	9.0%
PAT	6.6%	6.0%	6.8%	6.9%
Performance ratios				
RoE	17.3%	15.6%	17.6%	18.3%
RoCE	16.4%	14.7%	16.5%	17.4%
RoA	7.5%	7.0%	7.8%	8.2%
Fixed asset turnover (x)	10.2	10.3	11.1	12.2
Total asset turnover (x)	1.1	1.0	1.0	1.1
Financial stability ratios				
Net Debt to Equity (x)	(0.1)	0.0	(0.0)	(0.0)
Current ratio (x)	1.3	1.3	1.3	1.3
Inventory and debtor days	226	220	228	228
Creditor days	160	156	161	159
Working capital days	66	64	67	69
Interest cover (x)	21.1	34.4	33.0	49.5
Valuation metrics				
Fully Diluted Shares (mn)	330.7	330.8	330.8	330.8
Market cap (Rs.mn)	1,13,776	1,13,776	1,13,776	1,13,776
EPS (Rs.)	10.2	10.4	13.5	15.9
P/E (x)	33.6	33.0	25.6	21.6
EV (Rs.mn)	1,01,537	99,147	97,490	95,567
EV/ EBITDA (x)	24.8	22.7	17.0	13.8
BV/ share (Rs.)	63.6	72.4	82.5	93.8
Price to BV (x)	5.4	4.8	4.2	3.7

Voltas – Crystal Ball Gazing

FY11-16 CAGR %			
Revenue	EBITDA	PAT	Price
2%	-1%	2%	14%



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CMP
Rs.344
Target
Rs. 392
Rating
BUY


Report Date	Price	Target	Reco.	Report Date	Price	Target	Reco.
09/Jun/16	336	359	Buy	05/Jun/14	201	177	Sell
20/May/16	322	360	Buy	31/Mar/14	162	140	Sell
11/Apr/16	272	295	Buy	05/Feb/14	108	103	Reduce
16/Feb/16	238	290	Buy	13/Nov/13	89	85	Reduce
07/Jan/16	298	305	Buy	19/Aug/13	70	68	Reduce
13/Nov/15	260	300	Buy	23/May/13	84	80	Reduce
13/Aug/15	303	349	Buy				
26/May/15	326	362	Buy				
13/Apr/15	306	294	Buy				
16/Feb/15	257	294	Buy				
18/Dec/14	241	319	Buy				
18/Nov/14	279	319	Buy				
18/Aug/14	221	196	Sell				

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