

Voltas

2 June 2020

Reuters: VOLT.BO; Bloomberg: VOLT IN

UCP outperforms despite COVID-19; EMPS stays weak

Voltas posted 4QFY20 consolidated sales of Rs20.9bn, flat YoY, 9%/5% above our/consensus estimate. UCP sales grew 20% YoY to Rs11.9bn (57% of total sales) despite loss of primary sales in March 2020 due to COVID-19 lockdown. Voltas maintained room AC leadership with 24.2% YTD (till Feb 2020) market share and also lead in inverter ACs in Jan-Feb 2020. EMPS revenue fell 18% YoY to Rs8bn (38% of total sales) due to slower pace of project execution amid COVID challenges. Order book is at life-time high of Rs78bn (up 56% YoY & 11% QoQ) with order inflow of Rs15.2bn in 4QFY20. Engineering Products revenue grew 21% YoY to Rs948mn (5% of total sales) with EBIT margin of 28.4%, flat QoQ. EBITDA rose 33% YoY to Rs1.9bn on a low base, leading to an operating margin of 9.2%, up 220bps YoY and above our/consensus estimate of 8.7%/7.9%. EBIT margin in EMPS was down 310bps YoY to 1.4% while UCP margin rose 420bps YoY to 14.6%. PAT grew 14% YoY to Rs1.6bn, above our/consensus estimates of Rs1.3bn/Rs1.2bn. We have tweaked our estimates and retained Buy rating on Voltas with a revised SOTP-based target price of Rs620 (Rs680 earlier) on FY22E earnings. We value UCP segment at Rs490 (40x P/E) and project business at Rs130 (15x P/E).

UCP stays healthy despite COVID-19 lockdown: UCP segment revenue grew 20% YoY to Rs11.9bn in 4QFY20 and 29% YoY to Rs40.7bn in FY20 (53% of total sales). The segment lost substantial business in March 2020 (beginning of peak summer season) due to COVID-19 lockdown, which adversely impacted primary dispatches of AC. In first 11 months of FY20, Voltas posted volume growth of 50%, outpacing industry growth of 30%. It retained industry leadership with YTD (till Feb 2020) market share of 24.2% at the multi-brand outlets, up 50bps YoY. Voltas also gained leadership position in the inverter ACs in Jan-Feb 2020. The share of inverter ACs has risen to 64% of split AC sales and 50% of total AC sales for Voltas. Air Coolers posted 60% growth due to availability of complete range, wider distribution network and competitive pricing. Voltas has become the second largest Air Cooler brand with 10% market share as on February 2020. While sales in April were completely washed out, they have resumed from May onwards, especially in green zones. Sales are better in North (extreme heat wave underway), East and some parts of South India. The current inventory with dealers and distributors is 60 days while including company warehouse, it is 90 days. Voltas is not looking at price discounting to clear out inventory. Share of e-commerce is 8%-10% of total sales. EBIT margin of UCP segment rose 420bps/230bps YoY to 14.6%/12.6% in 4Q/FY20, led by input cost efficiencies and better sales mix. Sustainable UCP segment margin remains 11%-12%.

Voltas-Beko JV: Voltas has invested Rs3.3bn in the JV till FY20. Sanand (Gujarat) factory has started manufacturing of direct cool refrigerators with a capacity of 1mn units, which can be ramped up to 2.5mn units. The JV has achieved 2% market share in frost free refrigerators and washing machines. Loss from JV stood at Rs195mn in 4QFY20 and Rs687mn in FY20 (vs. Rs518mn in FY19).

Weak performance in EMPS: EMPS sales fell 18% YoY to Rs8bn in 4QFY20 due to slow pace of execution while FY20 revenue fell 10% YoY to Rs32.5bn due to lower opening order book. EBIT margin fell 310bps/250bps YoY to 1.4%/5.2% in 4Q/FY20. Slow pace of execution, labour availability and deferment of certification could impact revenues in near term as Voltas would prioritize receivable collection. Margin was impacted by ECL provisions and initial costs of new projects (margin gets booked post 20% work is done).

Outlook: 9% adj. earnings CAGR over FY20-FY22E, strong cash flows, lean working capital cycle and strong long-term growth prospects of the AC and white goods sector will support the valuation of Voltas.

BUY

Sector: Consumer Durables

CMP: Rs539

Target Price: Rs620

Upside: 15%

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Key Data

Current Shares O/S (mn)	330.9
Mkt Cap (Rsbn/US\$bn)	178.6/2.4
52 Wk H / L (Rs)	741/427
Daily Vol. (3M NSE Avg.)	2,511,757

Price Performance (%)

	1 M	6 M	1 Yr
Voltas	6.8	(23.0)	(7.0)
Nifty Index	(0.3)	(18.5)	(17.6)

Source: Bloomberg

Y/E March (Rsmn)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Net revenues	20,628	14,925	20,896	1.3	40.0	71,241	76,581	7.5
Raw material costs	15,790	10,655	14,912	(5.6)	40.0	52,622	55,549	5.6
Staff costs	1,664	1,734	1,776	6.7	2.4	6,419	6,717	4.7
Other expenses	1,732	1,561	2,288	32.1	46.6	6,083	7,448	22.4
Total expenditure	19,185	13,950	18,976	(1.1)	36.0	65,124	69,714	7.0
EBITDA	1,443	976	1,920	33.1	96.8	6,117	6,867	12.3
EBITDA margin (%)	7.0	6.5	9.2	-	-	8.6	9.0	-
Interest costs	106	57	61	(43.1)	5.6	330	211	(36.0)
Depreciation	59	80	82	38.3	2.2	240	320	33.3
Other income	572	543	605	5.7	11.4	1,863	2,306	23.8
PBT	1,849	1,381	2,382	28.8	72.6	7,410	8,642	16.6
Tax	239	314	572	139.9	82.5	1,635	2,233	36.5
Extraordinary items	-	-	(20)	NA	NA	(118)	(512)	NA
Minority interest	21	10	8	(60.6)	(19.2)	60	39	(35.2)
Profit from associates	(193)	(187)	(195)	NA	NA	(518)	(687)	NA
PAT	1,396	869	1,587	13.6	82.6	5,079	5,172	1.8
PAT margin (%)	6.8	5.8	7.6	-	-	7.1	6.8	-
EPS (Rs)	4.2	2.6	4.8	13.6	82.6	15.4	15.6	1.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary (consolidated)

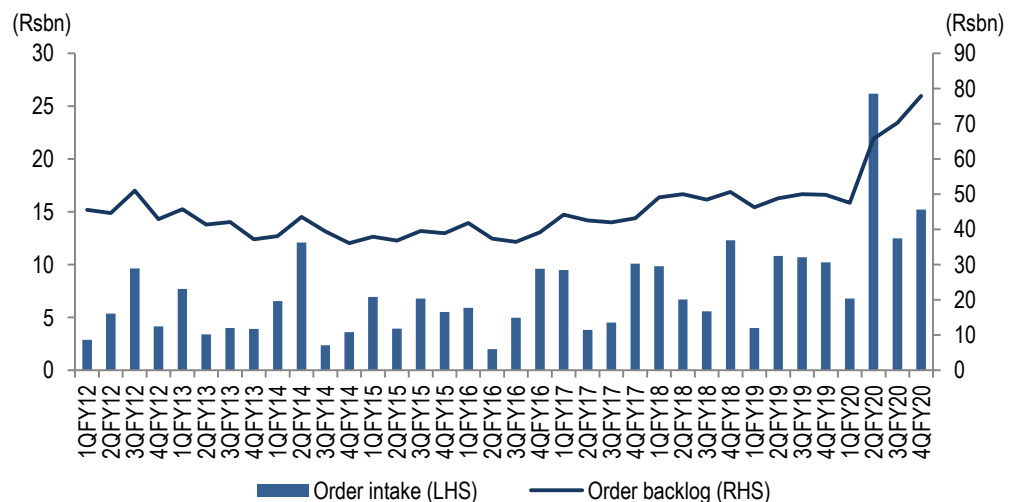
Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Revenues	64,044	71,241	76,581	69,195	81,588
EBITDA	6,626	6,117	6,867	5,643	7,856
Adjusted net profit	5,718	5,197	5,684	4,969	6,770
Adjusted EPS (Rs)	17.3	15.7	17.2	15.0	20.5
EPS growth(%)	10.7	(9.1)	9.4	(12.6)	36.2
EBITDA margin (%)	10.3	8.6	9.0	8.2	9.6
P/E (x)	31.2	34.3	31.4	35.9	26.3
P/BV (x)	4.6	4.3	4.2	3.9	3.5
EV/EBITDA (x)	26.7	29.1	25.8	31.2	22.0
Dividend yield (%)	0.7	0.7	0.7	0.8	1.1
RoCE (%)	16.8	13.8	14.6	11.3	14.8
RoIC (%)	68.7	43.5	37.0	28.4	38.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment-wise snapshot(consolidated)

Y/E March	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Revenues (Rsmn)								
Electro-mechanical projects	9,760	8,081	8,046	(17.6)	(0.4)	36,191	32,461	(10.3)
Engineering products	785	826	948	20.8	14.8	3,117	3,317	6.4
Unitary cooling products	9,976	6,005	11,989	20.2	99.6	31,556	40,737	29.1
Revenue mix (%)								
Electro-mechanical projects	47.6	54.2	38.3	-	-	51.1	42.4	-
Engineering products	3.8	5.5	4.5	-	-	4.4	4.3	-
Unitary cooling products	48.6	40.3	57.1	-	-	44.5	53.2	-
EBIT (Rsmn)								
Electro-mechanical projects	441	374	113	(74.4)	(69.8)	2,773	1,704	(38.5)
Engineering products	274	231	269	(1.7)	16.6	1,051	993	(5.5)
Unitary cooling products	1,037	607	1,754	69.1	189.0	3,254	5,121	57.4
EBIT margin (%)								
Electro-mechanical projects	4.5	4.6	1.4	-	-	7.7	5.2	-
Engineering products	34.9	28.0	28.4	-	-	33.7	29.9	-
Unitary cooling products	10.4	10.1	14.6	-	-	10.3	12.6	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: EMPS – trend in order inflow and backlog


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Actual performance versus our estimates, Bloomberg consensus estimates

4QFY20 (Rsmn)	Actual	Our estimate	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenues	20,896	19,142	9.2	19,986	4.6
EBITDA	1,920	1,663	15.5	1,583	21.3
PAT	1,587	1,289	23.0	1,207	31.4

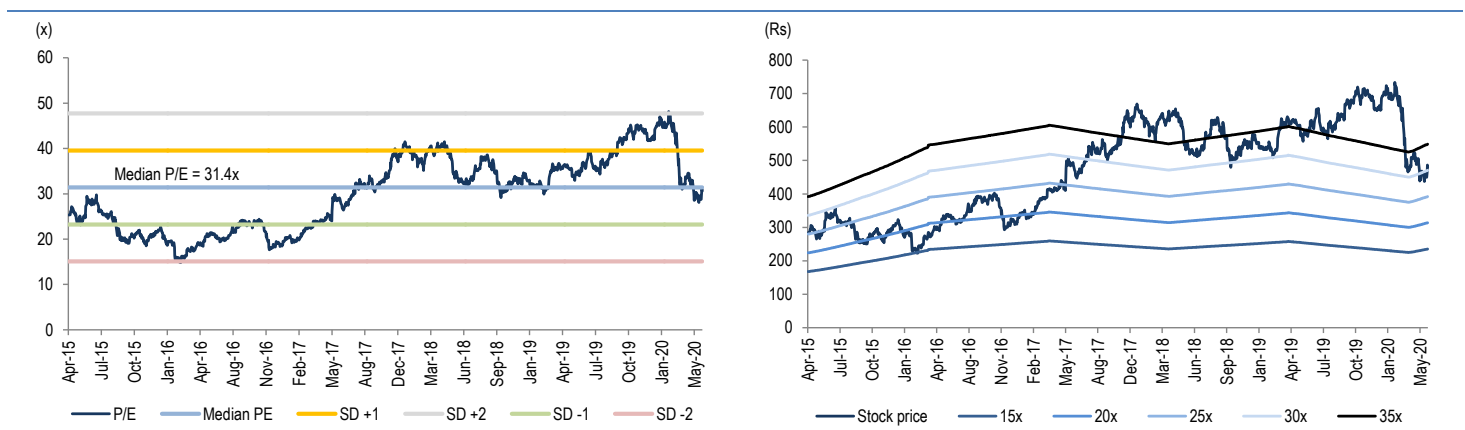
Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 5: Change in our estimates

(Rsmn)	Old		New		Deviation (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenues	80,574	91,523	69,195	81,588	(14.1)	(10.9)
EBITDA	7,359	8,752	5,643	7,856	(23.3)	(10.2)
PAT	6,259	7,486	4,969	6,770	(20.6)	(9.6)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: P/E charts



Source: Bombay Stock Exchange, Nirmal Bang Institutional Equities Research

Financial statements (consolidated)
Exhibit 7: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Revenues	64,044	71,241	76,581	69,195	81,588
% growth	6.2	11.2	7.5	(9.6)	17.9
Raw material costs	45,675	52,622	55,549	49,820	58,906
Staff costs	5,867	6,419	6,717	6,850	7,588
Other overheads	5,875	6,083	7,448	6,881	7,238
Total expenditure	57,417	65,124	69,714	63,552	73,732
EBITDA	6,626	6,117	6,867	5,643	7,856
% growth	16.9	(7.7)	12.3	(17.8)	39.2
EBITDA margin (%)	10.3	8.6	9.0	8.2	9.6
Other income	1,741	1,863	2,306	2,350	2,475
Interest costs	119	330	211	219	203
Depreciation	244	240	320	355	412
Profit before tax	8,005	7,410	8,642	7,418	9,716
Tax	2,270	1,635	2,233	1,929	2,526
Minority interest	55	60	39	20	20
Profit from associates	38	(518)	(687)	(500)	(400)
Extra-ordinary items	6	(118)	(512)	-	-
Reported net profit	5,724	5,079	5,172	4,969	6,770
Adjusted net profit	5,718	5,197	5,684	4,969	6,770
Adjusted PAT margin (%)	8.9	7.3	7.4	7.2	8.3
Adjusted EPS (Rs)	17.3	15.7	17.2	15.0	20.5
% growth	10.7	(9.1)	9.4	(12.6)	36.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	331	331	331	331	331
Reserves	38,721	40,769	42,471	45,952	50,737
Net worth	39,052	41,100	42,802	46,283	51,068
Minority interest	317	348	365	365	365
Total loans	1,423	3,147	2,179	1,479	779
Total liabilities	40,792	44,594	45,346	48,126	52,211
Net block	1,705	2,155	2,533	3,440	4,028
Capital work-in-progress	41	157	263	-	-
Goodwill	820	812	818	818	818
Investments	27,983	24,321	23,886	25,286	26,686
Inventories	8,130	10,907	14,689	11,547	11,171
Debtors	15,703	18,330	18,336	17,972	18,590
Cash	2,837	3,211	3,084	3,990	6,067
Other current assets	15,700	14,268	17,222	15,379	15,908
Total current assets	42,370	46,715	53,332	48,889	51,735
Creditors	21,764	23,745	26,889	23,095	23,533
Other current liabilities & provisions	10,408	6,815	9,312	7,927	8,238
Total current liabilities	32,172	30,560	36,201	31,022	31,770
Net current assets	10,198	16,155	17,131	17,868	19,964
Deferred tax assets(net)	46	993	715	715	715
Total assets	40,792	44,594	45,346	48,126	52,211

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
EBIT	6,383	5,877	6,547	5,288	7,444
(Inc.)/dec. in working capital	(1,496)	(5,583)	(1,103)	170	(20)
Cash flow from operations	4,887	294	5,444	5,458	7,424
Other income	1,741	1,863	2,306	2,350	2,475
Depreciation	244	240	320	355	412
Tax paid (-)	(2,270)	(1,635)	(2,233)	(1,929)	(2,526)
Profit from associates	(17)	(578)	(726)	(520)	(420)
Net cash from operations	4,585	183	5,111	5,714	7,365
Capital expenditure (-)	(256)	(806)	(803)	(1,000)	(1,000)
Net cash after capex	4,329	(623)	4,308	4,714	6,365
Interest paid (-)	(119)	(330)	(211)	(219)	(203)
Dividends paid (-)	(1,720)	(1,720)	(1,323)	(1,489)	(1,985)
Inc./(dec.) in total borrowings	(287)	1,724	(968)	(700)	(700)
(Inc.)/dec. in investments	(4,848)	3,662	435	(1,400)	(1,400)
Minority interest	32	30	17	-	-
Cash from financial activities	(6,941)	3,365	(2,050)	(3,808)	(4,288)
Others	2,135	(2,369)	(2,385)	-	-
Opening cash balance	3,314	2,837	3,211	3,084	3,990
Closing cash balance	2,837	3,211	3,084	3,990	6,067
Change in cash balance	(477)	374	(127)	906	2,077

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

Y/E March	FY18	FY19	FY20E	FY21	FY22E
Per share (Rs)					
Adjusted EPS	17.3	15.7	17.2	15.0	20.5
Book value	118.1	124.2	129.4	139.9	154.4
Valuation (x)					
P/E	31.2	34.3	31.4	35.9	26.3
P/BV	4.6	4.3	4.2	3.9	3.5
EV/EBITDA	26.7	29.1	25.8	31.2	22.0
EV/sales	2.8	2.5	2.3	2.5	2.1
Return ratios (%)					
RoCE	16.8	13.8	14.6	11.3	14.8
RoE	15.9	12.7	12.3	11.2	13.9
RoIC	68.7	43.5	37.0	28.4	38.9
Profitability ratios (%)					
EBITDA margin	10.3	8.6	9.0	8.2	9.6
EBIT margin	10.0	8.2	8.5	7.6	9.1
PAT margin	8.9	7.3	7.4	7.2	8.3
Turnover ratios					
Total asset turnover ratio (x)	1.7	1.7	1.7	1.5	1.6
Debtor days	86	87	87	90	90
Inventory days	69	66	84	80	75
Creditor days	167	158	166	160	158
Solvency ratios (x)					
Debt-equity	0.04	0.08	0.05	0.03	0.02

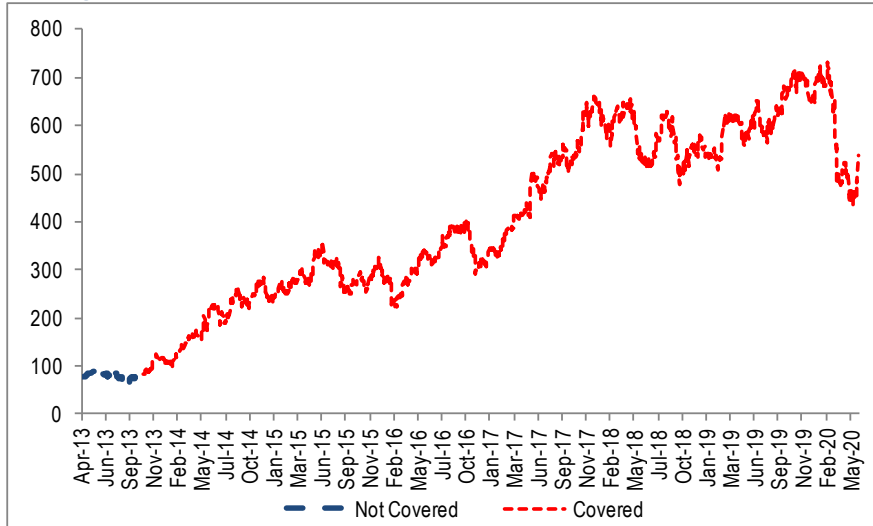
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
23 October 2013	Buy	85	108
7 November 2013	Buy	91	108
13 November 2013	Buy	88	108
26 November 2013	Buy	93	108
5 February 2014	Buy	108	140
5 June 2014	Hold	205	223
10 July 2014	Accumulate	200	223
18 August 2014	Accumulate	221	253
9 October 2014	Accumulate	238	253
18 November 2014	Buy	279	326
9 January 2015	Buy	244	326
16 February 2015	Buy	256	322
15 April 2015	Buy	303	322
26 May 2015	Accumulate	325	343
8 July 2015	Accumulate	319	343
17 August 2015	Accumulate	315	320
12 October 2015	Accumulate	277	320
10 November 2015	Accumulate	276	309
8 January 2016	Accumulate	297	309
16 February 2016	Buy	238	301
12 April 2016	Buy	278	301
20 May 2016	Accumulate	323	322
16 June 2016	Accumulate	325	322
12 July 2016	Accumulate	318	322
4 August 2016	Accumulate	344	354
13 October 2016	Accumulate	380	354
21 November 2016	Accumulate	293	325
23 December 2016	Accumulate	309	325
10 January 2017	Accumulate	344	325
14 February 2017	Accumulate	338	361
17 February 2017	Accumulate	345	365
7 April 2017	Accumulate	410	365
26 May 2017	Accumulate	475	495
6 July 2017	Accumulate	470	495
7 August 2017	Accumulate	540	525
9 October 2017	Accumulate	520	525
9 January 2018	Accumulate	648	610
12 February 2018	Accumulate	593	635
6 April 2018	Accumulate	631	635
18 May 2018	Accumulate	583	600
10 July 2018	Accumulate	534	600
13 August 2018	Accumulate	620	650
9 October 2018	Accumulate	484	650
9 November 2018	Buy	515	620
9 January 2019	Buy	536	620
18 February 2019	Buy	521	625
9 April 2019	Accumulate	609	632
13 May 2019	Accumulate	574	615
20 June 2019	Accumulate	608	615
9 July 2019	Accumulate	597	615
9 August 2019	Accumulate	598	625
19 September 2019	Accumulate	630	625
23 September 2019	Accumulate	669	680
7 October 2019	Accumulate	664	680

7 November 2019	Accumulate	667	690
9 January 2020	Accumulate	684	690
11 February 2020	Accumulate	681	715
26 March 2020	Buy	487	680
9 April 2020	Buy	509	680
2 June 2020	Buy	539	620

Rating chart



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