

AC segment runs the show...

Voltas' Q1FY20 UCP performance was better than our estimate with segment revenue growth of 47% YoY (vs. our estimate: 18%). We believe strong growth in the segment came on the back of a strong summer, change in product mix (sharp increase in contribution of inverter AC into total sales) and low base of last year. However, EMPS and EPS segment revenue came in below our estimate mainly due to slow execution of domestic orders (due to general elections) and continuous slowdown in the textiles machinery division. On the margin front, though the company witnessed improved profitability in the UCP segment (up 61 bps YoY at 13%), the other two segment EBIT margin declined ~200 bps YoY. As a result, there was slight pressure on the EBITDA margin to the tune of 35 bps YoY. The management has reiterated profitability of the UCP division to be in the range of 11-12% (vs. 11% earlier) with strong volume traction in coming periods. We revise our revenue, earning estimate upside by 4%, 3% and 5%, 6% YoY, respectively, with strong growth in the UCP segment.

Change in mix, low base drives UCP segment...

Voltas's UCP segment revenue growth at 47% was much higher than domestic air conditioner industry growth of 36% during Q1FY20. With a slight gain in market share (~24% market share in Q1FY20) coupled with rising contribution of inverter AC into sales (Inverter AC contributes ~50% in AC sales) helped drive the UCP division performance in Q1FY20. The management guided for a strong demand recovery in the UCP division given the low base of last year, low channel inventory and strong order from EESL. On the EMPS front, the management guided for a revival in the business supported by government focus on rural electrification and water treatment industry. We model revenue CAGR of 15% for FY19-21E led by UCP division sales CAGR of 23% during the same period.

Lower margin of EMPS, EPS impacts overall EBITDA margin

While UCP segment margin was up ~61 bps YoY at 13%, the EMPS and EPS profitability declined ~200 bps each YoY to 8% and 32% in Q1FY20. Though the management reiterated UCP segment margin in the range of 11-12% (~100 bps lower than reported in Q1FY20), we model segment EBIT margin at 11% for FY19-21E. We believe rising competitive intensity would keep price hike under check for Voltas, going forward.

Valuation & Outlook

We keep our target price unchanged at ₹ 645/share with a **HOLD** rating, ascribing a PE multiple of 32x FY21E earnings to UCP segment. We ascribe a PE multiple of 15x 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.

Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E	CAGR (19-21E)
Net Sales	6032.8	6404.4	7124.1	8398.6	9644.0	16.3
EBITDA	566.9	662.6	611.7	888.3	1069.0	32.2
EBITDA Margin (%)	9.4	10.3	8.6	10.6	11.1	
Net Profit	519.9	577.9	513.9	623.9	814.7	25.9
EPS (₹)	15.7	17.5	15.5	18.9	24.6	
P/E(x)	38.3	34.5	38.7	31.9	24.4	
Price/Book (x)	6.0	5.1	4.8	5.0	4.5	
Mcap/Sales (x)	3.3	3.1	2.8	2.4	2.1	
RoE (%)	15.7	14.8	12.7	16.3	18.3	
RoCE(%)	21.5	19.8	17.3	23.1	24.5	

Source: Company, ICICI Direct Research

VOLTAS

Particulars

Particular	Amount
Market Cap (₹ Crore)	19,910.2
Total Debt (FY19) (₹ Crore)	314.7
Cash & Inv (FY19) (₹ Crore)	1,556.7
EV (₹ Crore)	18,668.2
52 week H/L	662 / 471
Equity capital (₹ Crore)	33.1
Face value (₹)	1.0

Key Highlights

- Overall growth led by strong performance in UCP segment due to strong summer & increasing market share
- Voltas is focusing on water treatment & rural electrification under the EMPS segment
- Maintain HOLD rating on the stock with a revised target price of ₹ 645/share

Research Analyst

 Sanjay Manyal
 sanjay.manyal@icicisecurities.com

 Hitesh Taunk
 hitesh.taunk@icicisecurities.com

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Revenue	2,654.0	2,449.8	2,148.1	23.6	2,062.8	28.7	Strong performance of UCP division drives sales
Other Income	43.3	31.0	28.2	53.4	57.2	-24.3	
Raw Material Exp	1,212.9	853.2	720.5	68.3	860.8	40.9	
Employee Exp	163.2	158.4	143.1	14.1	166.4	-1.9	
Purchase of Traded goods	767.3	962.9	842.1	-8.9	718.2	6.8	
Other Expenses	219.4	207.2	199.2	10.2	173.2	26.7	
EBITDA	291.2	268.1	243.2	19.7	144.3	101.8	
EBITDA Margin (%)	11.0	10.9	11.3	-35 bps	7.0	398 bps	Slight decline in margin was led by ~221 bps YoY decline in profitability of EMPS business
Depreciation	7.7	7.5	5.9	30.0	5.9	30.2	
Interest	4.4	3.9	2.7	60.4	10.6	-58.8	
Exceptional items	43.0	0.0	0.0		0.0		One time exceptional loss on account of VRS
Profit/(loss) from Asso & JVs	(21.4)	(2.2)	0.5		(19.3)		Loss from joint venture and associates companies, which includes losses from Voltas-Beko
PBT	258.0	285.5	263.2	-2.0	165.6	55.8	
Total Tax	91.7	82.8	76.2	20.4	23.9	284.2	reversal of deferred tax assets created in a subsidiary resulting into higher tax expenses
PAT	166.3	202.7	187.1	-11.1	141.7	17.3	Lower EBITDA margin and losses from associates & JVs impact PAT
Key Metrics							
EMPS	824	943	866	-4.9	976	-15.6	Slow execution of domestic orders led muted revenue growth
EPS	74	85	77	-4.1	78	1.2	Challenges from textiles industry weighs on performance
UCP	1748.8	1410	1191	46.8	998	75.3	Revival in demand backed by strong summer led significant volume growth

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	Change	Old	New	Change	
Revenue	8,086.9	8,398.6	3.9	9,151.9	9,644.0	5.4	We slightly tweak our estimates considering better-than-expected demand for cooling products in Q1FY20.
EBITDA	773.8	888.3	14.8	972.9	1069.0	9.9	
EBITDA Mar(%)	9.6	10.6	98bps	10.6	11.1	48bps	Slight recovery in profitability of UCP segment to drive EBITDA margin
PAT	608.4	623.9	2.6	767.5	814.7	6.1	
EPS (₹)	18.4	18.9	2.5	23.2	24.6	6.2	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current			Earlier			Comments
	FY18	FY19E	FY20E	FY21E	FY20E	FY21E	
EMPS	7.2	27.2	9.1	12.6	9.1	9.1	We build revenue CAGR of 9% in FY19-21E for EMPS segment, considering focus on quality orders
EPS	-6.6	0.6	3.9	7.4	7.4	7.5	
UCP	5.9	-2.2	29.5	17.5	19.3	18.0	We model UCP segment revenue CAGR of ~23% for FY19-21E led by ~20% volume CAGR in RAC segment

Source: Company, ICICI Direct Research

Conference call highlights

Unitary Cooling Products

- Rising temperatures & delayed monsoon revived the cooling segment. Voltas continued to maintain its No. 1 position in the room AC segment with a market share of 24.1% in Q1FY20 at Multi-Branded Outlets. According to management Voltas is No 2 in inverter ACs, which account for 50% of its total AC sales
- Inventory levels have been reduced substantially in Q1FY20 against Q1FY19
- Voltas has partnered with EESL to offer 50,000 super energy-efficient & environment friendly ACs. This pilot project will be initially launched for customers of BSES Rajdhani Power, BSES Yamuna Power & Tata Power Delhi Distribution
- Alongside ACs, commercial refrigeration also witnessed better traction and healthy growth.

Electro-mechanical projects & services

- Order inflow during the quarter was at ₹ 680 crore of which ₹ 450 crore was from domestic orders.
- Carry forward order book for the segment was marginally higher at ₹ 4,756 crore in Q1FY20 as compared to ₹ 4,623 crore in Q1FY19.
- The company is looking for quality orders with reasonable margins in the Middle East market.

Engineering Products & services

- The textile industry went through turbulence as China cut down on yarn imports from India. Many of the spinning mills are facing a liquidity crunch and have resorted to full or partial shutdowns
- Mining business in Mozambique reported good growth while the Indian mining story is facing an impasse

VoltBek

- VoltBek, which is relatively new in the field, is currently stabilizing its business. The company is in the process of setting up a new plant in Sanand which will function from FY19 end. The factory will produce direct cool refrigerators & washing machines
- With the wider range of consumer durable products that are now available via Voltas Beko, the company now has more than 150 Exclusive Brand Outlets (EBOs)

Overall Business

- The company is planning to foray into solar business under the EMPS segment
- Management has given an EBITDA margin guidance of 12% for FY20
- During the quarter, Voltas came up with a VRS scheme for all its permanent employees & an impact of ₹ 43 crore on account of the scheme is disclosed as an exceptional item

Annual report takeaways

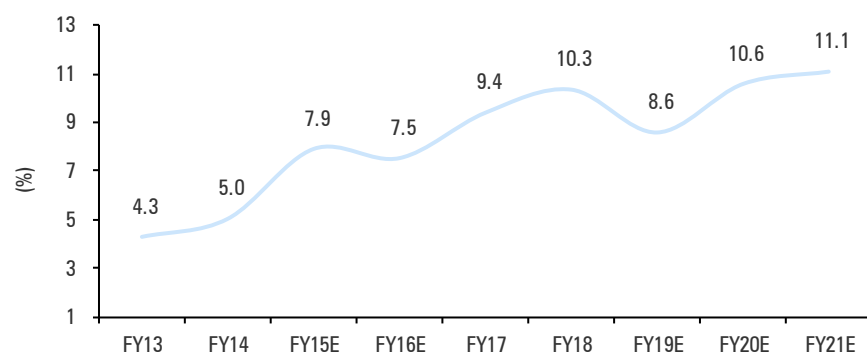
- Consolidated revenue increased 11% YoY led by Electro-mechanical project business while UCP segment was impacted by extended winter. Furthermore higher inventory in the channel and competitive intensity kept realisation & margin under check
- Despite challenges & increased competition, Voltas continued to be the market leader with sales of 1.2 million units & a market share of 23.7% in FY19 as against 22.1% in FY18 in room air conditioners.
- Engineering project segment grew ~27% YoY while engineering product segment grew ~2% YoY
- Voltas has entered into a Joint venture with Ardutch B V to form Voltek Home Appliances (Voltbek). Voltbek has started selling white goods such as washing machines, refrigerator, microwave & dishwashers. There is an upcoming manufacturing facility in Sanand, Gujarat & is expected to start production by end of 2019
- Voltas has acquired ~65 acres of land in Tirupati, Andhra Pradesh to assemble & manufacture ACs & other cooling related products. The proposed factory will cater primarily to South & West markets
- Distribution network covers 15,000 touch points

Financial story in charts

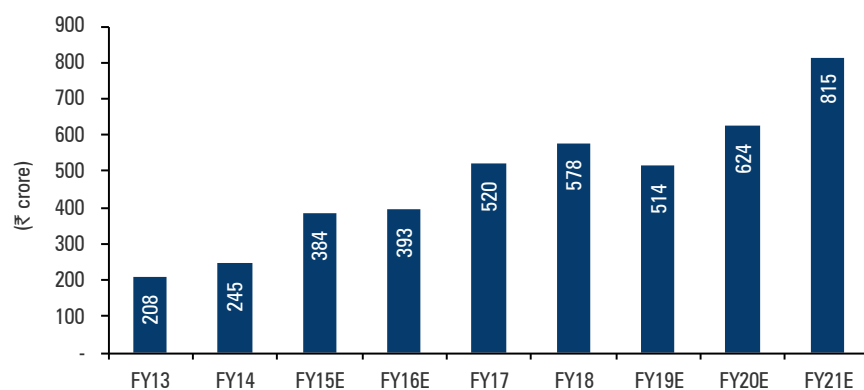
Exhibit 4: Revenue growth led by UCP segment

₹ 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	4445.6	10.8
EPS	448.2	360.1	370.6	331.8	309.9	311.7	323.8	347.8	5.6
UCP	2052.4	2510.5	2521.0	3046.9	3226.1	3155.6	4086.0	4802.5	23.4
Others	74.4	104.9	26.8	62.2	47.6	39.5	42.8	49.1	11.5
Net Sales	5266.0	5183.1	5746.7	6032.8	6404.4	7124.1	8398.6	9644.0	16.3

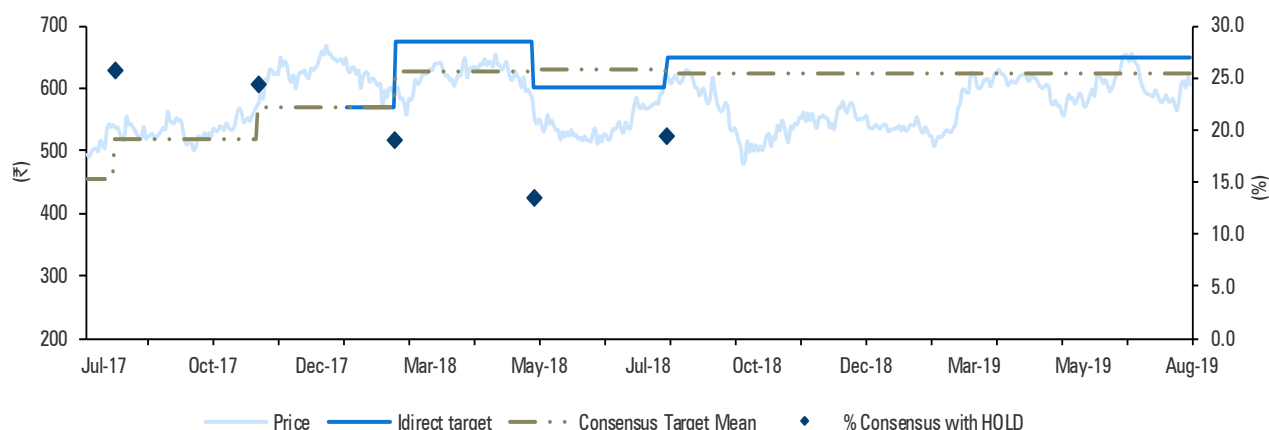
Source: Company, ICICI Direct Research

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	30-06-2019	30.31%	100.25M	0
2	HDFC Asset Management Co., Ltd.	30-06-2019	6.90%	22.82M	+0.20M
3	Life Insurance Corporation of India	30-06-2019	4.99%	16.52M	0
4	Franklin Templeton Asset Management (India) Pvt. Ltd.	30-06-2019	3.57%	11.81M	-5.00M
5	Mirae Asset Global Investments (India) Pvt. Ltd.	30-06-2019	2.59%	8.58M	+2.29M
6	Aditya Birla Sun Life AMC Limited	30-06-2019	2.13%	7.06M	-0.19M
7	Aberdeen Standard Investments (Edinburgh)	30-09-2018	1.91%	6.33M	+2.19M
8	HDFC Life Insurance Company Limited	31-03-2019	1.82%	6.01M	+0.60M
9	SBI Funds Management Pvt. Ltd.	31-03-2019	1.69%	5.61M	-0.89M
10	IDFC Asset Management Company Private Limited	30-06-2019	1.54%	5.09M	0

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor name	Value(m)	Shares(m)	Investor name	Value(m)	Shares(m)
Mirae Asset Global Investments (India) Pvt. Ltd.	+21.38M	+2.29M	Franklin Templeton Asset Management (India) Pvt. Ltd.	-46.67M	-5.00M
T. Rowe Price Hong Kong Limited	+12.48M	+1.34M	SBI Funds Management Pvt. Ltd.	-8.10M	-0.89M
ICICI Prudential Asset Management Co. Ltd.	+8.23M	+0.88M	Lombard Odier (Singapore) Ltd.	-4.62M	-0.55M
L&T Investment Management Limited	+6.14M	+0.66M	Florida State Board of Administration	-4.89M	-0.54M
HDFC Life Insurance Company Limited	+5.45M	+0.60M	Lazard Asset Management, L.L.C.	-2.61M	-0.31M

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	30.3	30.3	30.3	30.3	30.3
FII	15.5	15.9	14.6	13.7	13.0
DII	32.3	31.0	32.0	33.4	35.7
Others	21.9	22.8	23.1	22.6	21.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Net Sales	6,404.4	7,124.1	8,398.6	9,644.0
Expenses				
Raw Material Expenses	2,820.2	3,556.8	4,123.0	4,687.2
(inc)/Dec in stocks	105.4	(279.6)	-	-
Purchase of traded goods	1,641.9	1,985.0	2,018.0	2,293.8
Employee Expenses	586.7	641.9	634.6	759.0
Other expenses	587.5	608.3	734.7	835.1
Total Operating Expenditure	5,741.7	6,512.4	7,510.3	8,575.0
EBITDA	662.6	611.7	888.3	1,069.0
Other Income	174.1	186.3	155.0	143.9
Interest	11.9	33.0	39.7	40.5
PBDT	824.9	765.0	1,003.6	1,172.4
Depreciation	24.4	24.0	28.6	31.8
PBT before Exceptional Items	800.5	741.0	975.1	1,140.6
Less: Exceptional Items	(0.6)	11.8	43.0	-
Total Tax	227.0	163.5	264.6	346.2
PAT before MI	577.9	513.9	623.9	814.7
PAT after MI	577.9	513.9	623.9	814.7
Profit from Associates	3.8	(51.8)	(43.5)	20.3
PAT	577.9	513.9	623.9	814.7

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	577.9	513.9	623.9	814.7
Depreciation	24.4	24.0	28.6	31.8
Cash Flow before working capital cha	614.2	570.8	692.2	887.0
Net Increase in Current Assets	(367.3)	(293.8)	(1,062.8)	(847.9)
Net Increase in Current Liabilities	253.6	(160.9)	1,109.6	260.8
Net cash flow from operating Ac	500.5	116.1	739.0	299.9
Long term loans and advances	(19.3)	(64.3)	35.8	(17.8)
Other non current assets	(17.3)	(39.2)	28.3	(6.8)
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 Ac	(528.3)	90.8	114.1	25.4
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)	(598.1)	(40.5)
Net Cash flow from Financing Ac	(19.8)	(169.7)	(744.9)	(419.5)
Net Cash flow	(47.6)	37.2	108.2	(94.2)
Cash and Cash Equivalent at the begin	331.5	283.8	321.0	429.3
Cash	283.8	321.0	429.3	335.2

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Equity Capital	33.1	33.1	33.1	33.1
Reserve and Surplus	3,872.2	4,076.9	3,987.7	4,415.4
Total Shareholders funds	3,905.2	4,110.0	4,020.8	4,448.5
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	4,385.5	4,821.2
Net Block	224.8	270.7	292.2	310.4
Total Fixed Assets	228.9	286.4	307.8	326.0
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	120.2	138.0
Other non current assets	34.9	74.1	45.8	52.6
Liquid Investments	487.6	1,235.7	1,185.7	1,135.7
Inventory	813.0	1,090.7	1,219.5	1,479.6
Debtors	1,570.3	1,833.0	2,070.9	2,378.0
Cash	283.8	321.0	429.3	335.2
Loans and Advances	4.8	11.6	6.3	7.3
Other Current Assets	1,438.6	1,185.2	1,886.6	2,166.3
Net Current Assets	894.3	1,386.2	1,447.7	1,940.7
Total Assets	4,093.4	4,466.7	4,385.5	4,821.2

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Per Share Data				
EPS	17.5	15.5	18.9	24.6
Cash EPS	18.2	16.3	19.7	25.6
BV	118.1	124.3	121.6	134.5
DPS	4.7	4.7	4.7	11.7
Operating Ratios				
EBITDA margin	10.3	8.6	10.6	11.1
PAT margin	9.0	7.3	7.8	8.4
Return Ratios				
RoE	14.8	12.7	16.3	18.3
RoCE	19.8	17.3	23.1	24.5
RoIC	16.5	19.9	25.2	25.2
Valuation Ratios				
EV / EBITDA	29.1	30.5	21.0	17.6
P/E	34.5	38.7	31.9	24.4
EV / Net Sales	3.0	2.6	2.2	1.9
Sales / Equity	1.6	1.7	2.1	2.2
Market Cap / Sales	3.1	2.8	2.4	2.1
Price to Book Value	5.1	4.8	5.0	4.5
Turnover Ratios				
Asset turnover	1.6	1.6	1.9	2.0
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	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Cr)	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY18E	FY19E
Asian Paints (ASIPAI)	1,573	1,550	Hold	150,851	23.0	27.1	33.1	68.3	58.1	47.6	37.7	31.9	26.8	30.4	32.7	34.6	23.2	24.7	26.2
Astral Polytechnik (ASTPOL)	1,220	1,295	Hold	14,610	16.5	20.5	28.5	74.0	59.4	42.9	38.0	30.4	23.1	20.7	22.5	26.4	15.4	16.3	18.7
Bajaj Electricals (BAJELE)	365	320	Reduce	3,725	16.3	14.2	17.7	22.4	25.7	20.6	15.2	14.2	11.8	13.8	13.4	15.2	15.5	13.1	14.5
Havells India (HAVIND)	664	720	Hold	41,427	12.7	14.2	17.8	52.3	46.7	37.3	34.3	30.1	23.7	25.3	27.9	30.1	18.7	20.1	21.5
Kansai Nerolac (KANNER)	475	470	Hold	25,599	8.7	9.8	11.8	54.8	48.6	40.1	30.8	27.0	21.9	20.2	21.8	23.8	13.6	14.8	16.0
Pidilite Industries (PIDIND)	1,354	1,414	Hold	69,411	18.8	19.2	22.4	72.0	70.6	60.4	50.4	39.5	33.7	0.0	0.0	0.0	0.0	0.0	0.0
Essel Propack (ESSPRO)	121	136	Hold	3,802	6.2	6.7	7.9	19.5	18.0	15.2	9.3	8.3	7.2	16.9	17.4	19.3	13.9	13.7	15.0
Supreme Indus (SUPIND)	1,065	1,215	Buy	13,528	35.3	38.9	47.0	30.2	27.4	22.7	17.3	14.9	12.5	25.0	27.8	29.6	18.7	21.4	22.4
Symphony (SYMLIM)	1,245	1,295	Hold	8,710	13.0	23.0	34.1	95.7	54.2	36.5	39.2	65.9	32.4	41.3	18.7	34.0	31.5	16.2	29.2
V-Guard Ind (VGUARD)	227	230	Hold	9,663	3.9	5.0	5.7	58.2	45.4	39.9	53.2	45.0	33.9	23.7	23.7	29.1	17.7	18.4	22.1
Voltas Ltd (VOLTAS)	602	645	Hold	19,910	15.5	27.2	23.8	38.7	22.1	25.3	28.1	29.4	14.9	19.8	17.3	27.4	14.8	12.7	21.0
Time Techno (TIMTEC)	70	101	Hold	1,583	9.0	10.6	12.5	7.8	6.6	5.6	6.2	5.7	5.2	14.9	15.0	15.8	12.2	12.1	12.9

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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