

Weak Q4: FY20 appears more sanguine; Maintain Buy

Q4 was a weak quarter in both RAC and projects business. We believe FY20 should be a normal year on the back of Q1FY20, which is expected to be good on the back of good summer- a fact corroborated by competitors and channel checks. While project business suffered due to quarterly quirks, it was decent on a FY basis. With FY20 expected to be normal, we expect balance sheet, currently expanded due to working capital, to improve as well. We continue to like the structural penetration story of ACs and believe Voltas is the best way to play this. We maintain our Buy valuing it at 29x for FY21E with a TP of ₹ 690.

Q4 number lower than estimates; working capital expands on inventory

Revenues remained flat at ₹ 20,628mn during the quarter, while EBITDA declined by 43% YoY to ₹ 1,443mn in Q4. EBITDA margins sharply decreased by 536bps YoY to 7%, sequentially de-grew by 76bps. PAT down by 27% YoY to ₹ 1,417mn, after adjusting ₹193mn for loss of JV, PAT de-grew by 17% YoY to ₹1611 in Q4. UCP segment revenues came at ₹ 9,976mn v/s ₹ 10,645mn, represented a YoY de-growth of 6% in Q4 where margins contracted by 680bps YoY to 10.4%. EMP segment revenue grew by 12% YoY to ₹ 9,760mn with EBIT margin at 4.5%, de-grew by 310bps YoY. Order book stood at ₹ 50bn as compared to ₹ 51bn in FY18. Working capital was higher mainly due to UCP inventory days increasing 35 days.

Improved market share in FY19 and sanguine outlook for FY20

Company's RAC growth was flat for Q4 and FY19, while industry de-grew by 3%. Despite an erratic summer which led to a bad year and higher inventory at channels, company could increase its market share from 22.1 to 23.9% (yoy) in FY19. Q1FY20 outlook is positive and FY20 should be normal year- a fact corroborated by competitors and channel checks., VOLT maintained the margins for full year at 10-11% for UCP and 7-8% for EMP in FY20. Pricing actions wholly depend on competitive intensity as stated by the management.

Remains our preferred RAC pick. Maintain Buy

The weak Q4 has led us to slightly decrease our EBITDA/PAT estimate for FY20 by 4%/3%, though we retain our topline estimates. We continue to like the structural penetration story of ACs and believe Voltas is the best way to play this. We maintain our Buy valuing it at 29x for FY21E with a TP of ₹ 690.

Q4FY19 Result (₹ Mn)

| Particulars | Q4FY19 | Q4FY18 | YoY (%) | Q3FY19 | QoQ (%) |
|-------------------|--------|--------|---------|--------|---------|
| Revenue | 20,628 | 20,484 | 0.7 | 14,918 | 38.3 |
| Total Expense | 19,185 | 17,952 | 6.9 | 13,761 | 39.4 |
| EBITDA | 1,443 | 2,532 | (43.0) | 1,157 | 24.8 |
| Depreciation | 59 | 61 | (2.3) | 62 | (3.7) |
| EBIT | 1,384 | 2,471 | (44.0) | 1,095 | 26.4 |
| Other Income | 572 | 438 | 30.6 | 548 | 4.4 |
| Interest | 106 | 43 | 144.9 | 132 | (19.7) |
| EBT | 1,849 | 2,852 | (44.0) | 1,393 | 32.8 |
| Tax | 239 | 900 | (73.5) | 304 | (21.6) |
| RPAT | 1,417 | 1,942 | (27.0) | 781 | 81.5 |
| APAT | 1,417 | 1,942 | (27.0) | 899 | 57.7 |
| | | | (bps) | | (bps) |
| Gross Margin (%) | 23.5 | 26.7 | (326) | 26.9 | (344) |
| EBITDA Margin (%) | 7.0 | 12.4 | (536) | 7.8 | (76) |
| NPM (%) | 6.9 | 9.5 | (261) | 5.2 | 164 |
| Tax Rate (%) | 12.9 | 31.6 | (1865) | 21.8 | (894) |
| EBIT Margin (%) | 6.7 | 12.1 | (535) | 7.3 | (63) |

| | |
|-----------------|-------------|
| CMP | ₹ 573 |
| Target / Upside | ₹ 690 / 20% |
| BSE Sensex | 37,394 |
| NSE Nifty | 11,279 |

Scrip Details

| | |
|------------------|---------------|
| Equity / FV | ₹ 331mn / ₹ 1 |
| Market Cap | ₹ 192bn |
| | US\$ 3bn |
| 52-week High/Low | ₹ 642/₹ 476 |
| Avg. Volume (no) | 1,661,960 |
| NSE Symbol | VOLTAS |
| Bloomberg Code | VOLT IN |

Shareholding Pattern Mar'19(%)

| | |
|-----------------|------|
| Promoters | 30.3 |
| MF/Banks/FIs | 23.4 |
| FII's | 14.8 |
| Public / Others | 31.5 |

Valuation (x)

| | FY19A | FY20E | FY21E |
|-----------|-------|-------|-------|
| P/E | 37.4 | 28.4 | 24.5 |
| EV/EBITDA | 29.4 | 22.7 | 20.6 |
| ROE (%) | 12.8 | 16.1 | 17.2 |
| RoACE (%) | 14.5 | 16.3 | 17.2 |

Estimates (₹ mn)

| | FY19A | FY20E | FY21E |
|---------|--------|--------|--------|
| Revenue | 71,241 | 80,423 | 92,912 |
| EBITDA | 6,117 | 7,721 | 8,362 |
| PAT | 5,139 | 6,763 | 7,827 |
| EPS (₹) | 15.5 | 20.4 | 23.6 |

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Exhibit 1: Segmental Performance (₹ Mn)

| Segmental | Q4FY19 | Q4FY18 | YoY(%) | Q3FY19 | QoQ(%) | FY19 | FY18 | Chg (%) |
|---|---------------|---------------|----------|---------------|-----------|---------------|---------------|-----------|
| Revenue | | | | | | | | |
| Electro mechanical projects | 9,760 | 8,735 | 12 | 8,752 | 12 | 36,191 | 28,452 | 27 |
| Engineering products and services | 784 | 834 | (6) | 832 | (6) | 3,116 | 3,099 | 1 |
| Unitary Cooling Products and Comfort and commercial use | 9,976 | 10,645 | (6) | 5,259 | 90 | 31,556 | 32,261 | (2) |
| Less: Inter segmental Revenue | 0 | 2 | 10 | 5 | (100) | 13 | 10 | 36 |
| Total | 20,520 | 20,213 | 2 | 14,839 | 38 | 70,849 | 63,803 | 11 |
| EBIT | | | | | | | | |
| Electro mechanical projects | 441 | 665 | (34) | 692 | (36) | 2,773 | 1,854 | 50 |
| Engineering products and services | 274 | 249 | 10 | 219 | 25 | 1,051 | 992 | 6 |
| Unitary Cooling Products and Comfort and commercial use | 1,037 | 1,830 | (43) | 447 | 132 | 3,254 | 4,748 | (31) |
| EBIT Margin (%) | | | | | | | | |
| Electro mechanical projects | 5 | 8 | (310) | 8 | (43) | 8 | 7 | 115 |
| Engineering products and services | 35 | 30 | 512 | 26 | 33 | 34 | 32 | 171 |
| Unitary Cooling Products and Comfort and commercial use | 10 | 17 | (680) | 8 | 22 | 10 | 15 | (441) |
| Segment Capital employed | | | | | | | | |
| Electro mechanical projects | 9,303 | 6,977 | 33 | 9,182 | 1 | 33,373 | 28,540 | 17 |
| Engineering products and services | 654 | 679 | (4) | 551 | 19 | 2,571 | 2,675 | (4) |
| Unitary Cooling Products and Comfort and commercial use | 5,556 | 2,499 | 122 | 7,751 | (28) | 23,693 | 8,346 | 184 |
| Un allocable | 25,935 | 29,215 | (11) | 22,210 | 17 | 101,247 | 107,956 | (6) |

Source: DART, Company

Exhibit 2: Variance from our Estimates (%)

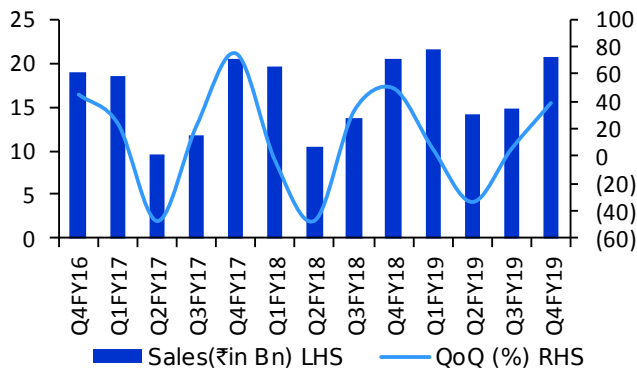
| Particulars | Q4FY19 | Q4FY19E | Var (%) |
|----------------|--------|---------|---------|
| Sales | 20,628 | 21,082 | (2) |
| EBITDA | 1,443 | 2,424 | (40) |
| EBITDA margins | 7.0 | 11.5 | (450) |
| PAT | 1,417 | 1,963 | (28) |
| Pat margins | 6.9 | 9.3 | (244) |
| EPS | 4.3 | 6.0 | (29) |

Source: DART, Company

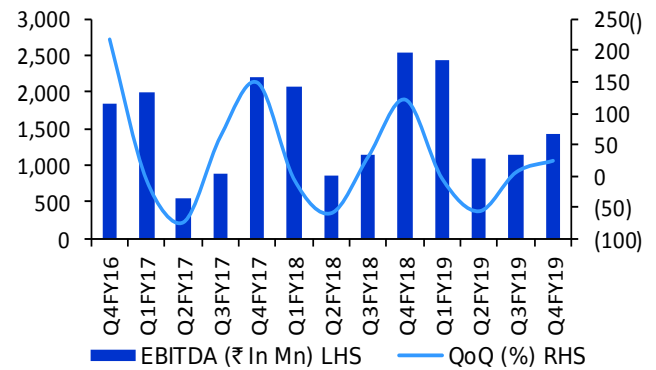
Exhibit 3: Change in Estimates (%)

| (₹ Mn) | FY20E | | | FY21E | | |
|---------|---------|--------|---------|---------|--------|---------|
| | Earlier | New | Var (%) | Earlier | New | Var (%) |
| Sales | 80,179 | 80,423 | 0 | 92,727 | 92,912 | 0 |
| EBITDA | 8,018 | 7,721 | (4) | 8,410 | 8,362 | (1) |
| PAT | 6,969 | 6,763 | (3) | 7,789 | 7,826 | 0 |
| EPS (₹) | 21.1 | 20.4 | (3) | 23.5 | 23.7 | 1 |

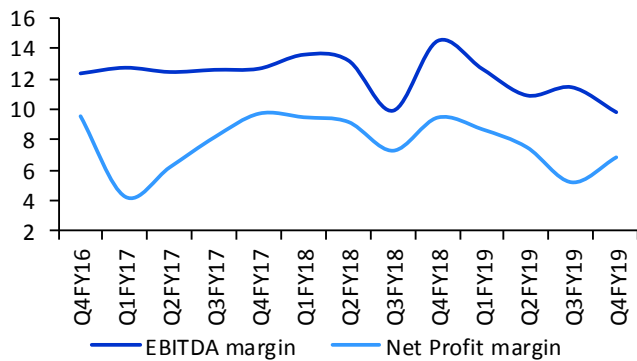
Source: DART, Company

Exhibit 4: Sales and QoQ growth (%)


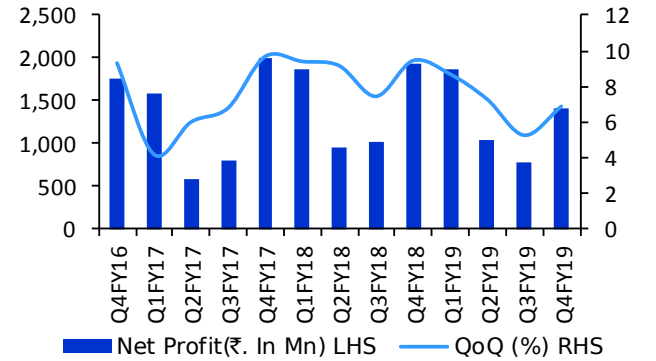
Source: DART, Company

Exhibit 5: EBITDA and QoQ growth (%)


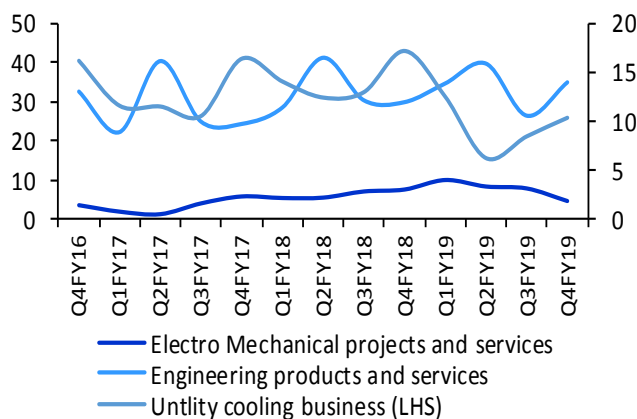
Source: DART, Company

Exhibit 6: Trend in Margin (%)


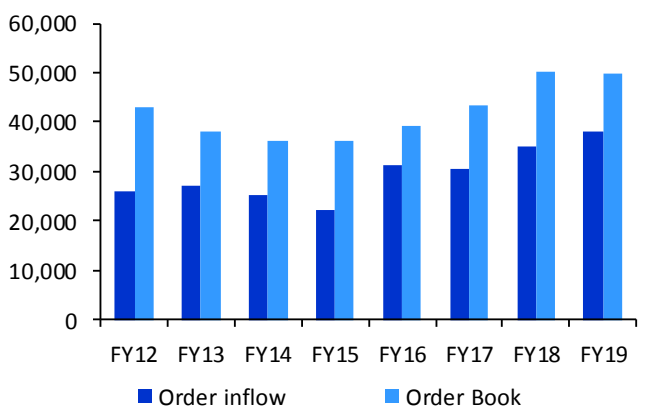
Source: DART, Company

Exhibit 7: Net profit and QoQ growth (%)


Source: DART, Company

Exhibit 8: Segmental EBIT margins (%)


Source: DART, Company

Exhibit 9: Order Book and Order inflow (₹ in mn)


Source: DART, Company

Profit and Loss Account

| (₹ Mn) | FY18A | FY19A | FY20E | FY21E |
|--|---------------|---------------|---------------|---------------|
| Revenue | 64,044 | 71,241 | 80,423 | 92,912 |
| Total Expense | 57,417 | 65,124 | 72,703 | 84,549 |
| COGS | 45,675 | 52,622 | 58,629 | 67,825 |
| Employees Cost | 5,867 | 6,419 | 7,238 | 8,362 |
| Other expenses | 5,875 | 6,083 | 6,836 | 8,362 |
| EBIDTA | 6,626 | 6,117 | 7,721 | 8,362 |
| Depreciation | 244 | 240 | 293 | 310 |
| EBIT | 6,383 | 5,877 | 7,428 | 8,052 |
| Interest | 119 | 330 | 382 | 266 |
| Other Income | 1,741 | 1,863 | 2,413 | 3,159 |
| Exc. / E.O. items | 6 | (118) | 0 | 0 |
| EBT | 8,011 | 7,292 | 9,459 | 10,945 |
| Tax | 2,270 | 1,635 | 2,696 | 3,119 |
| RPAT | 5,779 | 5,139 | 6,763 | 7,827 |
| Minority Interest | (38) | 518 | 0 | 0 |
| Profit/Loss share of associates | 0 | 0 | 0 | 1 |
| APAT | 5,779 | 5,139 | 6,763 | 7,828 |

Balance Sheet

| (₹ Mn) | FY18A | FY19A | FY20E | FY21E |
|-------------------------------|---------------|---------------|---------------|---------------|
| Sources of Funds | | | | |
| Equity Capital | 331 | 331 | 331 | 331 |
| Minority Interest | 317 | 348 | 348 | 348 |
| Reserves & Surplus | 38,721 | 40,769 | 42,429 | 47,973 |
| Net Worth | 39,052 | 41,100 | 42,760 | 48,304 |
| Total Debt | 1,423 | 3,147 | 2,011 | 2,416 |
| Net Deferred Tax Liability | (46) | (992) | (992) | (992) |
| Total Capital Employed | 40,747 | 43,602 | 44,126 | 50,075 |

Applications of Funds

| | | | | |
|---|---------------|---------------|---------------|---------------|
| Net Block | 2,972 | 3,430 | 3,145 | 3,305 |
| CWIP | 41 | 157 | 157 | 157 |
| Investments | 22,660 | 11,502 | 12,002 | 12,502 |
| Current Assets, Loans & Advances | 47,246 | 59,072 | 64,680 | 74,899 |
| Inventories | 8,130 | 10,907 | 11,288 | 13,059 |
| Receivables | 15,703 | 18,032 | 19,169 | 21,764 |
| Cash and Bank Balances | 2,837 | 3,211 | 2,309 | 1,862 |
| Loans and Advances | 48 | 116 | 164 | 190 |
| Other Current Assets | 15,652 | 14,450 | 15,392 | 17,668 |
| Less: Current Liabilities & Provisions | 32,182 | 30,560 | 35,858 | 40,787 |
| Payables | 21,774 | 23,745 | 26,492 | 30,577 |
| Other Current Liabilities | 10,408 | 6,815 | 9,366 | 10,211 |
| Net Current Assets | 15,065 | 28,512 | 28,822 | 34,111 |
| Total Assets | 40,747 | 43,601 | 44,126 | 50,075 |

E – Estimates

Important Ratios

| Particulars | FY18A | FY19A | FY20E | FY21E |
|---|---------|---------|---------|---------|
| (A) Margins (%) | | | | |
| Gross Profit Margin | 28.7 | 26.1 | 27.1 | 27.0 |
| EBIDTA Margin | 10.3 | 8.6 | 9.6 | 9.0 |
| EBIT Margin | 10.0 | 8.2 | 9.2 | 8.7 |
| Tax rate | 28.3 | 22.4 | 28.5 | 28.5 |
| Net Profit Margin | 9.0 | 7.2 | 8.4 | 8.4 |
| (B) As Percentage of Net Sales (%) | | | | |
| COGS | 71.3 | 73.9 | 72.9 | 73.0 |
| Employee | 9.2 | 9.0 | 9.0 | 9.0 |
| Other | 9.2 | 8.5 | 8.5 | 9.0 |
| (C) Measure of Financial Status | | | | |
| Gross Debt / Equity | 0.0 | 0.1 | 0.0 | 0.1 |
| Interest Coverage | 53.5 | 17.8 | 19.4 | 30.3 |
| Inventory days | 46 | 56 | 51 | 51 |
| Debtors days | 89 | 92 | 87 | 86 |
| Average Cost of Debt | 7.6 | 14.4 | 14.8 | 12.0 |
| Payable days | 124 | 122 | 120 | 120 |
| Working Capital days | 86 | 146 | 131 | 134 |
| FA T/O | 21.6 | 20.8 | 25.6 | 28.1 |
| (D) Measures of Investment | | | | |
| AEPS (₹) | 17.5 | 15.5 | 20.4 | 23.6 |
| CEPS (₹) | 18.2 | 16.2 | 21.3 | 24.6 |
| DPS (₹) | 4.2 | 4.0 | 5.7 | 6.9 |
| Dividend Payout (%) | 24.1 | 25.7 | 28.1 | 29.2 |
| BVPS (₹) | 118.0 | 124.2 | 129.2 | 145.9 |
| RoANW (%) | 16.0 | 12.8 | 16.1 | 17.2 |
| RoACE (%) | 15.5 | 14.5 | 16.3 | 17.2 |
| RoAIC (%) | 18.4 | 15.0 | 18.1 | 17.9 |
| (E) Valuation Ratios | | | | |
| CMP (₹) | 580 | 580 | 580 | 580 |
| P/E | 33.2 | 37.4 | 28.4 | 24.5 |
| Mcap (₹ Mn) | 191,997 | 191,997 | 191,997 | 191,997 |
| MCap/ Sales | 3.0 | 2.7 | 2.4 | 2.1 |
| EV | 185,706 | 179,575 | 175,341 | 172,194 |
| EV/Sales | 2.9 | 2.5 | 2.2 | 1.9 |
| EV/EBITDA | 28.0 | 29.4 | 22.7 | 20.6 |
| P/BV | 4.9 | 4.7 | 4.5 | 4.0 |
| Dividend Yield (%) | 0.7 | 0.7 | 1.0 | 1.2 |
| (F) Growth Rate (%) | | | | |
| Revenue | 6.2 | 11.2 | 12.9 | 15.5 |
| EBITDA | 16.9 | (7.7) | 26.2 | 8.3 |
| EBIT | 17.7 | (7.9) | 26.4 | 8.4 |
| PBT | 8.3 | (9.0) | 29.7 | 15.7 |
| APAT | 11.2 | (11.1) | 31.6 | 15.7 |
| EPS | 11.2 | (11.1) | 31.6 | 15.7 |
| Cash Flow | | | | |
| (₹ Mn) | FY18A | FY19A | FY20E | FY21E |
| CFO | 4,604 | 754 | 11,128 | 7,113 |
| CFI | (5,109) | 2,863 | (4,507) | (4,970) |
| CFF | (1,800) | 71 | (3,420) | (2,143) |
| FCFF | 6,180 | (3,055) | 7,784 | 6,507 |
| Opening Cash | 3,313 | 2,836 | 3,205 | 2,309 |
| Closing Cash | 2,836 | 3,205 | 2,309 | 1,862 |

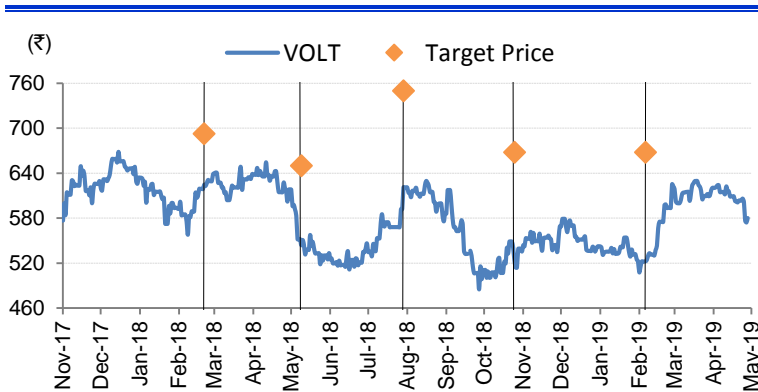
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

| | |
|-------------------|------------------|
| Buy | > 20% |
| Accumulate | 10 to 20% |
| Reduce | 0 to 10% |
| Sell | < 0% |

Rating and Target Price History



| Month | Rating | TP (₹) | Price (₹) |
|--------|--------|--------|-----------|
| Mar-18 | Buy | 693 | 625 |
| May-18 | Buy | 650 | 544 |
| Aug-18 | Buy | 750 | 621 |
| Nov-18 | Buy | 668 | 523 |
| Feb-19 | Buy | 668 | 522 |

*Price as on recommendation date

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