

## Cooler performance despite headwinds...

Despite various headwinds in FY21 such as peak season sales loss, supply chain disruptions and inflationary pressures, Voltas has maintained its market leadership position with market share of 25.6%. For FY21, Voltas' sales recovery was at 85%, much ahead of industry sales recovery of 71%. The better than industry growth of RAC sales is attributable to Voltas' inherent strength of its robust supply chain networks, strong brand and its ability to pass on inflationary pressure thereby keeping profitability intact. Also the management's guidance of market share gain of 1% every year is very encouraging. The company's FY21 EBIT margin of UCP division was higher by 150 bps YoY to 14.1%, much ahead of management guidance of 11%-12%. Further, the current lockdown situation across the country in the wake of second wave will lead to loss of peak season sales even this year. We tweak our revenue, PAT estimate downward by ~7.5%, ~18% YoY, respectively, for FY22E, factoring in the same. However, the management has guided for full effort to recoup sales losses in subsequent periods post opening up of the economy. We build in 11%, 12.5% of segment EBIT margin for FY22E, FY23E, respectively vs. 14.1% EBIT margin in FY21 factoring in higher input prices and restoration of some operating costs.

## Strong recovery in all three segments

Voltas' consolidated revenue growth of ~27% YoY to ~₹ 2652 crore was much ahead of our revenue growth estimates of 19%. The growth was led by UCP, electro mechanical project and services (EMPS) with strong revenue growth of 37% and ~20% to ₹ 1104 crore and ~₹ 1438 crore, respectively. The strong revenue growth in the EMPS segment was largely driven by execution of both domestic and international orders. Project work being designated as essential activity in the Middle East helped the company in faster execution of quality orders.

## Higher profitability of project business drives overall Q4 margin

The Q4 consolidated EBITDA margin was higher by 330 bps YoY at ~12.5%, led by 700 bps increase in profitability of the EMPS segment. Higher margin is attributable to execution of higher margin orders. UCP EBIT margin was up 100 bps YoY to 15.6%, led by higher operating leverage.

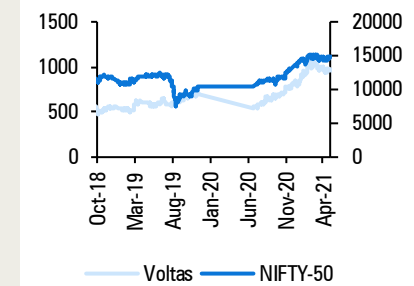
## Valuation & Outlook

We model UCP segment sales CAGR of 26% in FY21-23E will be driven by 16% volume CAGR during the same period. At the same time, we also believe Voltas will be the frontrunner to recoup its sales whenever the economy opens up given the lower penetration of ACs in tier II and III cities. We ascribe PE multiple 11x, 11x and 52x to EMPS, EPS and UCP segment, respectively, and maintain **BUY** rating on the stock with a revised target price to ₹ 1150/share (earlier ₹ 1260).

## VOLTAS

Particulars	
Particular	Amount
Market Cap (₹ Crore)	33,040.3
Total Debt (FY20) (₹ Crore)	260.6
Cash & Inv (FY20) (₹ Crore)	708.3
EV (₹ Crore)	32,592.6
52 week H/L	1131 / 432
Equity capital (₹ Crore)	33.1
Face value (₹)	1.0

## Price Performance



## Key risk to our call

- Lower than expected revenue growth in UCP segment (I-direct: 26%)
- Delay in passing on of higher raw material prices would dent profitability of UCP division

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## Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR (21-23E)
Net Sales	7124.1	7658.1	7555.8	8950.8	9822.8	14.0
EBITDA	611.7	686.7	641.4	786.4	1087.9	30.2
EBITDA Margin (%)	8.6	9.0	8.5	8.8	11.1	
Net Profit	513.9	521.0	528.8	699.5	956.0	34.5
EPS (₹)	15.5	15.8	16.0	21.2	28.9	
P/E(x)	64.3	63.4	62.5	47.2	34.6	
Price/Book (x)	8.0	7.7	6.6	6.8	5.9	
Mcap/Sales (x)	4.6	4.3	4.4	3.7	3.4	
RoE (%)	12.7	13.0	10.6	14.4	17.1	
RoCE(%)	17.3	19.5	15.0	19.5	23.0	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
<b>Revenue</b>	<b>2,651.7</b>	<b>2,479.6</b>	<b>2,089.6</b>	<b>26.9</b>	<b>1,994.6</b>	<b>32.9</b>	Strong growth in EMPS and UPS segment help drive overall sales growth
Other Income	31.6	61.2	60.5	-47.8	51.6	-38.8	
Raw Material Exp	1,379.6	613.8	452.3	205.0	932.0	48.0	
Employee Exp	146.3	171.9	177.6	-17.6	154.7	-5.4	
Purchase of Traded goods	593.9	1,227.5	1,039.0	-42.8	572.1	3.8	
Other Expenses	201.1	236.0	228.8	-12.1	189.9	5.9	
EBITDA	330.7	230.4	192.0	72.2	145.9	126.7	
<b>EBITDA Margin (%)</b>	<b>12.5</b>	<b>9.3</b>	<b>9.2</b>	<b>328 bps</b>	<b>7.3</b>	<b>516 bps</b>	Sharp increase in margin of EMPS and UCP segment by 700 bps and 100 bps YoY, respectively, helped drive overall margin of the business
Depreciation	8.9	8.2	8.2	8.2	8.4	5.5	
Interest	10.4	6.7	6.1	72.2	3.2	225.6	
Exceptional items	0.0	0.0	2.0		0.0		
Profit/(loss) from Asso & JVs	(22.2)	(24.3)	(19.5)		(20.1)		Loss from JV & associates companies, which includes losses from Voltas-Beko
PBT	320.9	252.4	216.7	48.0	165.8	93.5	
Total Tax	82.1	63.1	57.2	43.5	37.2	120.8	
PAT	238.7	189.3	159.5	49.7	128.6	85.6	Strong sales growth helps drive bottomline during Q4FY21
<b>Key Metrics</b>							
EMPS	1104	878	805	37.2	1017	8.6	Higher revenue largely attributable to faster execution in both international and domestic operations
EPS	98	119	95	3.0	121	-19.2	Strong growth in Mozambique operation mainly into mining & construction equipment drive sales
UCP	1436.7	1458	1199	19.8	840	71.1	RAC sales volume grew ~18% YoY led by strong pent up demand and channel inventory filling in Q4FY21 amid fear of price hike

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	9,681.8	8,950.8	(7.5)	10,744.4	9,822.8	(8.6)	Revise our revenue estimates downward by factoring in lockdown in Q1FY22
EBITDA	972.5	786.4	(19.1)	1,203.2	1087.9	(9.6)	
EBITDA Mar(%)	10.0	8.8	121bps	11.2	11.1	-12bps	We revise our margin estimate downside factoring in sharp rise in the costs of copper, steel and plastic products
PAT	854.7	699.5	(18.2)	1061.2	956.0	(9.9)	
EPS (₹)	25.8	21.2	(18.2)	32.1	28.9	(9.9)	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier			Comments
	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
EMPS	-10.3	9.9	11.6	-8.3	-1.1	7.8	5.0	We build in flattish revenue in FY21-23E from this segment considering its focus to bid for quality orders only
EPS	6.4	8.4	10.8	8.0	-3.8	11.0	8.0	Improved traction from after sales service to help drive segment revenue
UCP	29.1	-12.7	25.7	25.9	-16.8	46.8	15.4	We model UCP segment revenue CAGR of ~26% for FY21-23E led by 16% volume CAGR in RAC segment

Source: Company, ICICI Direct Research

## Conference call highlights

### Unitary cooling products

- Ongoing lockdown across geographies will hit near term demand for cooling products
- Price hike of 8% taken in January-April 2021 to partially offset raw material inflation
- Volume growth in RAC, commercial refrigeration and air cooler segment came in at 18%, 17% and 37%, respectively. Volume in RAC was further driven by 22% growth in inverter AC (contributes ~77% of all split ACs sold during Q4FY21)
- The company gained market share with its YTD market share at 25.6% at multi brand outlets
- Voltas is exploring various possibilities to start manufacturing of AC component such (heat exchanger, motors and PCBs) to benefit from PLI schemes. However, it is awaiting final notification
- Post ease in lockdown restrictions production at the Sanand factory has been optimised at around 50,000 units a month. Despite the lockdown and limiting selling window, direct cool refrigerator were sold in excess of 3 lakh units in FY21
- According to a study conducted by global research company Voltas Beko dishwasher tops the category in India with ~30% market share. Market share in refrigerator and washing machine also improved to 3% and 2.5% YTD
- Voltas Beko currently has ~ 6000 touch points, which will be scaled up, going forward

### Electro-mechanical projects & services

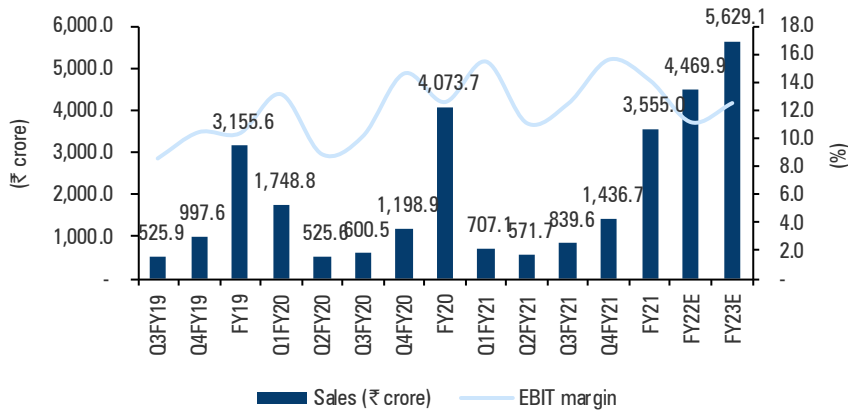
- EMPS segment outstanding order book was at ₹ 6635 crore
- The company's international order book was at ₹ 2435 crore while its domestic order book was at ₹ 4200 crore
- Project work being in the nature of a designated essential activity in the Middle East has helped ensure good progress in that geography despite the constraint of Covid
- Under corporate restructuring plans, B2B businesses (domestic business) has been transferred to its 100% wholly owned subsidiary 'Universal MEP Projects & Engineering Services Limited' (formerly Rohini Industrial Electricals Ltd). The international B2B business will be transferred gradually over the period of time

### Engineering products & services

- Mozambique operations continue to drive the majority of revenues growth
- Ban on imports from China plus competitive price of cotton coupled with renewed government focus on textiles have improved forward sentiments reviving capital equipment demand

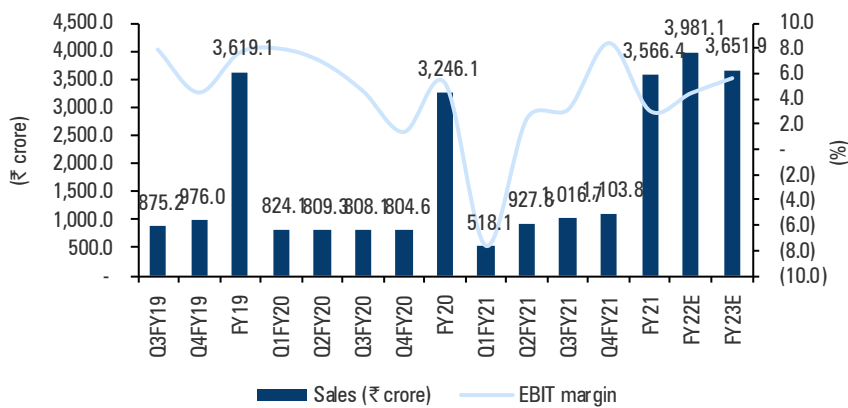
## Financial story in charts

Exhibit 4: UCP segment sales and margin trend



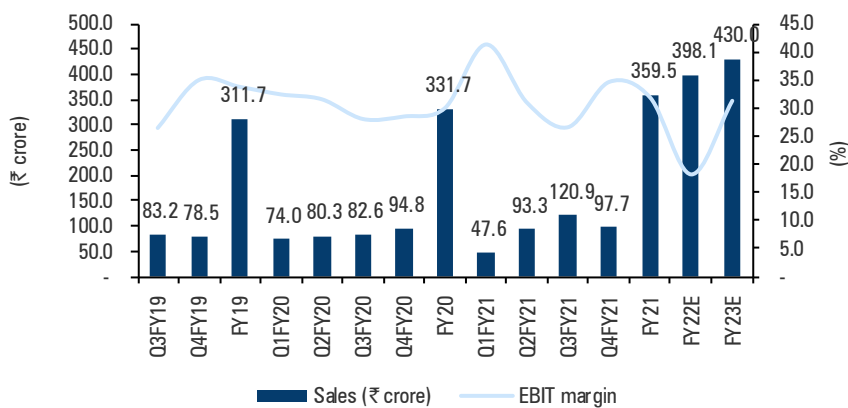
Source: Company, ICICI Direct Research

Exhibit 5: EMPS segment sales and margin trend



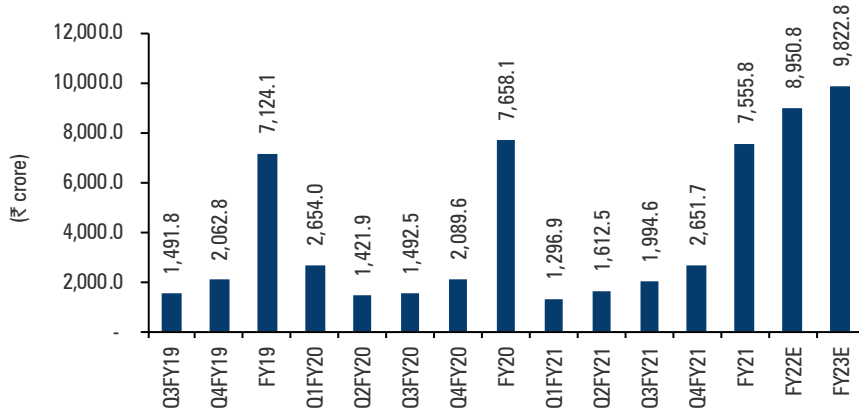
Source: Company, ICICI Direct Research

Exhibit 6: EPS segment sales and margin trend



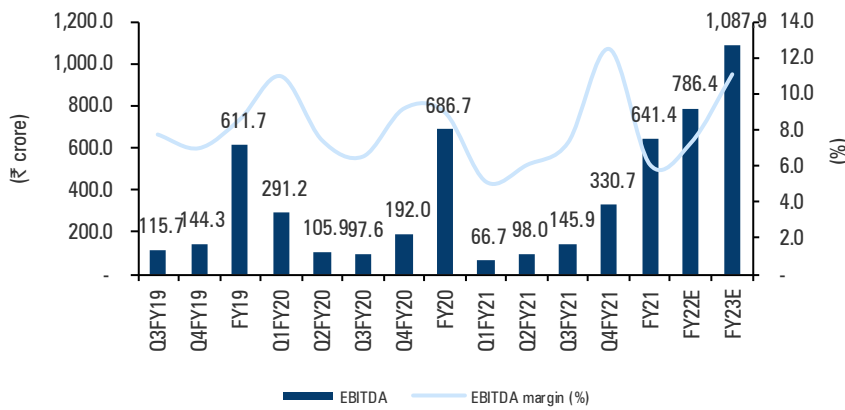
Source: Company, ICICI Direct Research

Exhibit 7: Consolidated revenue trend



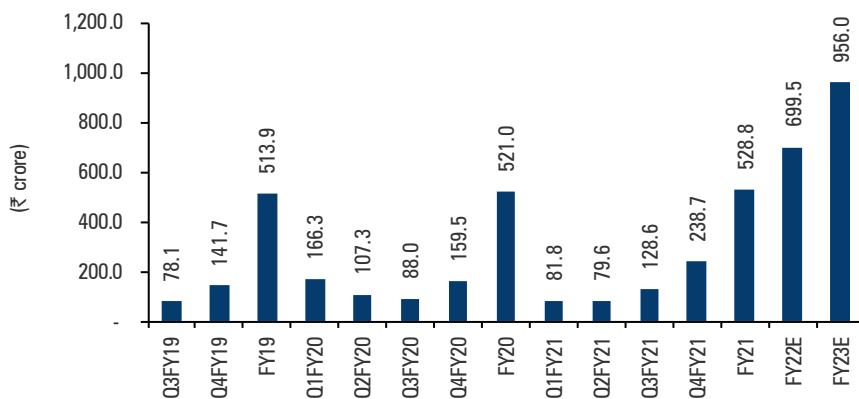
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA and EBITDA margin to be in range of historical margin trend



Source: Company, ICICI Direct Research

Exhibit 9: Sales growth, slight recovery in margin to drive PAT



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
<b>Net Sales</b>	<b>7,658.1</b>	<b>7,555.8</b>	<b>8,950.8</b>	<b>9,822.8</b>	
Expenses					
Raw Material Expenses	2,986.7	3,716.2	4,504.1	4,625.2	
(inc)/Dec in stocks	-	-	-	-	
Purchase of traded goods	2,568.3	1,862.3	2,181.0	2,500.6	
Employee Expenses	671.7	601.7	655.1	708.9	
Other expenses	672.8	691.6	743.7	798.8	
Total Operating Expenditure	6,971.4	6,914.4	8,164.4	8,734.9	
<b>EBITDA</b>	<b>686.7</b>	<b>641.4</b>	<b>786.4</b>	<b>1,087.9</b>	
Other Income	230.6	188.9	265.4	291.3	
Interest	21.1	26.2	18.2	10.5	
PBDT	896.2	804.1	1,033.6	1,368.7	
Depreciation	32.0	33.9	40.3	44.2	
PBT before Exceptional Items	864.2	770.2	993.4	1,324.5	
Less: Exceptional Items	51.2	-	-	-	
Total Tax	223.3	180.4	233.2	318.7	
PAT before MI	521.0	528.8	699.5	956.0	
PAT after MI	521.0	528.8	699.5	956.0	
Profit from Associates	(68.7)	(61.0)	(60.7)	(49.8)	
<b>PAT</b>	<b>521.0</b>	<b>528.8</b>	<b>699.5</b>	<b>956.0</b>	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	521.0	528.8	699.5	956.0	
Depreciation	32.0	33.9	40.3	44.2	
Cash Flow before working capital ch	574.1	588.8	758.1	1,010.7	
Net Increase in Current Assets	(635.7)	274.8	(836.0)	(518.0)	
Net Increase in Current Liabilities	557.5	(273.7)	615.0	385.2	
<b>Net cash flow from operating Acti</b>	<b>495.8</b>	<b>589.9</b>	<b>537.0</b>	<b>877.9</b>	
Long term loans and advances	(21.5)	57.3	(22.2)	(13.9)	
Other non current assets	(17.0)	(5.0)	(17.7)	(11.1)	
Liquid Investments	42.6	(703.1)	150.0	(50.0)	
(Purchase)/Sale of Fixed Assets	(79.9)	(24.0)	(50.0)	(50.0)	
Others	36.2	34.3	-	-	
<b>Net Cash flow from Investing Acti</b>	<b>(39.6)</b>	<b>(640.5)</b>	<b>60.1</b>	<b>(125.0)</b>	
Proceeds/(Repayment) loans	(96.8)	42.8	-	(100.0)	
Total Outflow on account of dividend	(154.8)	(165.4)	(116.1)	(232.2)	
Others	(217.2)	323.6	(730.3)	(10.5)	
<b>Net Cash flow from Financing Acti</b>	<b>(468.8)</b>	<b>201.0</b>	<b>(846.4)</b>	<b>(342.7)</b>	
Net Cash flow	(12.6)	150.4	(249.3)	410.3	
Cash and Cash Equivalent at the beç	321.0	308.5	459.0	209.9	
<b>Cash</b>	<b>308.5</b>	<b>459.0</b>	<b>209.9</b>	<b>620.2</b>	

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
Equity Capital	33.1	33.1	33.1	33.1	
Reserve and Surplus	4,247.1	4,960.3	4,831.7	5,555.5	
Total Shareholders funds	4,280.2	4,993.3	4,864.7	5,588.6	
Total Debt	217.9	260.6	260.6	160.6	
Deferred Tax Liability	1.4	-	-	-	
Other Non Current Liabilities	7.3	26.4	26.4	26.4	
<b>Total Liability</b>	<b>4,543.4</b>	<b>5,316.5</b>	<b>5,187.9</b>	<b>5,811.8</b>	
Net Block	308.1	315.7	325.4	331.2	
Total Fixed Assets	334.4	324.5	334.2	340.0	
Other Investments	1,822.9	2,797.1	2,697.1	2,797.1	
Goodwill on Consolidation	72.3	72.3	72.3	72.3	
Deferred Tax Assets	72.9	55.8	55.8	55.8	
Long term loans and advances	177.5	120.2	142.3	156.2	
Other non current assets	91.1	96.1	113.8	124.9	
Liquid Investments	520.4	249.3	199.3	149.3	
Inventory	1,468.9	1,279.6	1,520.4	1,668.5	
Debtors	1,833.6	1,800.9	2,133.5	2,341.3	
Cash	308.5	459.0	209.9	620.2	
Loans and Advances	2.3	2.3	6.7	7.4	
Other Current Assets	1,451.4	1,398.6	1,656.9	1,818.3	
Net Current Assets	1,452.0	1,601.4	1,573.3	2,116.5	
<b>Total Assets</b>	<b>4,543.3</b>	<b>5,316.5</b>	<b>5,187.9</b>	<b>5,811.8</b>	

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
<b>Per Share Data</b>					
EPS	15.8	16.0	21.2	28.9	
Cash EPS	16.7	17.0	22.4	30.2	
BV	129.4	151.0	147.1	169.0	
DPS	4.7	5.0	3.5	7.0	
<b>Operating Ratios</b>					
EBITDA margin	9.0	8.5	8.8	11.1	
PAT margin	7.3	7.0	7.8	9.7	
<b>Return Ratios</b>					
RoE	13.0	10.6	14.4	17.1	
RoCE	19.5	15.0	19.5	23.0	
RoIC	16.5	12.3	14.4	19.0	
<b>Valuation Ratios</b>					
EV / EBITDA	47.2	50.8	41.8	29.8	
P/E	63.4	62.5	47.2	34.6	
EV / Net Sales	4.2	4.3	3.7	3.3	
Sales / Equity	1.8	1.5	1.8	1.8	
Market Cap / Sales	4.3	4.4	3.7	3.4	
Price to Book Value	7.7	6.6	6.8	5.9	
<b>Turnover Ratios</b>					
Asset turnover	1.7	1.4	1.7	1.7	
Debtors Days	87.4	87.0	87.0	87.0	
Creditors Days	128.2	119.1	119.0	119.0	
<b>Solvency Ratios</b>					
Debt / Equity	0.1	0.1	0.1	0.0	
Current Ratio	1.6	1.7	1.7	1.7	
Quick Ratio	1.1	1.2	1.2	1.2	

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,774	2,970	Buy	2,66,027	33.4	36.7	45.4	83.0	75.5	61.1	49.6	45.4	36.8	25.0	26.2	28.0	29.6	30.8	33.5
Astral Polytechnic (ASTPOL)	1,681	1,670	Hold	25,326	22.2	30.4	37.1	75.7	55.2	45.3	54.8	42.8	35.7	23.9	28.1	29.3	18.3	21.8	22.5
Amber Enterprises (AMBEN)	2,956	3,015	Buy	9,296	29.8	68.2	97.6	99.1	43.3	30.3	35.9	18.7	14.0	8.4	15.3	18.7	6.5	13.0	15.8
Bajaj Electricals (BAJELE)	1,115	1,075	Buy	12,676	18.9	25.4	35.2	NM	36.3	26.1	31.0	18.2	17.6	21.4	24.8	13.5	17.3	19.9	
Berger Paints (BERPAI)	752	810	Hold	73,034	7.6	9.7	12.4	98.9	77.3	60.8	63.9	52.3	42.5	26.1	30.0	35.1	23.4	26.0	29.0
Crompton Greaves(CROGR)	364	480	Buy	22,823	7.9	9.5	12.0	45.8	38.2	30.2	37.6	31.9	25.8	31.1	34.8	41.1	27.4	28.4	32.1
Dixon Technologies (DIXTEC)	3,954	4,270	Buy	21,200	29.6	62.8	93.9	122.4	57.7	38.6	95.1	70.2	38.1	26.3	40.1	43.9	25.4	37.6	38.6
EPL (ESSPRO)	232	250	Hold	7,320	7.8	8.9	10.8	29.6	26.0	21.5	11.6	10.8	9.2	18.3	19.0	21.3	15.6	15.6	17.0
Havells India (HAVIND)	998	1,255	Hold	62,265	16.1	17.8	22.9	62.0	56.1	43.5	45.8	41.2	32.5	23.7	25.5	30.8	20.6	21.2	25.7
Kansai Nerolac (KANNER)	556	655	Buy	29,964	9.9	12.1	14.4	56.4	45.9	38.6	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6
Moldtek Packaging (MOLP)	464	600	Buy	1,286	16.5	20.8	28.0	28.2	22.3	16.6	15.4	12.6	9.8	20.7	23.6	27.8	19.9	20.9	23.1
Pidilite Industries (PIDIND)	1,888	2,035	Hold	95,873	22.2	26.3	31.8	85.1	71.8	59.4	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2
Polycab India (POLI)	1,599	1,385	Buy	23,806	57.9	67.2	79.7	27.6	23.8	20.1	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1
Supreme Indus (SUPIND)	2,122	2,390	Hold	26,955	77.0	64.9	72.4	27.6	32.7	29.3	20.5	22.2	19.6	32.7	26.2	25.2	30.9	23.6	22.6
Symphony (SYMLIM)	1,059	1,345	Hold	7,408	15.3	28.5	39.5	69.2	37.2	26.8	60.0	33.1	23.8	15.2	28.2	34.9	14.9	26.8	32.5
Time Techno (TIMTEC)	79	75	Buy	1,787	4.4	9.6	-	17.9	8.2		5.7	3.8		8.4	13.7		5.5	11.2	
V-Guard Ind (VGUARD)	221	265	Buy	9,465	4.2	6.1	7.1	52.2	36.4	31.2	34.8	26.2	22.4	23.6	27.9	29.0	16.8	21.1	21.9
Voltas Ltd (VOLTAS)	1,000	1,150	Buy	33,073	16.0	21.2	28.9	62.5	47.3	34.6	50.8	41.8	29.8	15.0	19.5	23.0	10.6	14.4	17.1

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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