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#### Q4FY21 result review and earnings revision

### Capital Goods

Target price: Rs1,040

#### Earnings revision

(%)	FY22E	FY23E
Sales	↓ 3.7	↓ 5.0
EBITDA	↓ 9.4	↓ 9.3
PAT	↓ 8.2	↓ 8.7

#### Target price revision

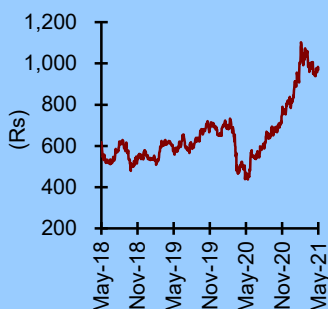
Rs1,040 from Rs1,065

#### Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	30.3	30.3	30.3
Institutional investors	51.4	51.9	51.6
MFs and other	27.7	25.9	24.4
FIs / Banks	0.2	0.1	0.1
Insurance Co	10.3	10.6	11.8
FIs	12.2	15.3	15.3
Others	18.3	17.8	18.1

Source: NSE

#### Price chart



INDIA

# Voltas

## HOLD

### Maintain

## Rs1,000

### Healthy growth, uncertain outlook

Voltas has reported 19% YoY growth in Q4FY21 in UCP segment supported by price hikes and up-stocking by the channel expecting a strong summer season. The advent of second covid wave has slowed down growth traction resulting in higher channel inventories of ~40-45 days currently. Project segment witnessed strong execution over a low base and control over fixed overheads supported higher margins. Factoring in near-term stress in growth, we cut earnings by 8.2% and 8.7% for FY22E and FY23E, respectively. The likely switch over to new energy efficiency norms from January 2022 can lead to pre-buying in Q3FY22 and price increase Q4FY22E onwards. Hence, we maintain HOLD with a revised target price of Rs1,040 (previously: Rs1,065).

- ▶ **Leadership in domestic room AC segment continues:** Voltas was able to maintain its leadership in domestic room AC market with a current secondary market share of 25.6%. Inverter RAC witnessed strong growth and now contributes 77% of overall split AC sales. The distribution reach with 19,000 touch-points is Voltas's key USP along with strong branding and advertising.
- ▶ **Healthy performance by project segment:** Project segment revenue grew 37% YoY led by strong execution and margins improved to 8.4% from 1.4% in Q4FY20, driven by cost control and higher proportion of government jobs having price escalation contract. We believe this is likely to normalise going forward.
- ▶ **Eyeing Rs764bn domestic home appliances market:** The JV, Voltbek, is currently focusing on refrigerators, washing machines, dish washers and microwave ovens. It targets 10% market share in each of these segments by 2025. Despite headwinds, the JV was able to garner 30% market share in dishwashers, 3% in refrigerators and 2.5% in washing machines.
- ▶ **Maintain HOLD:** Voltas continues to maintain strong balance sheet with adequate cash and current investments. We value the consolidated business at Rs996 (44x FY23E earnings) and Voltbek at Rs44 (4x of investments) arriving at an SoTP-based target price of Rs1,040 (earlier: Rs1,065). Given the increased focus towards B2C, improvement in market share, both under inverter room AC and air cooler market, we assign target multiple of 60x for UCP.

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Market Cap	Rs331bn/US\$4.5bn	<b>Year to Mar</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>
Reuters/Bloomberg	VOLT.BO/VOLT IN	Revenue (Rs mn)	76,581	75,558	83,117	91,331
Shares Outstanding (mn)	330.9	Rec. Net Income (Rs mn)	5,684	5,252	6,564	7,503
52-week Range (Rs)	1103/436	EPS (Rs)	17.2	15.9	19.8	22.7
Free Float (%)	69.7	% Chg YoY	9.4	(7.6)	25.0	14.3
FII (%)	15.3	P/E (x)	58.2	63.0	50.4	44.1
Daily Volume (US\$/'000)	27,451	CEPS (Rs)	18.1	16.9	21.0	23.9
Absolute Return 3m (%)	(7.4)	EV/E (x) (Incl. Indus)	47.3	50.9	41.5	33.1
Absolute Return 12m (%)	120.1	Dividend Yield (%)	0.4	0.5	0.4	0.4
Sensex Return 3m (%)	(5.3)	RoCE (%)	17.0	14.6	15.0	20.0
Sensex Return 12m (%)	58.3	RoE (%)	14.8	12.8	13.4	13.5

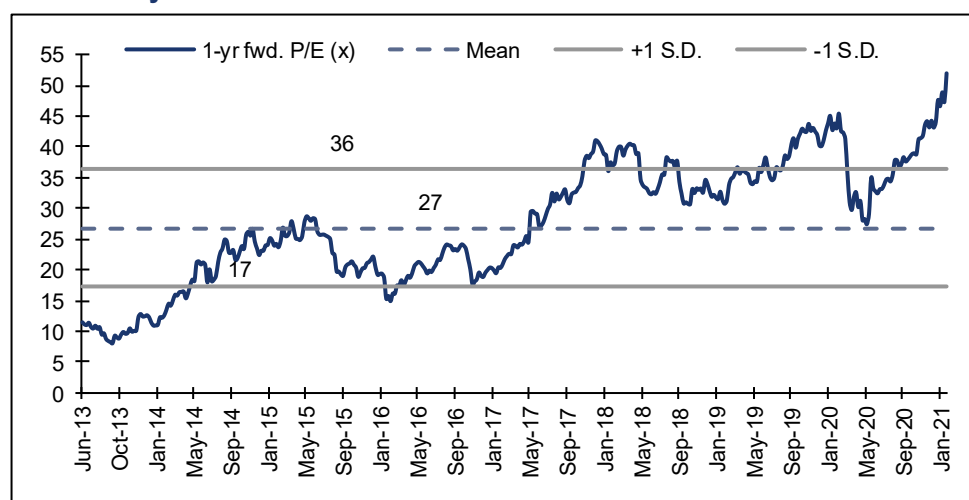
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## Valuation and outlook

The stock is currently trading at 50.4x FY22E earnings and 44.1x FY23E. Our target multiple of 44x FY23E earnings is based on a weighted EBIT contribution average of 60x for UCP segment, 15x for EMP segment and 20x for engineering products. Given the localisation of direct cool refrigerators and the development of 6,000 touch-points currently, we value the Voltbek JV separately at 4x its investments. We have arrived at a valuation of ~4x investments assigning the average of FY21/FY22E P/BV. We have rolled over our valuation multiple to FY23E from Sep'22E.

We value the consolidated business at Rs996 (44x FY23E earnings) and Voltbek at Rs44 (4x of investments) arriving at an SoTP-based target price of Rs1,040 (earlier: Rs1065) and maintain our **HOLD** rating on the stock.

**Chart 1: 1-year forward P/E chart**



Source: Bloomberg, I-Sec research

**Table 1: SoTP valuation**

Holding	Method	Investment	FY23E	Multiple	Total Value	Holding value	Value Per Share
Voltas	FY23E PER		7,503	43.9	3,29,652	3,29,652	996
Voltbek JV	49% P/BV	7400		4	29,600	14,504	44
<b>Target Price</b>							<b>1,040</b>

Source: Company data, I-Sec research

**Table 2: Valuation multiple for FY23E**

	EBIT contribution (%) (A)	APAT FY23E (B)	APAT Contribution (Rs mn) (AxB=C)	Multiple (D)	Value (Rs mn) (CxD=E)	Consolidated Multiple (E/B)
Electro-Mechanical Project	24.5		1,835	15	27,525	
Engg Products & Services	12.3		925	20	18,497	
Unitary Cooling Products	63.2		4,743	60	2,83,630	
<b>Total</b>		<b>7,503</b>	<b>7,503</b>		<b>3,29,652</b>	<b>43.9</b>

Source: Company data, I-Sec research

Note: We have arrived at PAT contribution from each of the segments by assigning them weightages same as their respective contribution to total EBIT. Further, we value each segment on the basis of earnings multiple assigned to each segment individually, to arrive at a combined valuation of Rs330bn. This, at FY23E earnings of Rs7.5bn, leads to a target multiple of 44x FY23E.

**Table 3: Change in estimates (consolidated)**

Rs mn	FY22E			FY23E		
	Earlier	Revised	YoY (%)	Earlier	Revised	YoY (%)
Revenue	86,308	83,117	(3.7)	96,111	91,331	(5.0)
EBIDTA	8,617	7,811	(9.4)	9,820	8,904	(9.3)
PAT	7,154	6,564	(8.2)	8,213	7,503	(8.7)

Source: I-Sec research

**Table 4: Quarterly financial highlights**

(Rs mn)	Q4FY20	Q4FY21	YoY(%)	Q3FY21	QoQ(%)	Isec Est	Var (%)	FY20	FY21	YoY(%)
<b>Revenue</b>	<b>20,896</b>	<b>26,517</b>	<b>26.9</b>	<b>19,946</b>	<b>32.9</b>	<b>26,878</b>	<b>(1.3)</b>	<b>76,581</b>	<b>75,558</b>	<b>(1.3)</b>
<b>EBITDA</b>	<b>1,920</b>	<b>3,308</b>	<b>72.3</b>	<b>1,459</b>	<b>126.8</b>	<b>2,709</b>	<b>22.1</b>	<b>6,866</b>	<b>6,415</b>	<b>(6.6)</b>
Margin	9.2	12.5	329bps	7.3	516bps	10.1	240bps	9.0	8.5	-50bps
Depreciation	82	89	8.2	84	5.5	80	10.8	320	339	6.0
Finance Cost	61	104	72.2	32	225.6	23	359.0	211	262	23.9
Other Income	605	316	(47.8)	516	(38.8)	727	(56.6)	2,306	1,889	(18.1)
<b>PBT</b>	<b>2,382</b>	<b>3,431</b>	<b>44.0</b>	<b>1,859</b>	<b>84.6</b>	<b>3,334</b>	<b>2.9</b>	<b>8,642</b>	<b>7,703</b>	<b>(10.9)</b>
Tax	572	821	43.5	372	120.8	808	1.7	2,233	1,804	(19.2)
tax rate	26.4	25.6	-82bps	22.4	316bps	25.1	52bps	25.8	23.4	-240bps
<b>reported PAT</b>	<b>1,587</b>	<b>2,378</b>	<b>49.9</b>	<b>1,279</b>	<b>85.9</b>	<b>2,372</b>	<b>0.2</b>	<b>5,172</b>	<b>5,252</b>	<b>1.6</b>
Adjusted PAT	1,607	2,378	48.0	1,279	85.9	2,372	0.2	5,684	5,252	(7.6)
Margin(%)	7.6	9.0	138bps	6.4	255bps	8.8	14bps	6.8	7.0	20bps
<b>EPS</b>	<b>4.8</b>	<b>7.2</b>		<b>3.9</b>		<b>7.2</b>		<b>15.6</b>	<b>15.9</b>	
Orderbook	77,880	66,350	(14.8)	72,750	(8.8)	74,550	(11.0)	77,880	66,350	(14.8)
Order Inflow	15,937	4,638	(70.9)	14,397	(67.8)	12,882	(64.0)	60,581	23,893	(60.6)

Source: Company data, I-Sec research

**Table 5: Quarterly segmental highlights**

(Rs mn)	Q4FY20	Q4FY21	YoY(%)	Q3FY21	QoQ(%)	Isec Est	Var (%)	FY20	FY21	YoY(%)
<b>Revenue</b>										
Electro-Mechanical Projects	8,046	11,038	37.2	10,167	8.6	11,082	(0.4)	32,461	35,664	9.9
Engg Products & Services	948	977	3.0	1,209	(19.2)	1,096	(10.9)	3,317	3,595	8.4
Unitary Cooling Products	11,989	14,367	19.8	8,396	71.1	14,935	(3.8)	40,737	35,550	(12.7)
<b>Total</b>	<b>20,784</b>	<b>26,278</b>	<b>26.4</b>	<b>19,704</b>	<b>33.4</b>	<b>27,254</b>	<b>(3.6)</b>	<b>76,271</b>	<b>74,566</b>	<b>(2.2)</b>
<b>EBIT</b>										
Electro-Mechanical Projects	113	929	722.4	322	188.2	555	67.3	1,704	1,088	(36.2)
Engg Products & Services	269	338	25.5	320	5.5	309	9.3	993	1,143	15.2
Unitary Cooling Products	1,754	2,247	28.1	1,046	114.9	2,284	(1.6)	5,121	5,019	(2.0)
<b>Total</b>	<b>2,136</b>	<b>3,514</b>	<b>64.5</b>	<b>1,688</b>	<b>108.1</b>	<b>3,149</b>	<b>11.6</b>	<b>7,817</b>	<b>7,250</b>	<b>(7.3)</b>
<b>EBIT Margin (%)</b>										
Electro-Mechanical Projects	1.4	8.4	701 bps	3.2	524 bps	5.0	340 bps	5.2	3.0	-220 bps
Engg Products & Services	28.4	34.6	618 bps	26.5	810 bps	28.2	640 bps	29.9	31.8	187 bps
Unitary Cooling Products	14.6	15.6	101 bps	12.5	319 bps	15.3	35 bps	12.6	14.1	155 bps
<b>EBIT Contribution (%)</b>										
Electro-Mechanical Projects	5.3	26.4	2110 bps	19.1	734 bps	17.6	880 bps	21.8	15.0	-679 bps
Engg Products & Services	12.6	9.6	-300 bps	19.0	-936 bps	9.8	-20 bps	12.7	15.8	307 bps
Unitary Cooling Products	82.1	64.0	-1810 bps	61.9	202 bps	72.6	-860 bps	65.5	69.2	373 bps

Source: Company data, I-Sec research

**Table 6: Key assumptions**

(Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Revenue</b>								
Electro - Mechanical Projects and Services	28,288	26,550	28,452	36,191	32,461	35,664	37,447	39,319
Growth (%)	28.1	(6.1)	7.2	27.2	(10.3)	9.9	5.0	5.0
Engineering Products and Services	3,706	3,318	3,099	3,117	3,317	3,595	3,775	3,963
Growth (%)	2.9	(10.5)	(6.6)	0.6	6.4	8.4	5.0	5.0
Unitary Cooling Products	25,210	30,469	32,261	31,556	40,737	35,550	41,482	47,594
Growth (%)	0.4	20.9	5.9	(2.2)	29.1	(12.7)	16.7	14.7
<b>EBIT</b>								
Electro - Mechanical Projects and Services	550	849	1,854	2,773	1,704	1,088	2,247	2,359
Engineering Products and Services	1,127	956	992	1,051	993	1,143	1,132	1,189
Unitary Cooling Products	3,381	4,403	4,749	3,254	5,121	5,019	5,807	6,663
<b>EBIT Margin (%)</b>								
Electro-Mechanical Projects and Services	1.9	3.2	6.5	7.7	5.2	3.0	6.0	6.0
Engineering Products and Services	30.4	28.8	32.0	33.7	29.9	31.8	30.0	30.0
Unitary Cooling Products	13.4	14.5	14.7	10.3	12.6	14.1	14.0	14.0
Orderbook	39,140	43,210	50,620	49,760	77,880	66,350	58,861	58,861
Growth (%)	0.5	10.4	17.1	(1.7)	56.5	(14.8)	(11.3)	0.0
Order Inflow	28,498	30,620	35,655	35,964	60,581	24,134	29,958	39,319
Growth (%)	14.5	7.4	16.4	0.9	68.5	(60.2)	24.1	31.3

Source: Company data, I-Sec research

## Key Concall highlights

### EMP

- Higher contribution by both domestic and international projects led to healthy execution in Q4FY21.
- Total orderbook stands at Rs66.35bn, of which, domestic is Rs42bn and international is Rs24.35bn majorly from UAE, Qatar and Oman.
- Domestic orderbook breakup is as Rs13.9bn in water projects, Rs7.8bn in rural electrification, Rs7.5bn in urban infra and Rs11bn in HVAC.
- Management guides 6-7% trajectory for margins
- Manpower migration is happening and the company has started issues related to unavailability of skilled workforce.
- There have been cost optimisations done largely in EMP segment; however, some portion of this is expected to come back. Also, employee cost may increase in near term given the strategic plans of the company.

### Unitary cooling products

- The company has taken 5-6% price hike in UCP across all categories. Later it took 3% hike in some categories. The management indicated it may take another price hike soon.
- In FY21, room AC industry declined 29% YoY while Voltas declined 15%.
- Inverter sales grew 22% YoY in FY21, currently ~77% of all split ACs sold are inverter.
- Current market share stands at 25.6% at multi-brand outlet.
- Commercial refrigeration volume growth was 17% YoY in FY21. In water coolers, rise in SKU boosted growth to 37% YoY.

### Others

- Amount of Rs4.1bn has been invested in Beko. Voltas does not have sufficient products to feed the market. Hence, current focus is to increase the production.
- Nearly 90% of outlets are under lockdown.
- Current inventory of room AC is at ~45-60days from the normalised level of 30 days.
- Around 20% of total sales goes through channel finance with a trend of contribution from finance companies decreasing and credit card companies increasing.

## Financial summary (consolidated)

**Table 7: Profit & loss statement**

(Rs mn, year ending March 31)

	FY20	FY21	FY21E	FY21E
<b>Total Income</b>	<b>76,581</b>	<b>75,558</b>	<b>83,117</b>	<b>91,331</b>
<b>Operating Expenses</b>	69,714	69,143	75,306	82,428
<b>EBITDA</b>	<b>6,866</b>	<b>6,415</b>	<b>7,811</b>	<b>8,904</b>
% margins	9.0	8.5	9.4	9.7
Depreciation & Amortisation	320	339	394	413
<b>EBIT</b>	<b>6,547</b>	<b>6,076</b>	<b>7,417</b>	<b>8,491</b>
Gross Interest	211	262	200	220
Other Income	2,306	1,889	2,000	2,000
<b>PBT before exceptionals</b>	<b>7,955</b>	<b>7,093</b>	<b>8,867</b>	<b>10,121</b>
Add:				
Extraordinaries/Exceptionals	(512)	-	-	-
Add: Share in associates	(687)	(610)	(350)	(150)
<b>PBT</b>	<b>7,443</b>	<b>7,093</b>	<b>8,867</b>	<b>10,121</b>
Less: Taxes	2,233	1,804	2,234	2,551
Less: Minority Interests	39	37	68	68
<b>Net Income (Reported)</b>	<b>5,172</b>	<b>5,252</b>	<b>6,564</b>	<b>7,503</b>
<b>Adjusted Net Income</b>	<b>5,684</b>	<b>5,252</b>	<b>6,564</b>	<b>7,503</b>

Source: Company data, I-Sec research

**Table 8: Balance sheet**

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	55,784	51,894	57,818	89,902
of which cash & cash eqv.	8,288	7,081	8,998	38,529
Total Current Liabilities & Provisions	36,201	33,654	37,127	40,746
<b>Net Current Assets</b>	<b>19,583</b>	<b>18,240</b>	<b>20,691</b>	<b>49,156</b>
Investments	18,229	27,971	29,370	5,440
Other Non-Current Assets	4,064	3,410	3,832	4,316
<b>Net Fixed Assets</b>	<b>2,760</b>	<b>2,556</b>	<b>3,594</b>	<b>4,585</b>
Goodwill	723	723	723	723
<b>Total Assets</b>	<b>45,360</b>	<b>52,901</b>	<b>58,209</b>	<b>64,221</b>
<b>Liabilities</b>				
Borrowings	2,179	2,606	2,606	2,606
Deferred Tax Liability	14	-	-	-
Minority Interest	365	361	361	361
Equity Share Capital	331	331	331	331
Face Value per share (Rs)	1.00	1.00	1.00	1.00
Reserves & Surplus	42,471	49,603	54,911	60,923
<b>Net Worth</b>	<b>42,802</b>	<b>49,934</b>	<b>55,242</b>	<b>61,254</b>
<b>Total Liabilities</b>	<b>45,360</b>	<b>52,901</b>	<b>58,209</b>	<b>64,221</b>

Source: Company data, I-Sec research

**Table 9: Cashflow statement**

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Operating Cashflow</b>	<b>5,494</b>	<b>6,046</b>	<b>7,226</b>	<b>8,203</b>
Working Capital Changes	(1,197)	126	(1,857)	933
Capital Commitments	(359)	204	(1,432)	(1,403)
<b>Free Cashflow</b>	<b>3,938</b>	<b>6,376</b>	<b>3,938</b>	<b>7,733</b>
<b>Cashflow from Investing</b>				
<b>Activities</b>	<b>(9,281)</b>	<b>(5,473)</b>	<b>(1,820)</b>	<b>23,445</b>
Issue of Share Capital	-	(0)	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	(968)	428	-	-
Interest paid	(211)	(262)	(200)	(220)
Dividend paid	(1,596)	(1,654)	(1,324)	(1,324)
<b>Extraordinary Items/Others</b>	<b>837</b>	<b>(621)</b>	<b>1,324</b>	<b>(103)</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>(7,280)</b>	<b>(1,207)</b>	<b>1,917</b>	<b>29,531</b>

Source: Company data, I-Sec research

**Table 10: Key ratios**

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Per Share Data (in Rs.)</b>				
Diluted adjusted EPS	17.2	15.9	19.8	22.7
Recurring Cash EPS	18.1	16.9	21.0	23.9
Dividend per share (DPS)	4.0	5.0	4.0	4.4
Book Value per share (BV)	130.5	152.0	168.0	186.2
<b>Growth Ratios (%)</b>				
Operating Income	7.5	(1.3)	10.0	9.9
EBITDA	12.3	(6.6)	21.8	14.0
Recurring Net Income	9.4	(7.6)	25.0	14.3
Diluted adjusted EPS	9.4	(7.6)	25.0	14.3
Diluted Recurring CEPS	10.4	(6.9)	24.5	13.8
<b>Valuation Ratios</b>				
P/E	58.2	63.0	50.4	44.1
P/CEPS	55.1	59.2	47.6	41.8
P/BV	7.7	6.6	6.0	5.4
EV / EBITDA	47.3	50.9	41.5	33.1
EV / Operating Income	4.3	4.4	3.9	3.2
EV / Operating FCF (pre - Capex)	75.6	52.9	60.4	32.3
<b>Operating Ratios</b>				
Raw Material/Sales (%)	72.5	73.8	74.1	74.1
SG&A/Sales (%)	3.9	0.0	0.0	0.0
Other Income / PBT (%)	31.0	26.6	22.6	19.8
Effective Tax Rate (%)	28.1	25.4	25.2	25.2
NWC / Total Assets (%)	24.9	21.1	20.1	16.5
Inventory Turnover (days)	61.2	67.3	57.4	51.2
Receivables (days)	86.9	88.8	85.4	87.1
Payables (days)	132.6	136.0	125.4	125.7
Net D/E Ratio (x)	(0.1)	(0.1)	(0.1)	(0.6)
<b>Return/Profitability Ratios (%)</b>				
Recurring Net Income Margins	7.5	7.0	7.9	8.3
RoCE	17.0	14.6	15.0	20.0
RoNW	14.8	12.8	13.4	13.5
Dividend Payout Ratio	30.9	31.5	20.2	19.4
Dividend Yield	0.4	0.5	0.4	0.4
EBITDA Margins	9.0	8.5	9.4	9.7

Source: Company data, I-Sec research

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