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Rating	Accumulate
Price	Rs310
Target Price	Rs335
Implied Upside	8.1%
Sensex	26,242
Nifty	8,061

(Prices as on December 21, 2016)

Trading data

Market Cap. (Rs bn)	102.4
Shares o/s (m)	330.7
3M Avg. Daily value (Rs m)	534.2

Major shareholders

Promoters	30.30%
Foreign	22.37%
Domestic Inst.	26.99%
Public & Other	20.90%

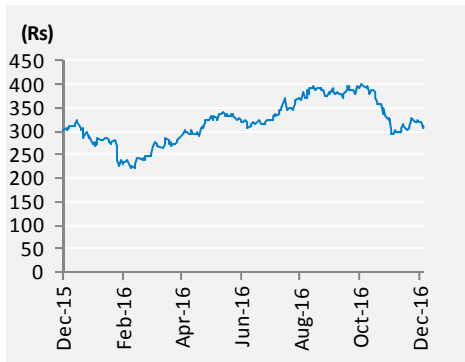
Stock Performance

(%)	1M	6M	12M
Absolute	4.7	(4.1)	1.4
Relative	2.8	(2.0)	(0.6)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	11.3	12.2	-7.8
2018	13.4	14.6	-7.8

Price Performance (RIC: VOLT.BO, BB: VOLT IN)



Source: Bloomberg

We met Volta's management and the key takeaways from the meeting are: (1) Demand for AC should normalise as liquidity improves in the system over next 2-3 months and is preparing for the summer demand as per schedule, (2) Focus continues to be on profitability and improving brand equity for the UCP business, (3) After the launch of Air Cooler, Volta is also looking at adding more products to their basket in the medium term, (4) In project segment, outlook in domestic business continues to be good, both on execution and tender pipeline, (5) In International markets, while execution has seen some slowdown, Volta is focusing on speedy settlement and commercial closure of legacy projects. We remain positive on Volta over medium-to-long term, given the improving margin profile of fresh orders, strong consumer business franchise, healthy balance sheet and cash flow.

- **Expect demand to normalise as liquidity improves; profitability continues to be the key focus:** Volumes have been weak post demonetization; however being a lean season, weak volumes won't have a significant impact on the company. Volta believes that things should normalise by Feb 2017 as liquidity is expected to be back in the system. They continue to plan their purchase to build-up inventory for the summer season as per the original plan. Heavy discounting is also low as system was lean on inventory post the good festive season. Volta continues to grow ahead of the market and remains the undisputed leader for Room Air Conditioners across India with an overall market share of 22% at multi-brand outlets.

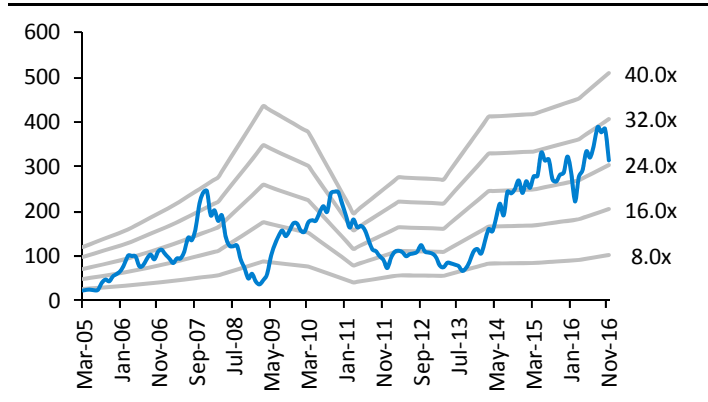
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Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	51,831	58,574	62,661	70,386
Growth (%)	(1.6)	13.0	7.0	12.3
EBITDA (Rs m)	4,100	4,369	4,393	5,501
PAT (Rs m)	3,398	3,450	3,732	4,438
EPS (Rs)	10.3	10.4	11.3	13.4
Growth (%)	51.5	1.5	8.2	18.9
Net DPS (Rs)	2.9	3.0	2.8	3.4

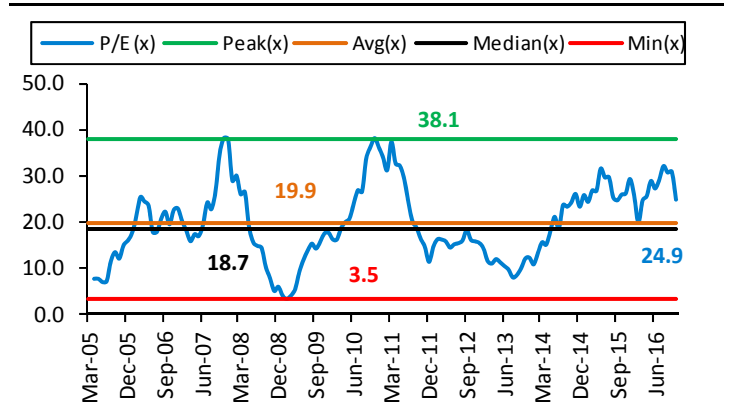
Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	7.9	7.5	7.0	7.8
RoE (%)	17.1	15.2	14.7	15.7
RoCE (%)	16.2	14.7	13.8	14.8
EV / sales (x)	1.9	1.8	1.6	1.4
EV / EBITDA (x)	24.6	23.6	23.4	18.2
PE (x)	30.1	29.7	27.4	23.1
P / BV (x)	4.8	4.3	3.8	3.4
Net dividend yield (%)	0.9	1.0	0.9	1.1

Source: Company Data; PL Research

- Emphasis remains on improving brand equity, increasing channel partners, building relationship with key accounts and strengthening the product portfolio with price relevant offerings. Voltas highlighted that focus will remain on profitability even it has to lose market share. The company highlighted that EBIT margin of 10-11% are sustainable in the medium term. After the launch of Air Cooler, Voltas is also adding more products to the product basket in the medium term.
- **MEP business – focus on closure of legacy projects:** In the domestic market, Voltas has not seen any issue in execution due to demonetization as most of the projects are largely public sector focused. The company had strategically narrowed focus towards public spending and well-funded projects to mitigate credit risks associated with the private sector. Voltas has increased order share in areas such as Urban Infrastructure, Rural Electrification (RE) and Water. The company continues to see healthy tender pipeline from water and RE sector. Voltas continues to remain committed to the strategy of selectively booking orders with right margin and risk profile
- On the International front, pace of project execution is slow and given the environment, company is focusing on speedy settlement and commercial closure of legacy projects by March'17. Better quality order book (Rs20bn, up 10% YoY) built over last few quarters' gives confidence of improved performance in international markets in the medium term.
- **Outlook and Valuation:** The stock is trading at 23x FY18E earnings. We remain positive on Voltas over medium/long, given improving margin profile of fresh orders, strong consumer business franchise, healthy balance sheet and cash flow. Maintain “**Accumulate**”.

Exhibit 1: One year forward Price / Earnings Band


Source: Company Data, Bloomberg, PL Research

Exhibit 2: One year forward Price / Earnings


Source: Company Data, Bloomberg, PL Research

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Net Revenue	51,831	58,574	62,661	70,386
Raw Material Expenses	35,975	41,260	45,116	50,678
Gross Profit	15,856	17,314	17,545	19,708
Employee Cost	5,899	6,699	8,334	9,361
Other Expenses	5,857	6,246	4,818	4,846
EBITDA	4,100	4,369	4,393	5,501
Depr. & Amortization	280	278	464	488
Net Interest	233	153	258	258
Other Income	1,087	1,176	1,442	1,325
Profit before Tax	4,675	5,114	5,113	6,080
Total Tax	1,276	1,600	1,380	1,642
Profit after Tax	3,398	3,515	3,732	4,438
Ex-Od items / Min. Int.	—	925	—	—
Adj. PAT	3,398	3,450	3,732	4,438
Avg. Shares O/S (m)	330.7	330.8	330.7	330.7
EPS (Rs.)	10.3	10.4	11.3	13.4

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	5,731	3,684	1,823	4,274
C/F from Investing	(3,919)	(3,393)	(300)	(300)
C/F from Financing	(2,774)	82	(1,374)	(1,556)
Inc. / Dec. in Cash	(962)	373	149	2,418
Opening Cash	2,588	1,626	1,999	2,148
Closing Cash	1,626	1,999	2,148	4,566
FCFF	5,198	3,191	1,265	3,716
FCFE	3,786	4,573	1,241	3,716

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	(1.6)	13.0	7.0	12.3
EBITDA (%)	54.4	6.6	0.5	25.2
PAT (%)	51.5	1.5	8.2	18.9
EPS (%)	51.5	1.5	8.2	18.9
Profitability				
EBITDA Margin (%)	7.9	7.5	7.0	7.8
PAT Margin (%)	6.6	5.9	6.0	6.3
RoCE (%)	16.2	14.7	13.8	14.8
RoE (%)	17.1	15.2	14.7	15.7
Balance Sheet				
Net Debt : Equity	(0.1)	—	—	(0.1)
Net Wrkng Cap. (days)	26	6	(6)	(6)
Valuation				
PER (x)	30.1	29.7	27.4	23.1
P / B (x)	4.8	4.3	3.8	3.4
EV / EBITDA (x)	24.6	23.6	23.4	18.2
EV / Sales (x)	1.9	1.8	1.6	1.4
Earnings Quality				
Eff. Tax Rate	27.3	31.3	27.0	27.0
Other Inc / PBT	23.3	23.0	28.2	21.8
Eff. Depr. Rate (%)	5.4	5.1	8.0	8.0
FCFE / PAT	111.4	132.6	33.2	83.7

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	21,332	23,970	26,716	29,827
Total Debt	1,217	2,600	2,575	2,575
Other Liabilities	161	258	284	313
Total Liabilities	22,709	26,828	29,575	32,714
Net Fixed Assets	2,227	2,224	2,059	1,871
Goodwill	798	723	826	826
Investments	10,939	15,258	15,258	15,258
Net Current Assets	8,378	8,095	10,904	14,232
<i>Cash & Equivalents</i>	<i>2,516</i>	<i>1,971</i>	<i>2,148</i>	<i>4,566</i>
<i>Other Current Assets</i>	<i>32,328</i>	<i>35,284</i>	<i>36,153</i>	<i>40,502</i>
<i>Current Liabilities</i>	<i>26,466</i>	<i>29,160</i>	<i>27,397</i>	<i>30,836</i>
Other Assets	367	528	528	528
Total Assets	22,709	26,828	29,575	32,715

Quarterly Financials (Rs m)

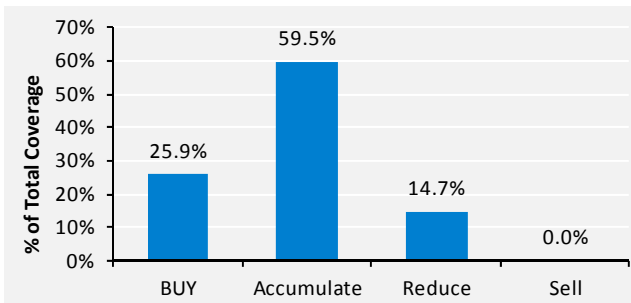
Y/e March	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Net Revenue	13,078	18,888	18,500	9,672
EBITDA	584	1,853	1,995	687
<i>% of revenue</i>	<i>4.5</i>	<i>9.8</i>	<i>10.8</i>	<i>7.1</i>
Depr. & Amortization	69	80	66	63
Net Interest	33	59	48	33
Other Income	183	478	357	658
Profit before Tax	665	2,191	2,248	1,249
Total Tax	126	664	651	505
Profit after Tax	561	1,807	1,598	744
Adj. PAT	539	1,528	1,588	744

Source: Company Data, PL Research.

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Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
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Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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