

Delivers in its best seasonal quarter; Maintain Buy

In Q1FY20, Voltas reported results that were in-line with our expectations, adjusted for one-off. The results were driven by strong growth in the UCP division, which rose 47% YoY, due to a good summer—a fact corroborated by competitors and channel checks. While project business was down, we do not read too much into it and expect the business to remain steady on a full year basis. The company's balance sheet is improving with negative capital employed in the UCP segment, reversing the WC expansion seen in Q4FY19. We continue to like the structural penetration story of ACs and believe Voltas is the best way to play this. We maintain our Buy rating, valuing it at 29x for FY21E with a TP of ₹690.

Q1 was an inline quarter; Working capital improves in UCP

Voltas reported strong Q1FY20, with revenue at ₹ 26.5bn, up 24% YoY. The UCP segment grew strongly at 47% YoY to ₹ 17.5bn, with 61bps YoY margin improvement. EMP segment's sales de-grew 5% YoY to ₹ 8.2bn, with margins of 8%, a drop of 220bps yoy. The carry forward order book was flat at ₹ 47bn in Q1FY20, v/s ₹ 46bn in Q1FY19. The EBITDA rose 20% YoY to ₹ 2.9bn in Q1FY20. Other income and interest was up 53% and 60% YoY to ₹ 433mn and ₹ 44mn, respectively, in the quarter. The PAT (post adjusting exceptional item of ₹ 430mn, on account of VRS scheme) was ₹ 2.1bn, up by 12% YoY. Negative CE in the UCP indicates substantial reduction in inventory and improved working capital expansion seen in Q4FY19.

Improved market shares in Q1, taking advantage of a strong summer

The company's UCP segment growth was strong at 47%, while the industry growth was 36%. This has led to a 20bp sequential market share increase to 24.1%, from 23.9% in Q4FY19. As its seasonally best quarter is over, we do not expect major triggers in the AC business in Q2/Q3, before the next high season begins in Q4. VOLT maintained the margins for full year at 10-11% for UCP and we expect 7-8% for EMP in FY20. Further pricing action is unlikely to happen in Q2/Q3, seasonally weak quarters.

Remains our preferred RAC pick. Maintain Buy

As Q1FY20 results were in line with our expectation, we retain our estimates for FY20/21. We continue to like the structural penetration story of ACs and believe Voltas is the best way to play this. We maintain our Buy rating, valuing it at 29x for FY21E with a TP of ₹ 690.

Q1FY20 Result (₹ Mn)

Particulars	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Revenue	26,540	21,481	23.6	20,628	28.7
Total Expense	23,628	19,049	24.0	19,185	23.2
EBITDA	2,912	2,432	19.7	1,443	101.8
Depreciation	77	59	30.0	59	30.2
EBIT	2,835	2,373	19.5	1,384	104.9
Other Income	433	282	53.4	572	(24.3)
Interest	44	27	60.4	106	(58.8)
EBT	2,794	2,627	19.5	1,849	51.1
Tax	917	762	20.4	239	284.2
RPAT	1,663	1,871	(11.1)	1,417	17.3
APAT	2,093	1,871	11.9	1,417	47.7
			(bps)		(bps)
Gross Margin (%)	25.4	27.3	(187)	23.5	193
EBITDA Margin (%)	11.0	11.3	(35)	7.0	398
NPM (%)	6.3	8.7	(244)	6.9	(60)
Tax Rate (%)	32.8	29.0	383	12.9	1992
EBIT Margin (%)	10.7	11.0	(36)	6.7	397

CMP	₹ 601
Target / Upside	₹ 690 / 15%
BSE Sensex	37,385
NSE Nifty	11,033

Scrip Details

Equity / FV	₹ 331mn / ₹ 1
Market Cap	₹ 199bn
	US\$ 3bn
52-week High/Low	₹ 663/₹ 476
Avg. Volume (no)	1,685,730
NSE Symbol	VOLTAS
Bloomberg Code	VOLT IN

Shareholding Pattern Jun'19(%)

Promoters	30.3
MF/Banks/FIs	23.0
FIIIs	14.8
Public / Others	31.9

Valuation (x)

	FY19E	FY20E	FY21E
P/E	38.7	29.4	25.4
EV/EBITDA	30.5	23.6	21.4
ROE (%)	12.8	16.5	18.0
RoACE (%)	14.5	16.7	18.0

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	71,241	80,423	92,912
EBITDA	6,117	7,721	8,362
PAT	5,139	6,770	7,834
EPS (₹)	15.5	20.5	23.7

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Exhibit 1: Segmental Performance (₹ Mn)

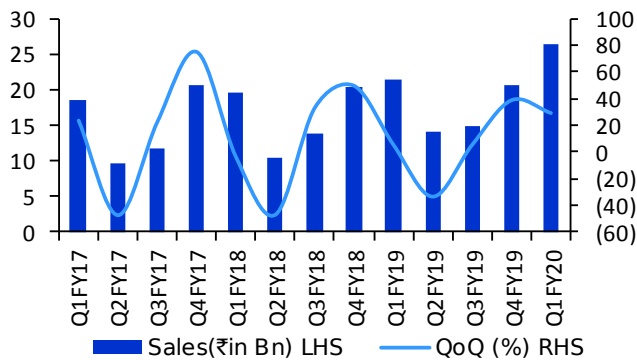
Segmental	Q1FY20	Q1FY19	YoY(%)	Q4FY19	QoQ(%)	FY19	FY18	YoY(%)
Revenue								
Electro mechanical projects	8,241	8,664	(4.9)	9,760	(15.6)	36,191	28,452	27.2
Engineering products and services	740	772	(4.1)	784	(5.7)	3,116	3,099	0.5
Unitary Cooling Products and Comfort and commercial use	17,488	11,911	46.8	9,976	75.3	31,556	32,261	(2.2)
Less: Inter segmental Revenue	0	2	(10.5)	0.0		13	10	35.8
Total	26,469	21,344	24.0	20,520	29.0	70,849	63,803	11.0
EBIT								
Electro mechanical projects	656	881	(25.6)	441	48.8	2,773	1,854	49.6
Engineering products and services	239	268	(10.5)	274	(12.7)	1,051	992	5.9
Unitary Cooling Products and Comfort and commercial use	2,298	1,493	53.9	1,037	121.6	3,254	4,748	(31.5)
EBIT Margin (%)								
Electro mechanical projects	8.0	10.2	(221)	4.5	76	8	7	115
Engineering products and services	32.4	34.7	(231)	35.0	(7)	34	32	171
Unitary Cooling Products and Comfort and commercial use	13.1	12.5	61	10.4	26	10	15	(441)
Segment Capital employed								
Electro mechanical projects	10,391	6,647	56	9,303	12	33,373	28,540	17
Engineering products and services	707	684	3	654	8	2,571	2,675	(4)
Unitary Cooling Products and Comfort and commercial use	(600)	1,908	(131)	5,556	(111)	23,693	8,346	184
Un allocable	32,165	31,228	3	25,935	24	101,247	107,956	(6)

Source: DART, Company

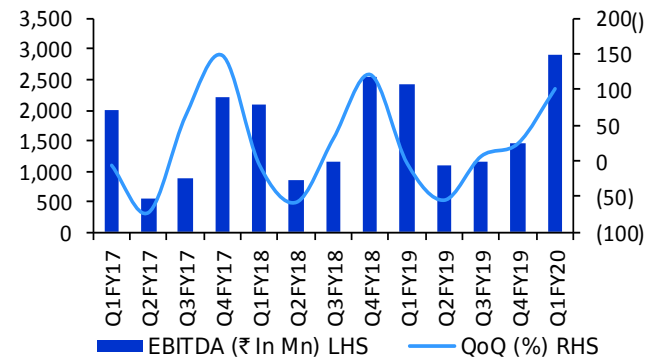
Exhibit 2: Variance from our Estimates (%)

Particulars	Q1FY20	Q1FY20E	Var (%)
Sales	26,540	24369	9
EBITDA	2,912	2364	23
EBITDA margins	11.0	9.7	127bps
PAT	2,094	2003	5
Pat margins	7.9	8.2	(33)bps
EPS (₹)	6.3	6.1	5

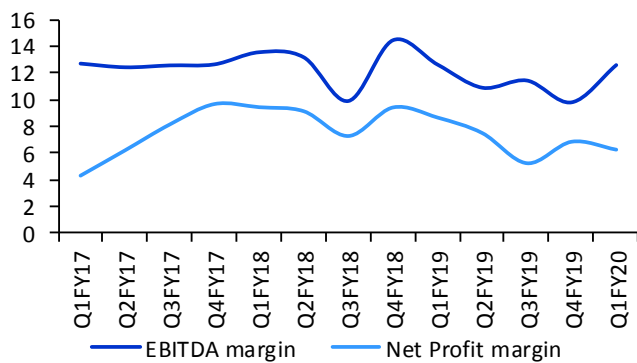
Source: DART, Company

Exhibit 3: Sales and QoQ growth (%)


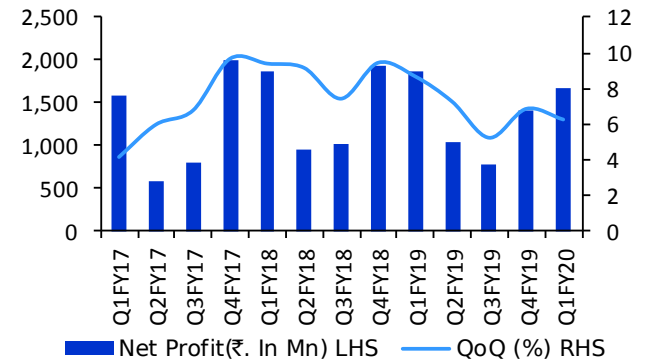
Source: DART, Company

Exhibit 4: EBITDA and QoQ growth (%)


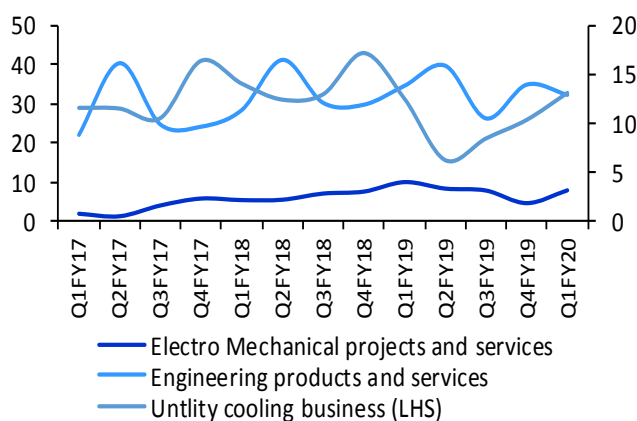
Source: DART, Company

Exhibit 5: Trend in Margin (%)


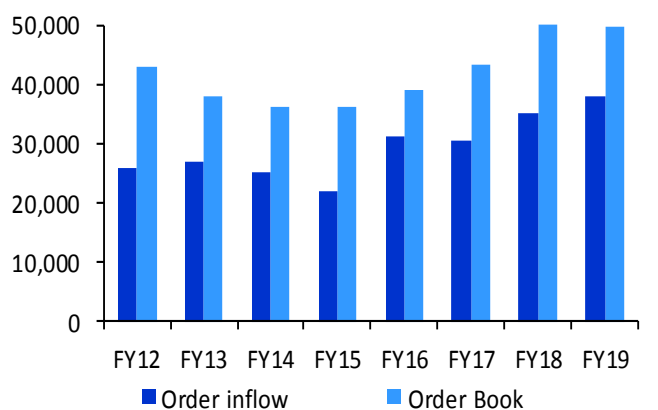
Source: DART, Company

Exhibit 6: Net profit and QoQ growth (%)


Source: DART, Company

Exhibit 7: Segmental EBIT margins (%)


Source: DART, Company

Exhibit 8: Order Book and Order inflow (₹ in mn)


Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	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	282	300
EBIT	6,383	5,877	7,438	8,062
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	9,469	10,955
Tax	2,270	1,635	2,699	3,122
RPAT	5,779	5,139	6,770	7,834
Minority Interest	(38)	518	0	0
Profit/Loss share of associates	0	0	0	1
APAT	5,779	5,139	6,770	7,835

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	331	331	331	331
Minority Interest	317	348	348	348
Reserves & Surplus	38,721	40,769	40,387	45,938
Net Worth	39,052	41,099	40,718	46,269
Total Debt	1,423	3,147	2,011	2,416
Net Deferred Tax Liability	(46)	(992)	(992)	(992)
Total Capital Employed	40,747	43,601	42,084	48,040

Applications of Funds

Net Block	2,972	3,430	3,155	3,325
CWIP	41	157	157	157
Investments	22,660	11,502	12,002	12,502
Current Assets, Loans & Advances	47,246	59,072	62,628	72,843
Inventories	8,130	10,907	9,320	10,882
Receivables	15,703	18,032	18,729	21,382
Cash and Bank Balances	2,837	3,211	2,665	2,365
Loans and Advances	48	116	164	190
Other Current Assets	15,652	14,450	15,392	17,668
Less: Current Liabilities & Provisions	32,172	30,560	35,858	40,787
Payables	21,764	23,745	26,492	30,577
Other Current Liabilities	10,408	6,815	9,366	10,211
sub total				
Net Current Assets	15,075	28,512	26,770	32,056
Total Assets	40,746	43,601	42,084	48,040

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	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	19.5	30.3
Inventory days	46	56	42	43
Debtors days	89	92	85	84
Average Cost of Debt	7.6	14.4	14.8	12.0
Payable days	124	122	120	120
Working Capital days	86	146	121	126
FA T/O	21.6	20.8	25.5	27.9
(D) Measures of Investment				
AEPS (₹)	17.5	15.5	20.5	23.7
CEPS (₹)	18.2	16.2	21.3	24.6
DPS (₹)	4.2	4.7	5.7	6.9
Dividend Payout (%)	24.1	30.2	28.1	29.1
BVPS (₹)	118.0	124.2	123.0	139.8
RoANW (%)	16.0	12.8	16.5	18.0
RoACE (%)	15.5	14.5	16.7	18.0
RoAIC (%)	18.4	15.0	18.6	18.9
(E) Valuation Ratios				
CMP (₹)	601	601	601	601
P/E	34.4	38.7	29.4	25.4
Mcap (₹ Mn)	198,931	198,931	198,931	198,931
MCap/ Sales	3.1	2.8	2.5	2.1
EV	192,641	186,510	181,920	178,625
EV/Sales	3.0	2.6	2.3	1.9
EV/EBITDA	29.1	30.5	23.6	21.4
P/BV	5.1	4.8	4.9	4.3
Dividend Yield (%)	0.7	0.8	1.0	1.1
(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)	26.6	8.4
PBT	8.3	(9.0)	29.8	15.7
APAT	11.2	(11.1)	31.7	15.7
EPS	11.2	(11.1)	31.7	15.7

Cash Flow

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	6,422	(2,378)	7,798	6,977
CFI	(5,109)	2,863	(4,507)	(4,970)
CFF	(1,800)	(156)	(3,420)	(2,143)
FCFF	6,170	(3,193)	7,790	6,507
Opening Cash	3,313	2,837	3,211	2,665
Closing Cash	2,837	3,211	2,665	2,365

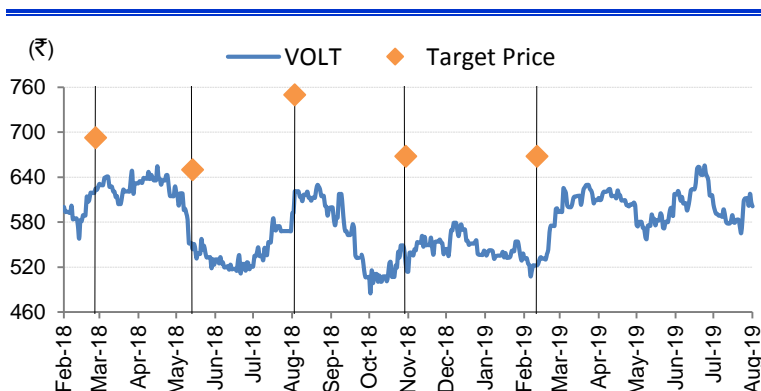
E – Estimates

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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