

Poor performance continues...

Voltas' muted performance in Q4FY19 was led by the poor performance of unitary cooling product (UCP) segments. The segment revenue declined ~6% YoY at ~₹ 998 crore (I-direct estimate: 4% YoY) led by continuous slowdown in AC demand due to extended winter and intense competition in Q4FY19. EMPS revenue growth at ~12% YoY was also below our estimate of 15% YoY. The EBITDA margin at 7% (I-direct estimate: 10%) was under pressure due to lower profitability from both UCP, EMPS business. The management has maintained the margin guidance at ~7% and ~11% for EMPS and UCP segment, respectively, in FY20E. We believe the UCP segment would face pricing pressure due to competition and higher advertisement expense, capping the margin expansion in FY20E-21E.

Cooling product segment remains under pressure...

Voltas' EMPS segment revenue growth at ~12% YoY (owing to fast execution of domestic and international orders) was partly offset by ~6% drop in revenue of each UCP and EPS segments, respectively. Lower volume growth in UCP segments in Q4FY19 can be attributable to extended winter and focus on rationalisation of inventory at dealer's level. However, we believe FY20E will be better than FY19 for the UCP segment considering demand revival of air conditioners (April/May 2019 saw strong demand of cooling products). We model UCP segment revenue CAGR of ~18% in FY19-21E led by ~14% volume growth during the same period. We believe strong UCP segment revenue growth coupled with steady growth in the EMPS segment (at ~9% in FY19-21E due to focus on only quality orders) would help drive consolidated sales growth at ~13% in FY19-21E.

...leads to significant drop in margin

Voltas was unable to pass on the higher raw material prices mainly due to intense competition and lower volume offtake in the UCP segment that saw a significant drop in EBIT margin by ~700 bps to ~10%. On the EMPS segment, lower EBIT margin (declined ~310 bps YoY to 4.5%) was largely due to lumpiness of the business. We model segment margin at ~7% and ~11% for EMPS and UCP segment, respectively, for FY20E in line with the management guidance. This would be translated into a recovery in EBITDA margin in FY20E-21E but still in line with FY18.

Valuation & Outlook

Under our SOTP based valuation, we maintain **HOLD** on Voltas with a revised target price of ₹ 605/share, by ascribing PE multiple of 32x FY21E earnings to UCP segment. We ascribe a PE multiple of 16x FY21E and 10x FY21E earning to EMPS and EPS segment, respectively. We believe pricing pressure in the UCP segment would cap overall margin expansion for Voltas.

VOLTAS

Particulars

Particular	Amount
Market Capitalization (₹)	18,851.8
Total Debt (FY19) (₹ Crore)	314.7
Cash & Inv (FY19) (₹ Crore)	1,556.7
EV (₹ Crore)	17,609.8
52 week H/L	642 / 471
Equity capital (₹ Crore)	33.1
Face value (₹)	1.0

Key Highlights

- UCP segment performance hurt by poor volume offtake owing to extended winter
- Margin pressure continues owing to inability of passing on higher raw material prices and intense competition in the UCP segment
- FY20 to be better than FY19 supported by demand revival but cap in margin owing to rising competition
- Maintain HOLD rating on stock and cut our target price from ₹ 650/share to ₹ 605/share

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Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E	CAGR (19-21E)
Net Sales	6032.8	6404.4	7124.1	8062.6	9086.5	12.9
EBITDA	566.9	662.6	611.7	772.6	935.9	23.7
EBITDA Margin (%)	9.4	10.3	8.6	9.6	10.3	
Net Profit	519.9	577.9	513.9	605.1	724.9	18.8
EPS (₹)	15.7	17.5	15.5	18.3	21.9	
P/E(x)	36.3	32.6	36.7	31.2	26.0	
Price/Book (x)	5.7	4.8	4.6	4.7	4.3	
Mcap/Sales (x)	3.1	2.9	2.6	2.3	2.1	
RoE (%)	15.7	14.8	12.7	15.1	16.7	
RoCE(%)	21.5	19.8	17.3	19.9	21.7	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	2,062.8	2,230.0	2,048.4	0.7	1,491.8	38.3	Poor performance of UCP division took a toll on topline
Other Income	57.2	43.5	43.8	30.6	54.8	4.4	
Raw Material Exp	860.8	529.9	444.3	93.8	897.2	-4.0	
Employee Exp	166.4	187.7	143.4	16.0	160.1	3.9	
Purchase of Traded goods	718.2	1,081.9	1,056.9	-32.0	193.5	271.3	
Other Expenses	173.2	209.8	150.7	14.9	125.4	38.1	
EBITDA	144.3	220.8	253.2	-43.0	115.7	24.8	
EBITDA Margin (%)	7.0	9.9	12.4	-536 bps	7.8	-76 bps	Lower operating leverage, higher raw material cost and adverse currency movement lowered profitability of UCP segment by 680 bps YoY
Depreciation	5.9	8.3	6.1	-2.3	6.2	-3.7	
Interest	10.6	6.3	4.3	144.9	13.2	-19.7	
Exceptional items	0.0	0.0	1.4		11.7		
Profit/(loss) from Asso & JVs	(19.3)	(8.8)	(1.0)		(30.8)		Loss from joint venture and associates companies, which includes losses from Voltas-Beko
PBT	165.6	240.9	284.2	-41.7	108.6	52.5	
Total Tax	23.9	77.1	90.0	-73.5	30.4	-21.6	
PAT	141.7	163.8	194.2	-27.0	78.1	81.4	Lower EBITDA margin and losses from associates & JVs impacted PAT
Key Metrics							
EMPS	976	1009	874	11.7	875	11.5	Pick-up in execution of orders drove sales growth
EPS	78	96	83	-6.0	83	1.1	Challenges from textiles industry weigh on performance
UCP	997.6	1103	1064	-6.3	526	89.7	Poor performance attributable to extended winter and inability to take price hike

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	8,558.8	8,062.6	(5.8)	9,093.9	9,086.5	(0.1)	We tweak our estimates downside incorporating the Q4FY19 performance. We believe the company will face pricing pressure in UCP segment
EBITDA	899.3	772.6	(14.1)	964.4	935.9	(3.0)	
EBITDA Mar(%)	10.5	9.6	-92bps	10.6	10.3	-30bps	We revise EBITDA margin downside considering the higher raw material prices and adverstiment & promotional activities
PAT	722.7	605.1	(16.3)	807.5	724.9	(10.2)	
EPS (₹)	21.9	18.3	(16.3)	24.4	21.9	(10.2)	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current			Earlier			Comments
	FY18	FY19E	FY20E	FY21E	FY20E	FY21E	
EMPS	7.2	27.2	9.1	9.1	2.1	3.6	We build revenue CAGR of 9% in FY19-21E for EMPS segment, considering focus on quality orders
EPS	-6.6	0.6	7.4	7.5	10.0	10.0	
UCP	5.9	-2.2	18.6	17.0	18.8	20.3	We model UCP segment revenue CAGR of ~18% for FY19-21E led by ~14% volume CAGR in the RAC segment.

Source: Company, ICICI Direct Research

Conference call highlights

UCP segment

- Overall RAC industry de-grew 3% YoY. The cooling industry faced a severe challenge during FY19 in terms of erratic weather conditions, high raw material prices and adverse currency movement
- Also, due to intense competition from existing players and a significant number of new entrants, this quarter witnessed more consumer offers, leading to higher sales & distribution costs. This resulted in lower profitability in the UCP segment in Q4FY19 and FY19. However, Voltas aims to maintain the EBIT margin of the UCP division at ~11%, going ahead
- Voltas continued to be the market leader, increasing its YTD market share (across multi-brand outlets) from 22.1% to 23.9%
- Voltas has launched 39 SKUs in the air coolers segments

Voltbek JV

- The thrust of the JV in the current year is to expand the distribution (in tier II & tier III cities), widen the product range and build the manufacturing site at Sanand as per planned schedule
- The company has launched 31 new SKUs of refrigerators including bottom mount and side by side refrigerators. It has also launched five new SKUs of front load washing machines and 12 SKUs of top load washing machines

EMPS segment

- The segment recorded revenue growth 27% YoY with increase in EBIT margin by ~110 bps YoY at 7.6%. The better profitability is attributable to execution of quality orders in domestic and international business
- The company's EMPS segment is likely to record flattish growth in the near term owing to bidding of quality orders. It is likely to maintain EBIT margin of ~7-7.5% in the business
- The carry forward order book of the segment was at ₹ 4976 crore compared to ₹ 5062 crore last year. New orders booked during the current quarter were at ₹ 392 crore (domestic) and ₹ 626 crore (international)

EPS segment

- The company faced pressure in the textile business due to declining yarn prices and ambiguity on implementation of state specific policies. It is largely focusing on after-sales business to mitigate reduced sales of capital equipment continues. In the mining and construction equipment, Mozambique operations contribute a significant share to the division's performance

Financial story in charts

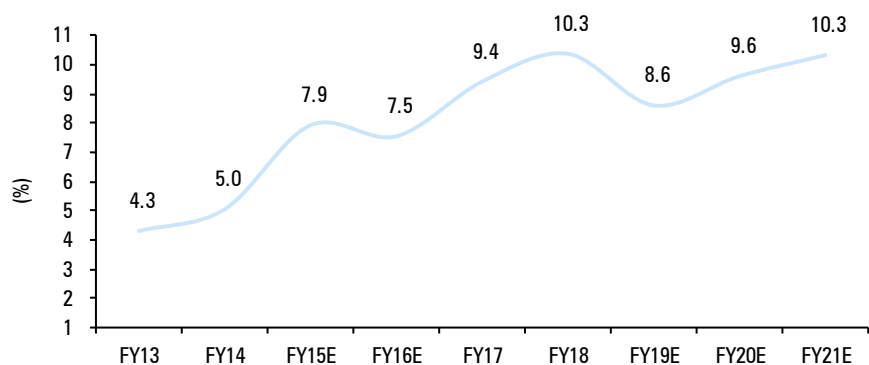
Exhibit 4: Revenue growth led by UCP segment

₹ crore	FY14	FY15	FY16E	FY17	FY18	FY19E	FY20E	FY21E	CAGR FY19-21E
EMPS	2692.4	2208.5	2828.8	2655.0	2845.2	3619.1	3946.7	4304.3	9.1
EPS	448.2	360.1	370.6	331.8	309.9	311.7	334.7	359.8	7.5
UCP	2052.4	2510.5	2521.0	3046.9	3226.1	3155.6	3740.9	4377.0	17.8
Others	74.4	104.9	26.8	62.2	47.6	39.5	41.0	46.3	8.3
Net Sales	5266.0	5183.1	5746.7	6032.8	6404.4	7124.1	8062.6	9086.5	12.9

Source: Company, ICICI Direct Research

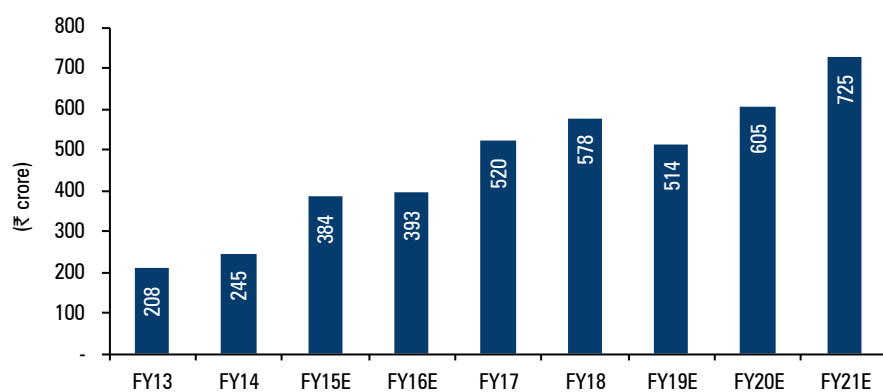
Direct Research

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



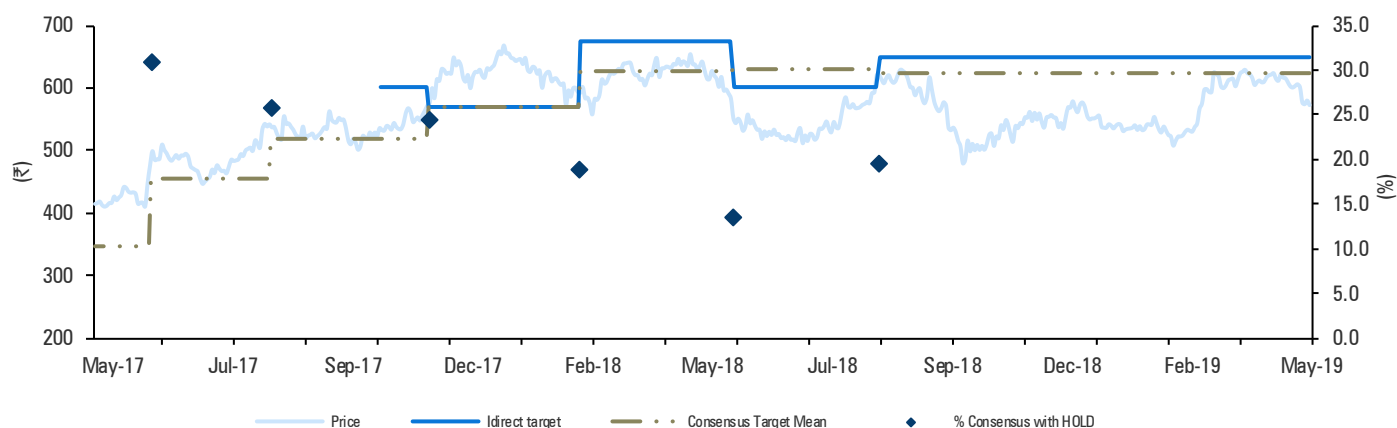
Source: Company, ICICI Direct Research

Exhibit 6: Sales growth, slight recovery in margin to drive PAT in FY19-21E



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Last filing date	% O/S	Position (m)	Change (m)
1	Tata Group of Companies	31-03-2019	30.3%	100.25M	0
2	HDFC Asset Management Co., Ltd.	31-03-2019	6.83%	22.61M	+4.79M
3	Franklin Templeton Asset Management (India) Pvt. Ltr	31-03-2019	5.08%	16.81M	-3.58M
4	Life Insurance Corporation of India	31-03-2019	4.99%	16.52M	-0.34M
5	Aberdeen Standard Investments (Edinburgh)	30-09-2018	1.91%	6.33M	+2.19M
6	Mirae Asset Global Investments (India) Pvt. Ltd.	31-03-2019	1.90%	6.29M	-0.03M
7	HDFC Life Insurance Company Limited	31-03-2019	1.82%	6.01M	+0.60M
8	Aditya Birla Sun Life AMC Limited	31-12-2017	1.71%	5.65M	+0.61M
9	SBI Funds Management Pvt. Ltd.	31-03-2019	1.69%	5.61M	-0.89M
10	IDFC Asset Management Company Private Limited	31-03-2019	1.52%	5.02M	+0.80M

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor name	Value(m)	Shares(m)	Investor name	Value(m)	Shares(m)
HDFC Asset Management Co., Ltd.	+43.59M	+4.79M	Franklin Templeton Asset Management (India) Pvt. Ltd.	-32.56M	-3.58M
T. Rowe Price Hong Kong Limited	+22.86M	+2.51M	Prazim Trading & Investment Co. Pvt. Ltd.	-9.75M	-1.07M
IDFC Asset Management Company Private Limited	+7.27M	+0.80M	Norges Bank Investment Management (NBIM)	-8.42M	-1.06M
HDFC Life Insurance Company Limited	+5.45M	+0.60M	Franklin Advisers, Inc.	-8.57M	-0.94M
ICICI Prudential Asset Management Co. Ltd.	+4.72M	+0.52M	SBI Funds Management Pvt. Ltd.	-8.10M	-0.89M

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	30.3	30.3	30.3	30.3	30.3
FII	19.6	15.5	15.9	14.6	13.7
DII	29.3	32.3	31.0	32.0	33.4
Others	20.8	21.9	22.8	23.1	22.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Net Sales	6,404.4	7,124.1	8,062.6	9,086.5
Expenses				
Raw Material Expenses	2,820.2	3,556.8	3,704.5	4,130.7
(inc)/Dec in stocks	105.4	(279.6)	-	-
Purchase of traded goods	1,641.9	1,985.0	2,169.8	2,428.7
Employee Expenses	586.7	641.9	681.5	768.1
Other expenses	587.5	608.3	734.1	823.1
Total Operating Expenditure	5,741.7	6,512.4	7,290.0	8,150.6
EBITDA	662.6	611.7	772.6	935.9
Other Income	174.1	186.3	124.0	117.7
Interest	11.9	33.0	40.0	41.0
PBDT	824.9	765.0	856.7	1,012.7
Depreciation	24.4	24.0	27.4	30.9
PBT before Exceptional Items	800.5	741.0	829.2	981.8
Less: Exceptional Items	(0.6)	11.8	-	-
Total Tax	227.0	163.5	236.3	277.2
PAT before MI	577.9	513.9	605.1	724.9
PAT after MI	577.9	513.9	605.1	724.9
Profit from Associates	3.8	(51.8)	12.2	20.3
PAT	577.9	513.9	605.1	724.9

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Equity Capital	33.1	33.1	33.1	33.1
Reserve and Surplus	3,872.2	4,076.9	3,968.8	4,306.8
Total Shareholders funds	3,905.2	4,110.0	4,001.9	4,339.9
Total Debt	142.3	314.7	322.7	330.7
Deferred Tax Liability	13.2	6.6	6.6	6.6
Other Non Current Liabilities	1.0	0.7	0.7	0.7
Total Liability	4,093.5	4,466.7	4,366.7	4,712.7
Net Block	224.8	270.7	293.3	312.4
Total Fixed Assets	228.9	286.4	309.0	328.1
Other Investments	2,266.0	1,150.2	1,100.2	1,050.2
Goodwill on Consolidation	72.3	72.3	72.3	72.3
Deferred Tax Assets	17.8	105.9	105.9	105.9
Long term loans and advances	91.7	156.0	115.4	130.1
Other non current assets	34.9	74.1	44.0	49.5
Liquid Investments	487.6	1,235.7	1,185.7	1,135.7
Inventory	813.0	1,090.7	1,170.7	1,394.1
Debtors	1,570.3	1,833.0	1,988.0	2,240.5
Cash	283.8	321.0	456.7	328.4
Loans and Advances	4.8	11.6	6.1	6.8
Other Current Assets	1,438.6	1,185.2	1,811.1	2,041.1
Net Current Assets	894.3	1,386.2	1,434.3	1,841.1
Total Assets	4,093.4	4,466.7	4,366.7	4,712.7

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	577.9	513.9	605.1	724.9
Depreciation	24.4	24.0	27.4	30.9
Cash Flow before working capital cha	614.2	570.8	672.5	796.8
Net Increase in Current Assets	(367.3)	(293.8)	(855.4)	(706.6)
Net Increase in Current Liabilities	253.6	(160.9)	943.0	171.6
Net cash flow from operating Acti	500.5	116.1	760.0	261.8
Long term loans and advances	(19.3)	(64.3)	40.6	(14.7)
Other non current assets	(17.3)	(39.2)	30.1	(5.6)
Liquid Investments	(485.7)	367.7	100.0	100.0
(Purchase)/Sale of Fixed Assets	(25.1)	(81.5)	(50.0)	(50.0)
Others	19.1	(92.0)	-	-
Net Cash flow from Investing Acti	(528.3)	90.8	120.7	29.8
Proceeds/(Repament) loans	(28.7)	172.4	8.0	8.0
Total Outflow on account of dividend	(154.8)	(154.8)	(154.8)	(387.0)
Others	163.6	(187.3)	(598.4)	(41.0)
Net Cash flow from Financing Acti	(19.8)	(169.7)	(745.2)	(419.9)
Net Cash flow	(47.6)	37.2	135.6	(128.4)
Cash and Cash Equivalent at the begin	331.5	283.8	321.0	456.7
Cash	283.8	321.0	456.7	328.4

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per Share Data				
EPS	17.5	15.5	18.3	21.9
Cash EPS	18.2	16.3	19.1	22.9
BV	118.1	124.3	121.0	131.2
DPS	4.7	4.7	4.7	11.7
Operating Ratios				
EBITDA margin	10.3	8.6	9.6	10.3
PAT margin	9.0	7.3	7.5	8.0
Return Ratios				
RoE	14.8	12.7	15.1	16.7
RoCE	19.8	17.3	19.9	21.7
RoIC	16.5	19.9	22.3	22.8
Valuation Ratios				
EV / EBITDA	27.5	28.8	22.7	18.9
P/E	32.6	36.7	31.2	26.0
EV / Net Sales	2.8	2.5	2.2	1.9
Sales / Equity	1.6	1.7	2.0	2.1
Market Cap / Sales	2.9	2.6	2.3	2.1
Price to Book Value	4.8	4.6	4.7	4.3
Turnover Ratios				
Asset turnover	1.6	1.6	1.8	1.9
Debtors Days	89.5	93.9	90.0	90.0
Creditors Days	124.0	121.7	122.0	110.0
Solvency Ratios				
Debt / Equity	0.0	0.1	0.1	0.1
Current Ratio	1.6	1.6	1.6	1.8
Quick Ratio	1.2	1.2	1.3	1.4

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY18E	FY19E	FY20E
Asian Paints (ASIPAI)	1,332	1,600	Buy	127,739	23.1	26.9	31.8	57.8	49.5	41.9	36.0	30.5	25.4	30.0	32.0	32.5	23.2	24.6	24.6
Astral Polytechnik (ASTPOL)	1,180	1,250	Hold	14,131	14.6	22.3	29.1	81.0	53.0	40.6	39.3	28.3	23.1	20.7	24.8	26.3	13.9	17.7	19.0
Bajaj Electricals (BAJELE)	534	474	Hold	5,449	18.9	21.4	26.3	28.3	24.9	20.3	14.8	13.0	11.5	17.2	17.8	19.5	18.5	17.9	18.5
Havells India (HAVIND)	735	800	Buy	45,857	14.1	17.3	20.4	52.2	42.4	36.0	37.2	28.8	24.0	29.4	31.0	31.1	22.2	22.7	22.5
Kansai Nerolac (KANNER)	405	455	Hold	21,826	8.7	9.7	11.3	46.7	41.9	35.8	29.5	25.7	22.0	20.2	21.8	22.9	13.6	14.6	15.4
Pidilite Industries (PIDIND)	1,166	1,250	Buy	59,774	18.5	22.0	26.1	63.0	52.9	44.7	42.2	38.6	32.5	33.6	29.6	31.4	27.0	21.7	22.8
Essel Propack (ESSPRO)	133	136	Hold	4,179	6.2	6.7	7.9	21.5	19.8	16.7	9.3	8.3	7.2	16.9	17.4	19.3	13.9	13.7	15.0
Supreme Indus (SUPIND)	975	1,075	Buy	12,385	35.3	39.3	44.8	27.6	24.8	21.8	16.6	14.0	12.4	25.0	28.6	28.6	18.7	21.5	21.5
Symphony (SYMLIM)	1,309	1,110	Hold	9,157	18.8	25.9	31.7	69.6	50.6	41.3	37.7	52.5	35.2	41.3	25.5	34.5	31.5	22.6	29.9
V-Guard Ind (VGUARD)	207	205	Hold	8,811	3.3	4.2	5.1	62.4	49.3	40.2	43.9	41.9	32.8	23.7	24.0	26.0	17.7	18.2	19.8
Voltas Ltd (VOLTAS)	570	605	Hold	18,852	15.5	18.3	21.9	36.7	31.2	26.0	27.5	28.8	22.7	19.8	17.3	19.9	14.8	12.7	15.1
Time Techno (TIMTEC)	79	80	Hold	1,787	8.8	10.8	12.7	9.0	7.3	6.2	5.4	5.3	4.7	14.9	14.7	15.5	12.2	12.2	13.2

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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