

Heavy pre-buying activity offsets lockdown impact

Voltas's UCP segment performance was robust with segment revenue growth of ~20% (in line with our estimate) despite Covid-19 related lockdown in March 2020. Voltas outpaced its peers in revenue growth terms in Q4FY20 mainly due to 1) heavy pre-buying activity by dealers in anticipation of supplies getting impacted due to outbreak of virus in China, 2) well distributed dealer network (~17000) in tier-II, tier-III cities across India, 3) rising market share in southern region. Segment EBIT margin also increased significantly by ~424 bps YoY to 14.6% led by better gross margin. However, performance of project (EMPS) and product & services division was significantly marred by lockdown. While Voltas' FY21 performance is likely to get impacted by lockdown (cut our revenue, earnings estimate by 24%, 46%, respectively), we believe recovery in sales would start from H2FY21 led by good festive demand and onset of second summer. Considering its robust balance sheet condition and well distributed dealer network, it may regain momentum post normalisation of business.

Project business remains a drag

Voltas reported muted topline growth of ~1% YoY in Q4FY20E as growth in UCP business was completely offset by project (EMPS) business. The drag on EMPS business was largely on account of slow execution of international and domestic orders. Despite a strong order book of ₹ 7789 crore, the lockdown situation may impact the pace of execution, job closures, thereby resulting in stretched working capital and low profitability in the near term.

Strong margin of UCP segment drives bottomline

While the EMPS segment margin was down ~311 bps YoY at 1.4%, the UCP profitability surged 423 bps YoY to 14.6% in Q4FY20. While the management refrained from giving any future margin guidance, we believe FY21E margin is likely to get impacted by lower operating leverage. However, we also believe ~₹ 800 crore of liquid asset on the book would help the company to tide over any rough phase in the near future.

Valuation & Outlook

We believe the complete lockdown would hit the entire supply chain of the UCP segment (contributes ~45% of sales) and derail Q1FY21 segment revenue. On the other hand, the EMPS business is also likely to be hit by a delay in project execution in the Middle East and India due to lockdown situation across operating geographies. However, we believe Voltas being a market leader in the cooling product segment would recoup sales as and when economic activity normalises in the coming future. We like Voltas for its strong brand recall and healthy balance sheet, which would cushion the company from any adverse situations. We upgrade our rating from HOLD to **BUY** with a revised target price of ₹ 635/share ascribing PE multiple 8x, 8x and 32x to EMPS, EPS and UCP segment, respectively.

Key Financial Summary

(₹Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (19E-22E)
Net Sales	6404.4	7124.1	7658.1	6079.8	8468.9	5.9
EBITDA	662.6	611.7	686.7	378.2	863.1	12.2
EBITDA Margin (%)	10.3	8.6	9.0	6.2	10.2	
Net Profit	577.9	513.9	521.1	314.1	708.7	11.3
EPS (₹)	17.5	15.5	15.8	9.5	21.4	
P/E(x)	30.9	34.8	34.3	56.9	25.2	
Price/Book (x)	4.6	4.3	4.2	4.1	3.8	
Mcap/Sales (x)	2.8	2.5	2.3	2.9	2.1	
RoE (%)	14.8	12.7	13.0	7.2	14.9	
RoCE(%)	19.8	17.3	19.5	11.2	20.1	

Source: Company, ICICI Direct Research

Particulars

Particular	Amount
Market Cap (₹Crore)	17,859.6
Total Debt (FY 20) (₹Crore)	217.9
Cash & Inv (FY 20) (₹Crore)	828.9
EV (₹Crore)	17,248.6
52 week H/L	740 / 428
Equity capital (₹Crore)	33.1
Face value (₹)	1.0

Key Highlights

- Overall growth led by strong performance in UCP segment due to strong dealer demand
- Strong EBITDA margin led by strong profitability of UCP business
- Project business performance marred by lockdown in March
- While H1FY21E will be challenging due to lockdown, we believe a recovery would start from H2FY21
- Upgrade from HOLD to BUY with revised target price of ₹ 635

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Exhibit 1: Variance Analysis

	Q4FY20	14FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	2,089.6	2,189.2	2,062.8	1.3	1,492.5	40.0	Strong revenue growth in the UCP segment partially offset by sharp decline in the revenue of EMPS business, resulting flattish revenue on YoY basis
Other Income	60.5	61.1	57.2	5.7	54.3	11.4	
Raw Material Exp	452.3	892.9	860.8	-47.5	611.4	-26.0	
Employee Exp	177.6	196.0	166.4	6.7	173.4	2.4	
Purchase of Traded goods	1,039.0	718.7	718.2	44.7	454.1	128.8	
Other Expenses	228.8	169.9	173.2	32.1	156.1	46.6	
EBITDA	192.0	211.7	144.3	33.1	97.6	96.8	
EBITDA Margin (%)	9.2	9.7	7.0	219 bps	6.5	265 bps	Sharp increase in margin of UCP segment (up 423 bps YoY) partially offset by ~311 bps YoY decline in profitability of EMPS segment
Depreciation	8.2	8.1	5.9	38.3	8.0	2.2	
Interest	6.1	10.9	10.6	-43.1	5.7	5.6	
Exceptional items	2.0	0.0	0.0		0.0		
Profit/(loss) from Asso & JVs	(19.5)	(12.3)	(19.3)		(18.7)		Loss from joint venture and associates companies, which includes losses from Voltas-Beko
PBT	216.7	241.6	165.6	30.9	119.3	81.6	
Total Tax	57.2	60.4	23.9	139.9	31.4	82.5	
PAT	159.5	181.2	141.7	12.5	87.9	81.4	
Key Metrics							
EMPS	805	888	976	-17.6	808	-0.4	Decline in sales primarily due to slow pace of execution amid onset of pandemic
EPS	95	80	78	20.8	83	1.4	Focus on after sales service and additional maintenance contracts in Mozambique in mining and construction equipment drive sales
UCP	1198.9	1210	998	20.2	601	99.6	Favourable base coupled with strong pre-buying in Jan-Feb'20 drives segment revenue

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	7,964.3	6,079.8	(23.7)	9,256.3	8,468.9	(8.5)	Revising our estimate factoring the impact of extended lockdown in April-May'20. We believe recovery to start from H2FY 21E onwards
EBITDA	708.1	378.2	(46.6)	874.9	863.1	(1.3)	
EBITDA Mar(%)	8.9	6.2	-268bps	9.5	10.2	69bps	Lower operating leverage (owing to absence of volume growth in the UCP segment) would dent EBITDA margin in FY 21E
PAT	583.2	314.1	(46.1)	707.3	708.7	0.2	
EPS (₹)	17.6	9.5	(46.1)	21.4	21.4	0.2	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19E	FY20E	FY21E	FY22E	FY21E	FY22E	
EMPS	27.2	-10.3	-19.3	45.2	8.1	13.7	We build flattish revenue CAGR in F19-22E owing to slow pick up in infrastructure activities
EPS	0.6	6.4	-7.9	7.6	7.4	7.5	
UCP	-2.2	29.1	-23.3	37.4	-2.6	19.3	We model UCP segment revenue CAGR of ~11% for FY 19-22E led by same amount of volume CAGR in RAC segment

Source: Company, ICICI Direct Research

Conference call highlights

Unitary Cooling Products

- Voltas recorded strong sales growth of ~50% YoY in the first 11 months of FY20. However, the lockdown in March 2020 (considered to be a peak period) led to substantial sales loss for the company thereby limiting annual revenue growth of 29% YoY in FY20
- There were strong primary sales during the first two months of Q4FY20 in anticipation of a severe summer and disruption in supply of AC components from China
- Voltas maintained market leadership position in RAC segment with ~50 bps increase in market share to 24.2% (last data available till February 2020) at multi-branded outlets. Inverter ACs now account for 50% of its total AC sales
- According to the company, Voltas has achieved a leadership position in the fast growing inverter air conditioner segment, overtaking its nearest competitor in January and February 2020
- The channel has RAC inventory of 60 days with company level inventory at ~90 days
- The company witnessed good demand traction post relaxation from lockdown due to rising temperature and work from home culture
- Segment margin increased 230 bps YoY at 12.6% for FY20E
- Voltas' air cooler segment recorded volume growth of 60% in FY20 (on a lower base). It is now the second largest air cooler brand with market share of ~10%
- Cooling product sales in March-May (peak summer season) contribute around 35-40% of total volume of annual sales. Due to Covid-19 this year, this was lost amid the lockdown
- The demand pattern and behaviour of consumers may undergo a change and spend towards discretionary products may be withheld, temporarily affecting the growth of the industry in FY21

Electro-mechanical projects & services

- EMPS segment order book was up 56% YoY to ₹ 7788 crore in FY20
- The company's international order book was at ₹ 3000 crore. Its domestic order book was at ₹ 4789 crore
- Covid 19 has not had much of an impact on international project business as construction activity is statutorily considered an essential service in the Middle East. Nevertheless, the pace of the execution has significantly reduced with certain mega events like the Expo 2020 being postponed
- On the domestic front, while project work commenced post the relaxation from lockdown, mobilisation of work force remains challenging
- The domestic order represent a healthy mix of water, metro, airport, solar and general MEP projects
- Delay in completion of projects may sharply increase the receivable days for the company
- EBIT margin of the business declined 240 bps YoY to 5.2% in FY20

Engineering products & services

- The textile industry is passing through a difficult period. In this scenario, the company's focus continues on after-sales business in both spinning and post spinning segments. In mining and construction equipment, Mozambique operations continue to drive the majority of revenues

VoltBek

- Manufacture of direct cool refrigerators from the Sanand factory has commenced in Q4FY20
- The factory has an annual capacity of 1 million units, which can be scaled up to 2.5 million units for manufacture of refrigerator and washing machines
- As per external sources, Voltas has attained a reasonable market share of close to 2% in both frost free refrigerators and washing machines, within a short period of time
- The current lockdown has increased demand for some appliances like dishwashers and refrigerators
- Cumulatively, the company has invested ₹ 335 crore in joint venture with Arcelik

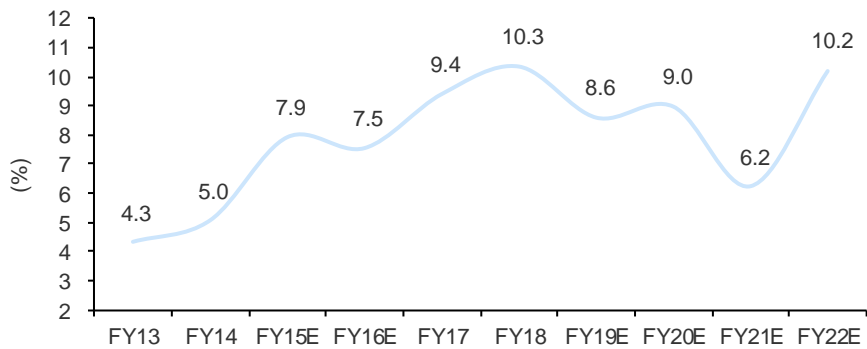
Financial story in charts

Exhibit 4: Revenue growth led by UCP segment

₹ crore	FY14	FY15	FY16E	FY17	FY18	FY19	FY20E	FY21E	FY22E	CAGR FY19-22E
EMPS	2692.4	2208.5	2828.8	2655.0	2845.2	3619.1	3246.1	2620.3	3804.4	1.7
EPS	448.2	360.1	370.6	331.8	309.9	311.7	331.7	305.3	328.5	1.8
UCP	2052.4	2510.5	2521.0	3046.9	3226.1	3155.6	4073.7	3123.4	4292.8	10.8
Others	74.4	104.9	26.8	62.2	47.6	39.5	30.9	31.4	44.0	3.7
Net Sales	5266.0	5183.1	5746.7	6032.8	6404.4	7124.1	7658.1	6079.8	8468.9	5.9

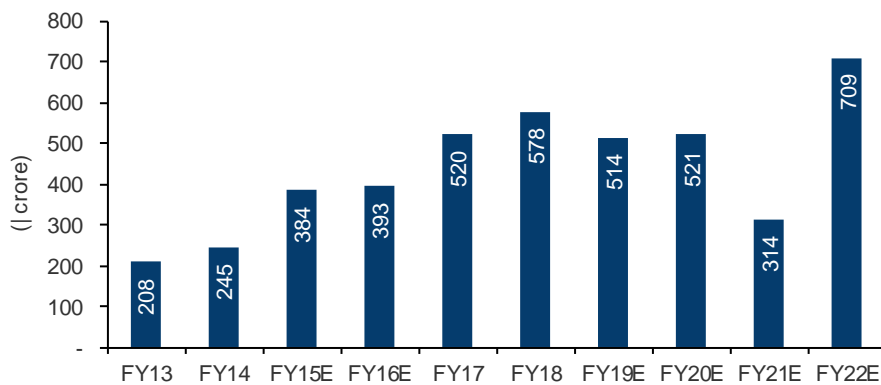
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin to be in range of historical margin trend



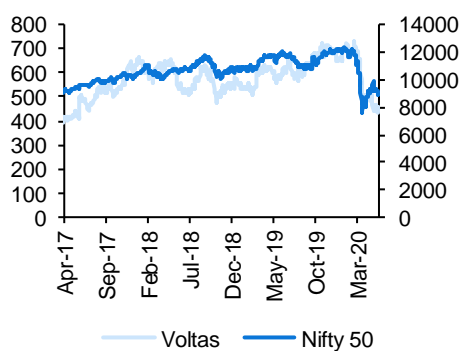
Source: Company, ICICI Direct Research

Exhibit 6: Sales growth, slight recovery in margin to drive PAT in FY20E-22E



Source: Company, ICICI Direct Research

Exhibit 7: Historical price chart



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	30.3	30.3	30.3	30.3	30.3
FII	13.7	13.0	10.2	10.9	9.9
DII	33.4	35.7	39.0	38.6	40.0
Others	22.6	21.0	20.5	20.2	19.8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Net Sales	7,124.1	7,658.1	6,079.8	8,468.9	
Expenses					
Raw Material Expenses	3,556.8	3,289.0	2,572.6	3,745.5	
(inc)/Dec in stocks	(279.6)	(302.3)	-	-	
Purchase of traded good	1,985.0	2,568.3	1,837.6	2,364.8	
Employee Expenses	641.9	671.7	636.9	758.2	
Other expenses	608.3	744.8	654.5	737.3	
Total Operating Expendit	6,512.4	6,971.4	5,701.6	7,605.8	
EBITDA	611.7	686.7	378.2	863.1	
Other Income	186.3	230.6	178.4	192.7	
Interest	33.0	21.1	15.2	16.1	
PBDT	765.0	896.2	541.4	1,039.8	
Depreciation	24.0	32.0	38.9	46.6	
PBT before Exceptional I	741.0	864.2	502.4	993.2	
Less: Exceptional Items	11.8	51.2	-	-	
Total Tax	163.5	223.3	103.3	236.2	
PAT before MI	513.9	521.1	314.1	708.7	
PAT after MI	513.9	521.1	314.1	708.7	
Profit from Associates	(51.8)	(68.7)	(85.0)	(48.3)	
PAT	513.9	521.1	314.1	708.7	

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Equity Capital	33.1	33.1	33.1	33.1	
Reserve and Surplus	4,076.9	4,247.1	4,321.5	4,714.1	
Total Shareholders funds	4,110.0	4,280.2	4,354.6	4,747.2	
Total Debt	314.7	217.9	225.9	233.9	
Deferred Tax Liability	6.6	1.4	1.4	1.4	
Other Non Current Liabilitie	0.7	7.3	7.3	7.3	
Total Liability	4,466.7	4,543.3	4,625.8	5,026.5	
Net Block	270.7	308.1	319.2	372.6	
Total Fixed Assets	286.4	334.4	345.4	398.9	
Other Investments	1,150.2	1,822.9	1,872.9	1,922.9	
Goodwill on Consolidation	72.3	72.3	72.3	72.3	
Deferred Tax Assets	105.9	72.9	72.9	72.9	
Long term loans and advar	156.0	177.5	140.9	196.2	
Other non current assets	74.1	91.1	72.3	100.8	
Liquid Investments	1,235.7	520.4	470.4	420.4	
Inventory	1,090.7	1,468.9	1,332.6	1,624.2	
Debtors	1,833.0	1,833.6	1,582.4	2,204.2	
Cash	321.0	308.5	227.4	191.9	
Loans and Advances	11.6	2.3	4.6	6.4	
Other Current Assets	1,185.2	1,451.4	1,152.3	1,605.1	
Net Current Assets	1,386.2	1,452.0	1,578.8	1,842.3	
Total Assets	4,466.7	4,543.3	4,625.8	5,026.5	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Profit after Tax	513.9	521.1	314.1	708.7	
Depreciation	24.0	32.0	38.9	46.6	
Cash Flow before working cap	570.8	574.1	368.3	771.4	
Net Increase in Current Assets	(293.8)	(635.7)	684.4	(1,368.0)	
Net Increase in Current Liabilitie	(160.9)	557.5	(892.3)	1,069.0	
Net cash flow from operatir	116.1	495.8	160.4	472.4	
Long term loans and advances	(64.3)	(21.5)	36.6	(55.4)	
Other non current assets	(39.2)	(17.0)	18.8	(28.4)	
Liquid Investments	367.7	42.6	-	-	
(Purchase)/Sale of Fixed Asse	(81.5)	(79.9)	(50.0)	(100.0)	
Others	(92.0)	36.2	-	-	
Net Cash flow from Investir	90.8	(39.6)	5.4	(183.8)	
Proceeds/(Repament) loans	172.4	(96.8)	8.0	8.0	
Total Outflow on account of div	(154.8)	(154.8)	(77.4)	(116.1)	
Others	(187.3)	(217.2)	(177.5)	(216.1)	
Net Cash flow from Financir	(169.7)	(468.8)	(246.9)	(324.2)	
Net Cash flow	37.2	(12.6)	(81.2)	(35.6)	
Cash and Cash Equivalent at th	283.8	321.0	308.5	227.4	
Cash	321.0	308.5	227.4	191.9	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Per Share Data					
EPS	15.5	15.8	9.5	21.4	
Cash EPS	16.3	16.7	10.7	22.8	
BV	124.3	129.4	131.7	143.5	
DPS	4.7	4.7	2.3	3.5	
Operating Ratios					
EBITDA margin	8.6	9.0	6.2	10.2	
PAT margin	7.3	7.3	5.2	8.4	
Return Ratios					
RoE	12.7	13.0	7.2	14.9	
RoCE	17.3	19.5	11.2	20.1	
RoIC	19.9	16.5	8.3	17.3	
Valuation Ratios					
EV / EBITDA	27.2	25.1	46.0	20.3	
P/E	34.8	34.3	56.9	25.2	
EV / Net Sales	2.3	2.3	2.9	2.1	
Sales / Equity	1.7	1.8	1.4	1.8	
Market Cap / Sales	2.5	2.3	2.9	2.1	
Price to Book Value	4.3	4.2	4.1	3.8	
Turnover Ratios					
Asset turnover	1.6	1.7	1.3	1.7	
Debtors Days	93.9	87.4	95.0	95.0	
Creditors Days	121.7	128.2	120.0	120.0	
Solvency Ratios					
Debt / Equity	0.1	0.1	0.1	0.0	
Current Ratio	1.6	1.6	1.9	1.8	
Quick Ratio	1.2	1.1	1.3	1.3	

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP		Rating	M Cap (₹Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Asian Paints (ASIPAI)	1,693	1,900	Buy	1,62,359	29.9	32.5	38.6	56.6	52.1	43.9	36.3	33.1	27.9	30.7	31.5	33.5	26.6	26.3	27.8
Astral Polytechnik (ASTP)	930	900	Hold	14,012	16.6	14.2	20.0	56.1	65.3	46.4	27.8	30.4	23.3	20.5	16.3	20.2	16.6	12.6	15.4
Havells India (HAVIND)	540	575	Buy	33,691	11.7	7.8	13.2	46.0	68.9	40.9	29.0	36.8	23.3	19.6	14.0	21.2	17.0	11.2	17.1
Kansai Nerolac (KANNE)	375	415	Buy	20,210	9.9	7.8	10.4	37.7	48.0	36.0	26.6	31.2	24.1	17.6	14.5	17.9	14.1	11.1	13.7
Pidilite Industries (PIDINI)	1,474	1,485	Buy	75,569	25.0	26.7	31.3	59.0	55.2	47.1	37.9	35.8	30.5	32.7	30.6	30.9	26.6	24.5	24.6
Supreme Indus (SUPIND)	1,028	1,040	Hold	13,058	38.5	36.8	27.6	39.7	27.9	37.2	15.1	18.3	13.9	22.5	15.7	21.1	20.7	15.0	19.5
Symphony (SYMLIM)	902	1,055	Buy	6,310	26.0	23.7	35.1	34.7	38.1	25.7	28.9	32.1	20.6	28.8	23.9	31.9	29.0	22.7	28.9
Voltas Ltd (VOLTAS)	540	635	Buy	17,860	15.8	9.5	21.4	34.3	56.9	25.2	25.1	46.0	20.3	19.5	11.2	20.1	13.0	7.2	14.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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