

Voltas Ltd

ADD

CMP Rs999

Target Rs1,089

Upside 9.0%

Set to resume momentum once markets open up

Result Highlights

- ✓ **Quarter summary** – Voltas delivered better than expected revenue growth of 27% yoy on back of beat in project business. UCP and EPS business grew in line with estimates. Increased efficiencies and cost controls have led to EBITDA margin increase of 328bps despite sharp contraction in gross margins.
- ✓ **EMPS business delivers positive surprise** – EMPS business registered growth of 37.2% on improved execution. Better collections, lower provisioning and increased efficiencies have led to strong margin delivery. Margin at 8.4% expanded 701bps/524bps on yoy and sequential basis.
- ✓ **Commodity inflation impact** – Gross margins contracted sharply by 306bps to 25.6% on back of steep increase in commodity prices. Company will require another round of price increase to offset commodity price inflation as cushion of lower priced inventory has been utilized in Q4.
- ✓ **UCP and Volt-Bek** – Cooling products have delivered in-line performance with market share of 25.6%. Voltas-Beko products have started to gain prominence in the market with dishwashers commanding market share of 30%. Refrigerator and Washing machine market share stood at 3% and 2.5% respectively.

Valuation and view – Strong growth momentum continued in Q4 as well after bumper festive season. All the business segments have seen improvement in profitability in 4Q. Lockdown/restrictions across various part of the country on back of second wave could challenge growth momentum in the near term; but we expect it to recover as soon as restrictions are eased as underlying demand continues to remain strong.

Voltas being a strong brand and with its distribution presence and increase in product offering on the commercial refrigeration side should outperform the industry. This along with improved execution and better order book mix will drive improved performance for project business. Its Volt-Bek JV has started gaining prominence in the market and localized product is expected to increase efficiency and bring down losses. We estimate FY21-23E Revenue/EBITDA/PAT CAGR of 17%/22%/31% and continue with our ADD rating with SoTP based TP of Rs1,089.

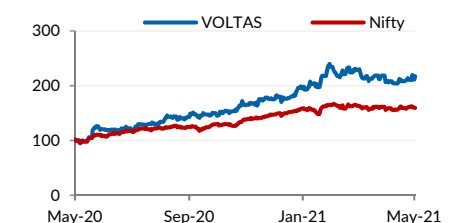
Exhibit 1: Result table

(Rs mn)	Q4FY21	Q4FY20	% yoy	Q3FY21	% qoq
Total sales	26,517	20,896	26.9%	19,946	32.9%
EBITDA	3,307	1,920	72.2%	1,459	126.7%
EBITDAM (%)	12.5%	9.2%		7.3%	
Depreciation	89	82	8.2%	84	5.5%
Interest	104.2	60.5	72.2%	32.0	225.6%
Other income	316	605	-47.8%	516	-38.8%
PBT	3,209	2,167	48.0%	1,658	93.5%
Tax	821	573	43.4%	372	120.8%
Adjusted PAT	2,387	1,595	49.7%	1,286	85.6%
Reported PAT	2,387	1,595	49.7%	1,286	85.6%
PATM (%)	9.0%	7.6%		6.4%	
EPS (Rs)	7.2	4.8		3.9	

Stock data (as on May 14, 2021)

Nifty:	14,678
52 Week h/l (Rs)	1132/432
Market cap (Rs/USD mn)	330,670/45111
Outstanding Shares	331
6m Avg t/o (Rs mn):	1,939
Div yield (%):	0.5
Bloomberg code:	VOLT IN
NSE code:	VOLTAS

Stock performance



	1M	3M	1Y
Absolute return	4.3%	-7.4%	120.1%

Shareholding pattern (As of Mar'21 end)

Promoter	30.3%
FII+DII	51.4%
Others	18.0%

Financial Summary

(Rs mn)	FY21	FY22e	FY23e
Net Revenue	75,558	92,699	105,565
YoY Growth	-1.3	22.7	11.5
EBIDTA	6,414	8,250	6,613
Margins (%)	8.5	8.9	9.3
PAT	5,288	7,391	9,137
YoY Growth	1.5	39.8	23.6
ROE	11.4	14.0	15.6
ROCE	16.3	18.7	19.8
EPS	16.0	22.3	27.6
P/E	62.5	44.7	36.2
EV/EBITDA	51.2	39.4	33.3

Change in earnings estimates

	FY21	FY22e	FY23e
EPS (New)	16.0	22.3	27.6
EPS (Old)	16.0	21.9	27.0
% Change	NA	1.8	2.2

Change in Rating and TP

	Rating	TP
New	ADD	1078
Old	ADD	1089

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EARNINGS CALL TAKEAWAYS

- ✓ **UCP** - Pent up demand and anticipation of hot summer led to good growth in Q4. RAC market in FY21 has seen de-growth 29% in FY21 with Voltas registering lower growth than industry resulting in market share gains for the company. Inverter AC grew 22% yoy for FY21, now contributes over 77% of the total split air-conditioner. Voltas continues to be leader in inverter AC segment with market share of 25.6%. Margins in this segment improved on higher as company had advantage of 2% of low-cost inventory available with the company apart from operating leverage, timely pricing action and focus on cost control. Supply chain increase in input costs including increase in ocean freight and restriction on exports continues to pose challenges.
 - Commercial refrigeration - Commercial refrigeration registered 37% growth led by increase in new variants and distribution.
 - Air-cooler - Air-coolers registered strong growth. Voltas is now No.2 player in Air-cooler with market share of 10.6%.
 - RAC inventory pre-lockdown was in the range of 30-35 days. It is expected be around 45-60 days post lockdown which is manageable.
 - 75-80% of the outlets are under lockdown which is likely to impact Q1 revenue.
 - Replacement market is growing on back of increased energy efficiencies but is not contributing in a meaningful manner
 - 20% of total sales are being done through financing scheme.
 - Voltas is looking for backward integration into heat exchangers, motors and other components
- ✓ **EMPS** - Execution in project business has seen increased on opening of lockdowns and improvement in sentiments. Voltas carry forward order book Rs66.35bn of which Domestic order book stands at Rs42bn and balance Rs24.35bn international. Domestic order book largely comprises from Water, HVAC, rural electrification, solar and urban infra structure. International orders are from MEP, largely from UAE, Qatar and Oman. Margin improved on back of focus on costs, timely collections and lower provisions from expected credit losses.

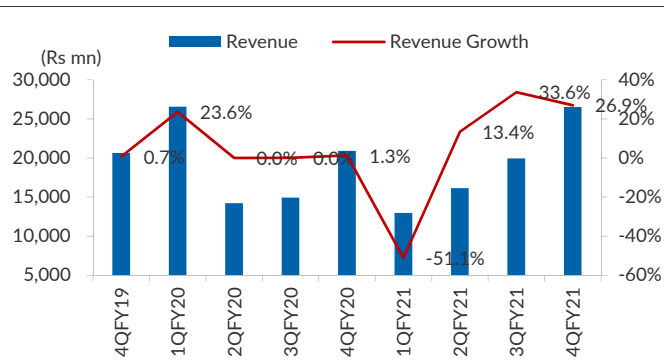
Sector	Domestic Order book (Rs mn)
Water	13,900
Rural Electrification	7,800
Urban	6,500
Infra	7,000
HVAC	11,000

- ✓ **Voltas-Beko** - Production from Sanand plant post covid challenges has been ramped up to 50,000 units/per month. Voltas- Beko products have been well accepted in the market. Volt-Bek has managed to sell 3lakh units of direct cool refrigerators, while washing machine, microwave and dishwashers continues to grow well. Voltas-Beko has topped dishwasher category within 2 years of launch with market share of 30%. Market share for Refrigerator and washing machine stands at 3% and 2.5% respectively. Currently have 1000 billing points and exclusive outlets and experience centers and 6,000 touch points. Have slowed down expansion of channel as production is not being able to meet the existing demand.
 - Voltas has so far invested Rs4.1bn in Volt-Bek JV.

✓ **Outlook** - Voltas remains optimistic as there has been strong underlying demand and expects markets to pick up immediately once lockdown restrictions are eased. Voltas will continue to remain responsible and balance both margin and growth.

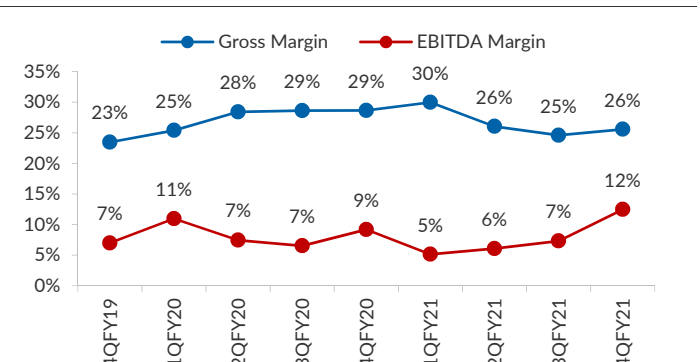
CHARTS

Exhibit 2: Revenue growth surprised positively on back of improved execution in EMPS business



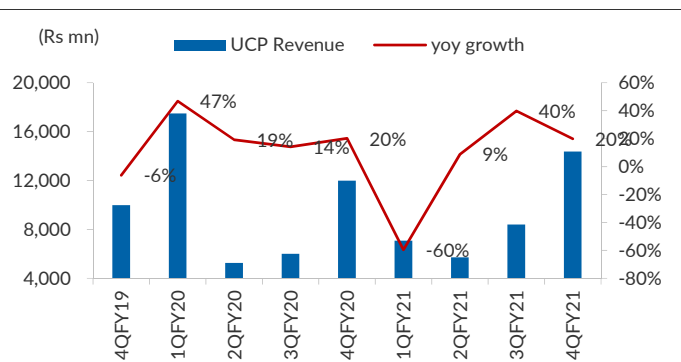
Source: Company, YES Sec - Research

Exhibit 3: Increased efficiencies and cost reduction initiatives have led to expansion in EBITDA margin despite contraction in gross margins



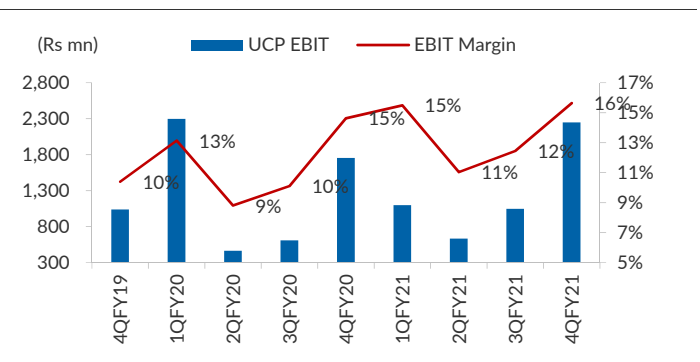
Source: Company, YES Sec - Research

Exhibit 4: UCP segment delivered in-line revenue growth



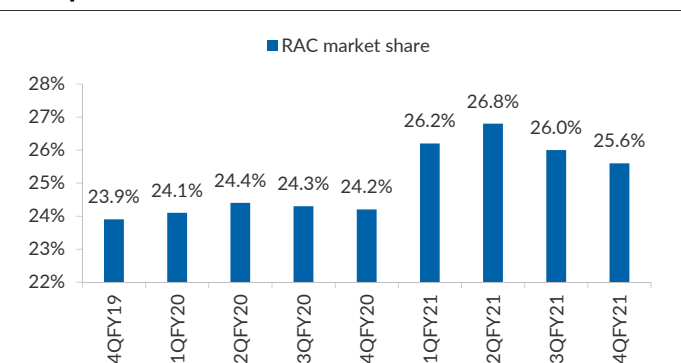
Source: Company, YES Sec - Research

Exhibit 5: Low cost inventory and cost controls have led to bump up in margins



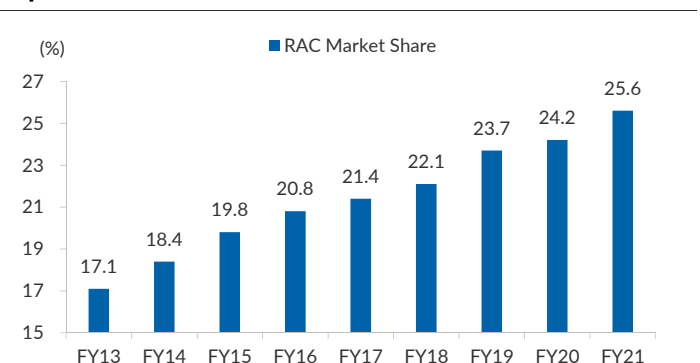
Source: Company, YES Sec - Research

Exhibit 6: Market share in RAC has been stable in last few quarters



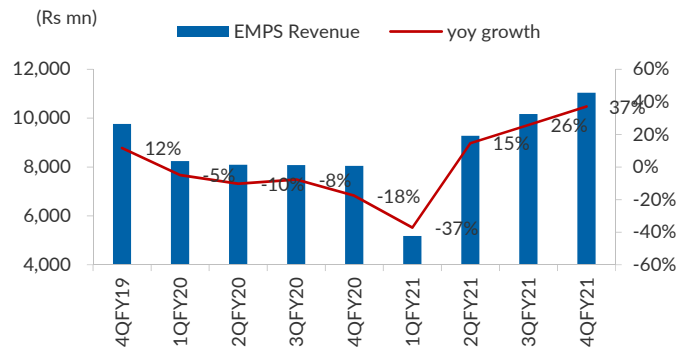
Source: Company, YES Sec - Research

Exhibit 7: Voltas's market share in RAC has been inching up



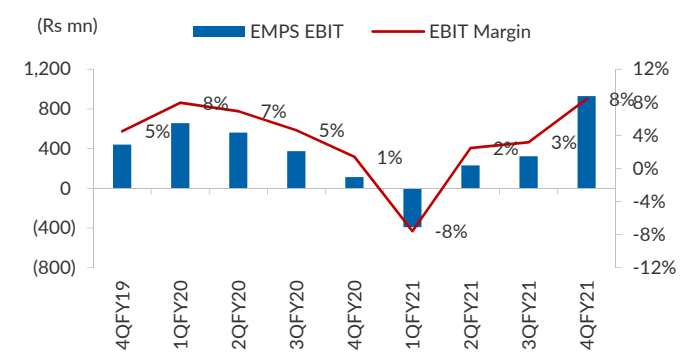
Source: Company, YES Sec - Research

Exhibit 8: Improved execution has led to strong revenue growth



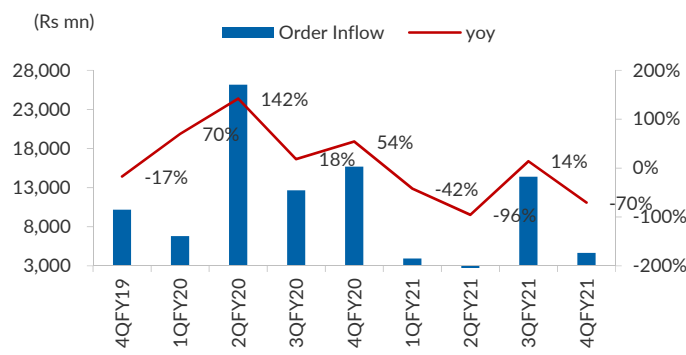
Source: Company, YES Sec - Research

Exhibit 9: Cost control initiatives and lower provisioning have led to margin improvement



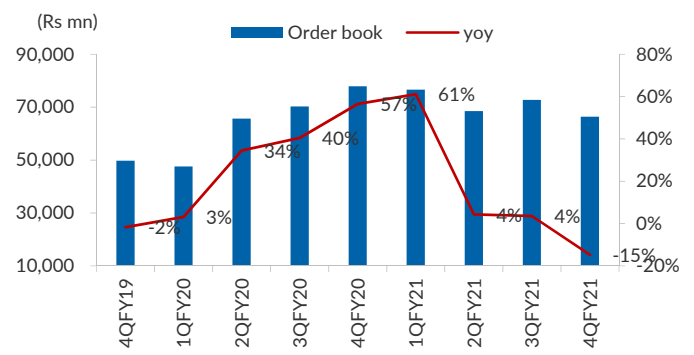
Source: Company, YES Sec - Research

Exhibit 10: Company has been selective in bidding for orders



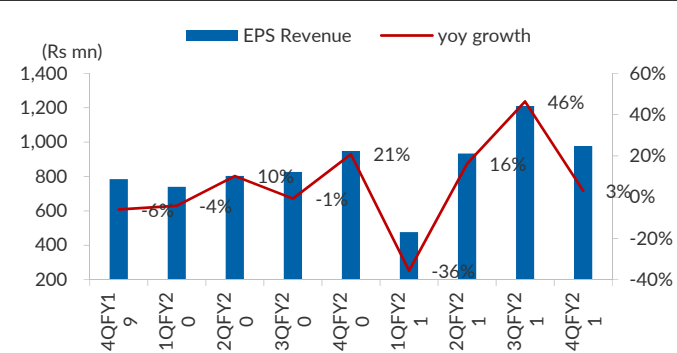
Source: Company, YES Sec - Research

Exhibit 11: Order book continues to remain healthy



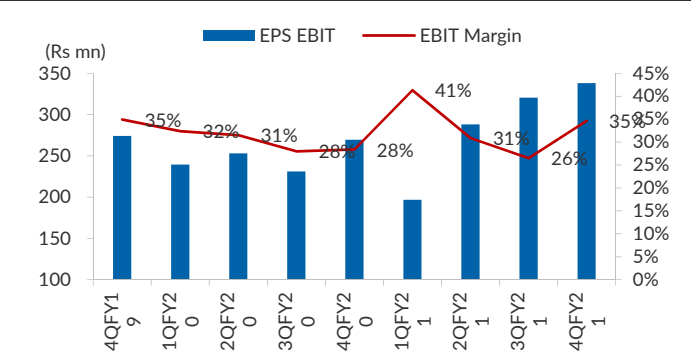
Source: Company, YES Sec - Research

Exhibit 12: EPS has seen marginal decline in revenue



Source: Company, YES Sec - Research

Exhibit 13: Profitability has improved on better orders



Source: Company, YES Sec - Research

Exhibit 14: Revenue and Margin Assumptions

Revenue (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
EMPS	36,191	32,461	35,664	39,572	41,237
yoy	27%	-10%	10%	11%	4%
Order Inflow	35,331	60,581	24,134	30,167	34,692
yoy	-1%	71%	-60%	25%	15%
Order Book	49,760	77,880	66,350	56,945	50,401
yoy	13%	57%	-15%	-14%	-11%
EPS	3,117	3,317	3,595	3,882	4,271
yoy	1%	6%	8%	8%	10%
UCP	31,556	40,737	35,550	48,326	56,834
yoy	-1%	29%	-13%	36%	18%
Total Revenue	70,863	76,515	74,809	91,780	102,342
yoy	11%	8%	-2%	23%	12%
PBIT (Rs mn)					
EMPS	2,773	1,704	1,088	2,176	2,680
% Margin	8%	5%	3%	6%	7%
EPS	1,051	993	1,143	1,281	1,409
% Margin	34%	30%	32%	33%	33%
UCP	3,254	5,121	5,019	6,427	7,786
% Margin	10%	13%	14%	13%	14%
Total PBIT	7,077	7,817	7,250	9,885	11,876
% Margin	10%	10%	10%	11%	12%

Source: Company, YES Sec – Research

Exhibit 15: Valuation

Market Cap	PAT	Multiple	Rs mn
EMPS	2,062	15	30,923
EPS	1,084	15	16,259
UCP	5,989	50	299,431
Total MCAP			346,614
Number of Shares			331
Target Price			1,049
Value of VoltBek			40
Total Value			1,089

Source: Company, YES Sec – Research

FINANCIALS

Exhibit 16: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	331	331	331	331	331
Reserves	40,769	42,471	49,603	55,078	61,519
Net worth	41,100	42,802	49,934	55,409	61,850
Debt	3,147	2,179	2,606	2,987	3,330
Deferred tax liab (net)	66	14	14	14	14
Other non current liabilities	1,194	1,299	1,250	1,402	1,491
Total liabilities	45,506	46,294	53,804	59,812	66,686
Fixed Asset	2,401	2,890	2,689	4,342	4,931
Investments	24,321	23,886	31,020	31,020	31,020
Other Non-current Assets	3,517	3,547	3,418	3,903	4,205
Net Working Capital	12,056	12,887	12,085	12,007	12,758
Inventories	10,907	14,689	12,796	15,238	16,992
Sundry debtors	18,330	18,336	18,009	22,603	24,921
Loans and Advances	3,983	5,359	3,371	4,135	4,611
Sundry creditors	23,745	26,889	24,645	30,730	33,983
Other current liabilities	4,670	6,969	6,914	7,353	7,626
Cash & equivalents	3,211	3,084	4,592	8,541	13,772
Total Assets	45,506	46,294	53,804	59,812	66,686

Exhibit 17: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	71,241	76,581	75,558	92,699	103,366
Operating profit	6,117	6,867	6,414	8,250	9,613
Depreciation	240	320	339	452	516
Interest expense	330	211	262	218	243
Other income	1,863	2,306	1,889	2,593	3,113
Profit before tax	7,410	8,642	7,702	10,173	11,967
Taxes	1,635	2,233	1,804	2,564	3,016
Minorities and other	518	687	610	219	(186)
Adj. profit	5,256	5,722	5,288	7,391	9,137
Exceptional items	118	512	-	-	-
Net profit	5,139	5,211	5,288	7,391	9,137

Exhibit 18: Cash flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	7,740	8,853	7,963	10,392	12,210
Depreciation	240	320	339	452	516
Tax paid	(1,635)	(2,233)	(1,804)	(2,564)	(3,016)
Working capital Δ	(12,529)	6,322	3,513	78	(751)
Other operating items					
Operating cashflow	(6,185)	13,262	10,011	8,358	8,959
Capital expenditure	(799)	(809)	(138)	(2,105)	(1,105)
Free cash flow	(6,984)	12,453	9,873	6,253	7,854
Equity raised	(1,495)	(2,036)	3,498	219	(186)
Investments	11,142	(6,718)	(9,844)	-	-
Debt financing/disposal	1,724	(968)	428	381	344
Interest paid	(330)	(211)	(262)	(218)	(243)
Dividends paid	(1,596)	(1,472)	(1,654)	(2,134)	(2,510)
Net Δ in cash	374	(127)	1,508	3,949	5,232

Exhibit 19: Du-pont analysis

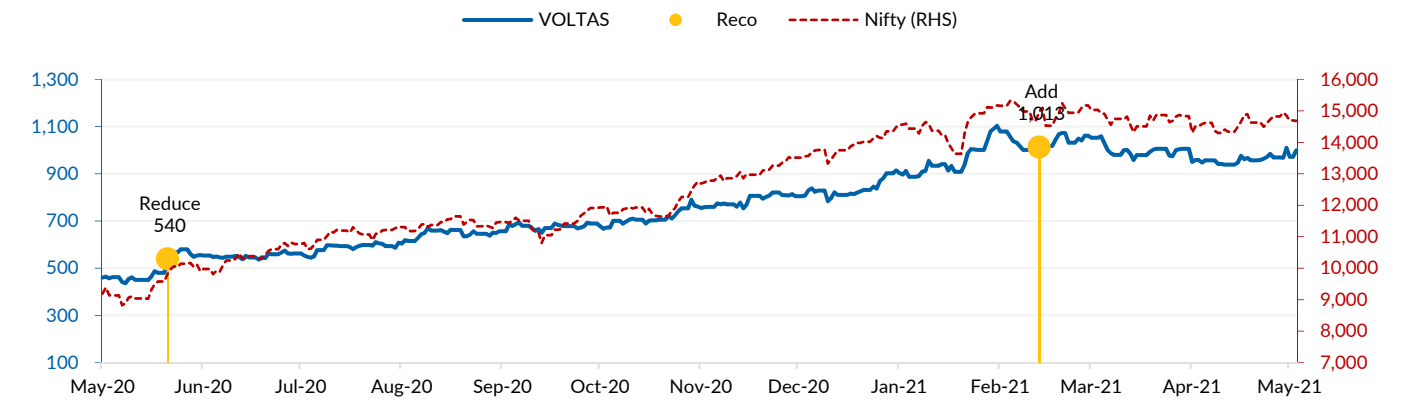
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.71	0.66	0.69	0.73	0.76
Interest burden (x)	0.96	0.98	0.97	0.98	0.98
EBIT margin (x)	0.11	0.12	0.11	0.11	0.12
Asset turnover (x)	0.96	0.98	0.90	0.99	0.98
Financial leverage (x)	1.85	1.87	1.81	1.77	1.80
RoE (%)	13.1	13.6	11.4	14.0	15.6

Exhibit 20: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	11	7	(1.3)	22.7	11.5
Op profit growth	(8)	12	(6.6)	28.6	16.5
EBIT growth	(5)	14	(10.0)	30.5	17.5
Net profit growth	(9)	9	(7.6)	39.8	23.6
Profitability ratios (%)					
OPM	8.6	9.0	8.5	8.9	9.3
EBIT margin	10.9	11.6	10.5	11.2	11.8
Net profit margin	7.4	7.5	7.0	8.0	8.8
RoCE	18.3	19.8	16.3	18.7	19.8
RoNW	13.1	13.6	11.4	14.0	15.6
RoA	7.1	7.3	6.3	7.9	8.6
Per share ratios					
EPS	15.9	17.3	16.0	22.3	27.6
Dividend per share	4.0	4.0	5.0	6.5	7.6
Cash EPS	16.6	18.3	17.0	23.7	29.2
Book value per share	124.2	129.4	150.9	167.5	187.0
Valuation ratios					
P/E	64.3	63.4	62.5	44.7	36.2
P/CEPS	56.0	53.1	52.9	40.9	34.9
P/B	8.0	7.7	6.6	6.0	5.3
EV/EBIDTA	54.0	48.0	51.2	39.4	33.3
Payout (%)					

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Dividend payout	30	26	31.3	28.9	27.5
Tax payout	22	26	23.4	25.2	25.2
Liquidity ratios					
Debtor days	94	87	87.0	89.0	88.0
Inventory days	56	70	61.8	60.0	60.0
Creditor days	121.7	128.2	119.1	121.0	120.0

Recommendation tracker



Source: Company, YES Sec – Research

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