

# Voltas (VOLT IN)

Rating: HOLD | CMP: Rs682 | TP: Rs694

February 10, 2020

## Q3FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	HOLD		HOLD	
Target Price	694		662	
Sales (Rs. m)	90,407	101,926	88,901	101,489
% Chng.	1.7	0.4		
EBITDA (Rs. m)	9,267	10,651	8,935	10,453
% Chng.	3.7	1.9		
EPS (Rs.)	22.4	26.1	21.7	25.8
% Chng.	3.0	1.2		

### Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	71,241	78,874	90,407	101,926
EBITDA (Rs. m)	6,117	7,611	9,267	10,651
Margin (%)	8.6	9.6	10.3	10.5
PAT (Rs. m)	5,197	6,064	7,410	8,630
EPS (Rs.)	15.7	18.3	22.4	26.1
Gr. (%)	(9.1)	16.7	22.2	16.5
DPS (Rs.)	4.0	4.0	4.2	5.4
Yield (%)	0.6	0.6	0.6	0.8
RoE (%)	13.0	14.1	15.5	16.0
RoCE (%)	18.3	20.6	21.8	22.2
EV/Sales (x)	3.0	2.7	2.3	2.0
EV/EBITDA (x)	34.8	27.8	22.7	19.6
PE (x)	43.4	37.2	30.4	26.1
P/BV (x)	5.5	5.0	4.4	3.9

### Key Data

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52-W High / Low	Rs.731 / Rs.501
Sensex / Nifty	40,980 / 12,032
Market Cap	Rs.226bn / \$ 3,163m
Shares Outstanding	331m
3M Avg. Daily Value	Rs.1719.24m

### Shareholding Pattern (%)

Promoter's	30.30
Foreign	10.91
Domestic Institution	38.17
Public & Others	20.62
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(0.8)	12.6	28.3
Relative	0.7	3.3	14.4

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## Delicately Poised ahead of peak season

### Quick Pointers:

- Voltas RAC volume up by 35% (Industry up 29%) with market share of 24.3%
- EMPS order book up 41.2% since beginning of the year.

**We increase our FY20, FY21 & FY22 EPS by 6.1%, 3% & 1.2% respectively given 1) continued momentum in UCP sales and margin expansion & 2) 41.2% increase in MEP order book on the back of large order wins in urban infrastructure and waste water management**

**With inventory of RAC and components in place for 4Q20, Corona virus is unlikely to impact ahead of peak season build up. However, any prolonged shutdown of Chinese factories can inflate sourcing cost and negatively impact margins in an industry which is witnessing heightened competition from around 20 players. We believe Voltas's MEP business is well placed to gain from renewed Govt focus on Metros, Airports, Healthcare and water management. We will keenly watch for scale-up in VOLTBEK JV in FY21 as commissioning of Sanand facility will enable it to launch mass market products in refrigerators and washing machines. We expect the JV to report a loss of Rs1.5bn/Rs1.2bn in FY20/21. We estimate 19.3% EPS CAGR over FY20-22 and value the stock at 28x Dec21 EPS. Maintain Hold with a target price of Rs694 (earlier Rs662 based on 28xSept21 EPS).**

**Sales flat at Rs14.9bn; Adj PAT down by 6.2%:** Revenues were flat YoY at Rs14.9bn as UCP segment gains were offset by EMPS segment. Benign commodity costs led to 172bps rise in gross margin to 28.6%. EBITDA declined by 15.7% to Rs975mn impacted by 25% increase in other expenses. Margins contracted by 120bps YoY to 6.5%. Despite 57% decrease in interest expense and lower share of JV losses (Rs187mn) adj PAT de-grew by 6.2% YoY to Rs869mn.

**UCP segment EBIT grew by 35.8%; EMPS EBIT down by 45.9%:** UCP segment revenues grew by 14.2% YoY to Rs6bn. Absolute EBIT grew by 35.8% YoY to Rs607mn, while margins expanded by 160bps YoY to 10.1%. EMPS segment revenues/EBIT declined by 7.7%/45.9% YoY to Rs8.1bn/Rs374mn while margins contracted by 330bps YoY to 4.6%. Engineering products & services segment revenues declined by 0.7% YoY to Rs826mn while EBIT grew by 5.4% YoY to Rs231mn. EBIT margins grew by 160bps to 28%.

**Concall Takeaways:** **1)** RAC industry (secondary) grew by 29% YTD. **2)** Voltas sold ~268,000 RACs in 9MFY20 (up 35%). Market share at 24.3% YTD. Gained 120bps market share in south market **3)** Air Coolers grew by 135% YoY in 3Q20. With a market share of 11.2% (Nov), Voltas now #3 player. **4)** No immediate threat from Corona Virus as Voltas remains well stocked for 4Q20 requirement. However, looking at alternatives (Thailand, Korea) in case situation worsens. **5)** Electro-mechanical Projects (EMPS) order book at Rs70bn – up 40.6% YoY (Domestic – Rs43bn, International –Rs27bn). **6)** EMPS segment impacted by slow pace of execution coupled with delayed collection of receivables. **7)** Voltbek sold 220,000 units in 9MFY20. Performance satisfactory and in line with internal estimates

**Exhibit 1: Q3FY20 Result Overview (Rs m): Sales flat at Rs14.9bn; Adj. PAT down by 6.2%**

Y/e March	Q3FY20	Q3FY19	YoY gr.	Q2FY19	9MFY20	9MFY19	YoY gr.
<b>Net Sales</b>	<b>14,925</b>	<b>14,918</b>	<b>0.0%</b>	<b>14,219</b>	<b>55,685</b>	<b>50,612</b>	<b>10.0%</b>
<b>Expenditure</b>							
Operating & Manufacturing Expenses	10,655	10,906	-2.3%	10,181	40,637	36,832	10.3%
<i>% of Net Sales</i>	<i>71.4%</i>	<i>73.1%</i>		<i>71.6%</i>	<i>73.0%</i>	<i>72.8%</i>	
Gross Profit	4,270	4,012	6.4%	4,039	15,047	13,780	9.2%
<i>% of Net Sales</i>	<i>28.6%</i>	<i>26.9%</i>		<i>28.4%</i>	<i>27.0%</i>	<i>27.2%</i>	
Personnel Cost	1,734	1,601	8.3%	1,576	4,942	4,755	3.9%
<i>% of Net Sales</i>	<i>11.6%</i>	<i>10.7%</i>		<i>11.1%</i>	<i>8.9%</i>	<i>9.4%</i>	
Other Expenses	1,561	1,254	24.5%	1,404	5,160	4,351	18.6%
<i>% of Net Sales</i>	<i>10.5%</i>	<i>8.4%</i>		<i>9.9%</i>	<i>9.3%</i>	<i>8.6%</i>	
Total Expenditure	13,950	13,761	1.4%	13,161	50,738	45,938	10.4%
<b>EBITDA</b>	<b>975</b>	<b>1,157</b>	<b>-15.7%</b>	<b>1,059</b>	<b>4,946</b>	<b>4,674</b>	<b>5.8%</b>
<i>Margin (%)</i>	<i>6.5%</i>	<i>7.8%</i>		<i>7.4%</i>	<i>8.9%</i>	<i>9.2%</i>	
Other income	543	548	-1.0%	726	1,701	1,291	31.8%
Depreciation	80	62	30.2%	80	238	181	31.6%
<b>EBIT</b>	<b>1,438</b>	<b>1,643</b>	<b>-12.5%</b>	<b>1,705</b>	<b>6,410</b>	<b>5,784</b>	<b>10.8%</b>
Interest	57	132	-56.7%	49	151	224	-32.7%
<b>PBT</b>	<b>1,381</b>	<b>1,511</b>	<b>-8.6%</b>	<b>1,655</b>	<b>6,260</b>	<b>5,561</b>	<b>12.6%</b>
Total Taxes	314	304	3.1%	430	1,660	1,397	18.9%
<i>ETR (%)</i>	<i>22.7%</i>	<i>20.1%</i>		<i>26.0%</i>	<i>26.5%</i>	<i>25.1%</i>	<i>.4%</i>
Share of JV/Associates	-187	-308		-92	-492	-325	
Minority Interest	10	-28		9	30	38	-21.1%
<b>Adj. PAT</b>	<b>869</b>	<b>927</b>	<b>-6.2%</b>	<b>1,126</b>	<b>4,077</b>	<b>3,801</b>	<b>7.3%</b>
Exceptional Items	0	-118		-61	-492	-118	
<b>Reported PAT</b>	<b>869</b>	<b>809</b>	<b>7.4%</b>	<b>1,064</b>	<b>3,585</b>	<b>3,683</b>	<b>-2.7%</b>

Source: Company, PL

**Exhibit 2: Segmental breakup (Rs m): UCP EBIT up by 35.8%; EMPS EBIT down by 45.9%**

Y/e March	Q3FY20	Q3FY19	YoY gr.	Q2FY19	9MFY20	9MFY19	YoY gr.
<b>Revenues</b>	<b>8,081</b>	<b>8,752</b>	<b>-7.7%</b>	<b>8,093</b>	<b>24,416</b>	<b>26,431</b>	<b>-7.6%</b>
Electro-Mechanical Projects & Services	826	832	-0.7%	803	2,369	2,332	1.6%
Engineering Products & Services	6,005	5,259	14.2%	5,256	28,748	21,580	33.2%
Unitary Cooling Products							
<b>EBIT</b>							
Electro-Mechanical Projects & Services	374	692	-45.9%	561	1,591	2,332	-31.8%
<i>EBIT margin (%)</i>	<i>4.6%</i>	<i>7.9%</i>		<i>6.9%</i>	<i>6.5%</i>	<i>8.8%</i>	
Engineering Products & Services	231	219	5.4%	253	723	777	-6.9%
<i>EBIT margin (%)</i>	<i>28.0%</i>	<i>26.4%</i>		<i>31.5%</i>	<i>30.5%</i>	<i>33.3%</i>	
Unitary Cooling Products	607	447	35.8%	463	3,367	2,217	51.9%
<i>EBIT margin (%)</i>	<i>10.1%</i>	<i>8.5%</i>		<i>8.8%</i>	<i>11.7%</i>	<i>10.3%</i>	

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>71,241</b>	<b>78,874</b>	<b>90,407</b>	<b>101,926</b>
YoY gr. (%)	11.2	10.7	14.6	12.7
Cost of Goods Sold	52,622	57,539	65,545	73,795
Gross Profit	18,618	21,336	24,862	28,132
Margin (%)	26.1	27.1	27.5	27.6
Employee Cost	6,419	6,862	7,865	8,868
Other Expenses	4,971	5,718	6,328	7,033
<b>EBITDA</b>	<b>6,117</b>	<b>7,611</b>	<b>9,267</b>	<b>10,651</b>
YoY gr. (%)	(7.7)	24.4	21.7	14.9
Margin (%)	8.6	9.6	10.3	10.5
Depreciation and Amortization	240	319	382	463
<b>EBIT</b>	<b>5,877</b>	<b>7,293</b>	<b>8,884</b>	<b>10,188</b>
Margin (%)	8.2	9.2	9.8	10.0
Net Interest	330	208	241	241
Other Income	1,863	2,241	2,273	2,500
<b>Profit Before Tax</b>	<b>7,410</b>	<b>9,326</b>	<b>10,917</b>	<b>12,447</b>
Margin (%)	10.4	11.8	12.1	12.2
Total Tax	1,635	2,471	2,857	3,257
Effective tax rate (%)	22.1	26.5	26.2	26.2
<b>Profit after tax</b>	<b>5,775</b>	<b>6,854</b>	<b>8,060</b>	<b>9,190</b>
Minority interest	60	40	50	60
Share Profit from Associate	(518)	(750)	(600)	(500)
<b>Adjusted PAT</b>	<b>5,197</b>	<b>6,064</b>	<b>7,410</b>	<b>8,630</b>
YoY gr. (%)	(9.1)	16.7	22.2	16.5
Margin (%)	7.3	7.7	8.2	8.5
Extra Ord. Income / (Exp)	(118)	(492)	-	-
<b>Reported PAT</b>	<b>5,079</b>	<b>5,573</b>	<b>7,410</b>	<b>8,630</b>
YoY gr. (%)	(11.3)	9.7	33.0	16.5
Margin (%)	7.1	7.1	8.2	8.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,079	5,573	7,410	8,630
<b>Equity Shares O/s (m)</b>	<b>331</b>	<b>331</b>	<b>331</b>	<b>331</b>
<b>EPS (Rs)</b>	<b>15.7</b>	<b>18.3</b>	<b>22.4</b>	<b>26.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>5,766</b>	<b>6,953</b>	<b>8,804</b>	<b>10,161</b>
Tangibles	5,120	6,277	8,083	9,390
Intangibles	646	676	721	771
<b>Acc: Dep / Amortization</b>	<b>3,059</b>	<b>3,378</b>	<b>3,760</b>	<b>4,223</b>
Tangibles	2,502	2,778	3,118	3,535
Intangibles	557	600	642	688
<b>Net fixed assets</b>	<b>2,707</b>	<b>3,575</b>	<b>5,045</b>	<b>5,938</b>
Tangibles	2,618	3,499	4,966	5,855
Intangibles	89	76	79	83
Capital Work In Progress	157	307	307	307
Goodwill	723	723	723	723
Non-Current Investments	12,544	15,124	17,400	20,931
Net Deferred tax assets	993	623	623	623
Other Non-Current Assets	1,558	2,008	2,048	2,091
<b>Current Assets</b>				
Investments	12,357	13,357	14,007	15,507
Inventories	10,907	9,879	11,323	12,766
Trade receivables	18,032	19,333	22,159	24,983
Cash & Bank Balance	3,211	4,052	4,631	4,883
Other Current Assets	10,994	12,412	12,790	13,051
<b>Total Assets</b>	<b>75,220</b>	<b>82,358</b>	<b>92,150</b>	<b>103,023</b>
<b>Equity</b>				
Equity Share Capital	331	331	331	331
Other Equity	40,769	44,750	50,488	56,988
<b>Total Networkth</b>	<b>41,100</b>	<b>45,080</b>	<b>50,818</b>	<b>57,319</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	107	-	-
Provisions	847	868	994	1,121
Other non current liabilities	7	9	9	9
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	3,147	3,155	3,164	3,262
Trade payables	23,745	25,317	28,840	32,470
Other current liabilities	5,962	7,399	7,851	8,309
<b>Total Equity &amp; Liabilities</b>	<b>75,220</b>	<b>82,358</b>	<b>92,150</b>	<b>103,023</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	7,410	9,326	10,917	12,447
Add. Depreciation	240	319	382	463
Add. Interest	330	208	241	241
Less Financial Other Income	1,863	2,241	2,273	2,500
Add. Other	(2,030)	(1,074)	(579)	(486)
Op. profit before WC changes	5,950	8,779	10,961	12,665
Net Changes-WC	(6,456)	1,267	(792)	(468)
Direct tax	(2,708)	(2,471)	(2,857)	(3,257)
<b>Net cash from Op. activities</b>	<b>(3,214)</b>	<b>7,575</b>	<b>7,312</b>	<b>8,939</b>
Capital expenditures	(804)	(1,337)	(1,852)	(1,357)
Interest / Dividend Income	411	-	-	-
Others	4,320	(3,804)	(2,861)	(4,960)
<b>Net Cash from Invt. activities</b>	<b>3,927</b>	<b>(5,141)</b>	<b>(4,713)</b>	<b>(6,317)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	1,724	107	(107)	-
Dividend paid	(1,577)	(1,592)	(1,672)	(2,130)
Interest paid	(329)	(208)	(241)	(241)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(182)</b>	<b>(1,693)</b>	<b>(2,020)</b>	<b>(2,371)</b>
<b>Net change in cash</b>	<b>531</b>	<b>741</b>	<b>579</b>	<b>252</b>
Free Cash Flow	(4,019)	6,238	5,461	7,583

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

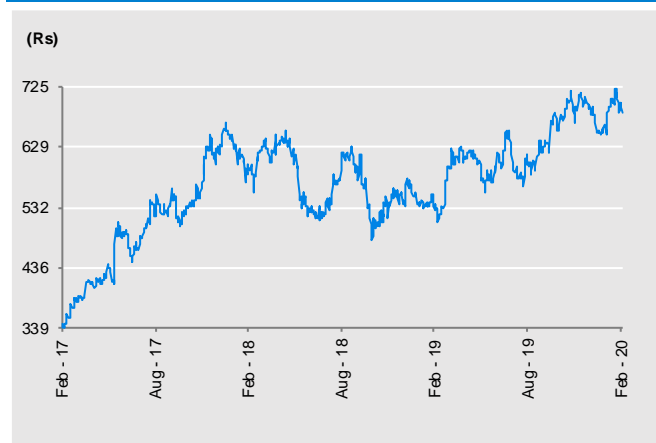
Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
<b>Net Revenue</b>	<b>20,628</b>	<b>26,540</b>	<b>14,219</b>	<b>14,925</b>
YoY gr. (%)	0.7	23.6	-	-
Raw Material Expenses	15,790	19,802	10,181	10,655
Gross Profit	4,838	6,738	4,039	4,270
Margin (%)	23.5	25.4	28.4	28.6
<b>EBITDA</b>	<b>1,443</b>	<b>2,912</b>	<b>1,059</b>	<b>975</b>
YoY gr. (%)	(43.0)	19.7	(2.5)	(15.7)
Margin (%)	7.0	11.0	7.4	6.5
Depreciation / Depletion	59	77	80	80
<b>EBIT</b>	<b>1,384</b>	<b>2,835</b>	<b>979</b>	<b>895</b>
Margin (%)	6.7	10.7	6.9	6.0
Net Interest	106	44	49	57
Other Income	572	433	726	543
<b>Profit before Tax</b>	<b>1,849</b>	<b>3,224</b>	<b>1,655</b>	<b>1,381</b>
Margin (%)	9.0	12.1	11.6	9.2
Total Tax	239	917	430	314
Effective tax rate (%)	12.9	28.4	26.0	22.7
<b>Profit after Tax</b>	<b>1,611</b>	<b>2,307</b>	<b>1,226</b>	<b>1,067</b>
Minority interest	21	11	9	10
Share Profit from Associates	(193)	(214)	(92)	(187)
<b>Adjusted PAT</b>	<b>1,396</b>	<b>2,082</b>	<b>1,126</b>	<b>869</b>
YoY gr. (%)	(28.1)	13.2	8.8	(6.2)
Margin (%)	6.8	7.8	7.9	5.8
Extra Ord. Income / (Exp)	-	(430)	(61)	-
<b>Reported PAT</b>	<b>1,396</b>	<b>1,652</b>	<b>1,064</b>	<b>869</b>
YoY gr. (%)	(27.5)	(10.2)	2.9	7.4
Margin (%)	6.8	6.2	7.5	5.8
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,396</b>	<b>1,652</b>	<b>1,064</b>	<b>869</b>
Avg. Shares O/s (m)	331	331	331	331
<b>EPS (Rs)</b>	<b>4.2</b>	<b>6.3</b>	<b>3.4</b>	<b>2.6</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	15.7	18.3	22.4	26.1
CEPS	16.4	19.3	23.6	27.5
BVPS	124.3	136.3	153.6	173.3
FCF	(12.1)	18.9	16.5	22.9
DPS	4.0	4.0	4.2	5.4
<b>Return Ratio(%)</b>				
RoCE	18.3	20.6	21.8	22.2
ROIC	17.1	18.6	20.2	20.4
RoE	13.0	14.1	15.5	16.0
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	27	18	19	19
<b>Valuation(x)</b>				
PER	43.4	37.2	30.4	26.1
P/B	5.5	5.0	4.4	3.9
P/CEPS	41.5	35.3	28.9	24.8
EV/EBITDA	34.8	27.8	22.7	19.6
EV/Sales	3.0	2.7	2.3	2.0
Dividend Yield (%)	0.6	0.6	0.6	0.8

Source: Company Data, PL Research

**Price Chart**

**Recommendation History**

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Jan-20	Hold	662	664
2	13-Dec-19	Hold	662	695
3	7-Nov-19	Hold	662	667
4	3-Oct-19	Hold	626	674
5	19-Sep-19	Hold	609	631
6	8-Aug-19	Hold	609	601
7	4-Jul-19	Accumulate	584	635
8	20-Jun-19	HOLD	584	610
9	10-May-19	HOLD	584	580
10	5-Apr-19	Accumulate	600	609

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,815	1,779
2	Avenue Supermarts	Reduce	1,639	1,877
3	Britannia Industries	Accumulate	3,433	3,039
4	Colgate Palmolive	Reduce	1,270	1,391
5	Crompton Greaves Consumer Electricals	BUY	306	267
6	Dabur India	Hold	486	479
7	Emami	Accumulate	361	300
8	Future Retail	Under Review	-	332
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Reduce	567	601
11	Hindustan Unilever	Accumulate	2,136	2,034
12	ITC	BUY	310	235
13	Jubilant FoodWorks	BUY	1,913	1,749
14	Kansai Nerolac Paints	Accumulate	545	499
15	Marico	Accumulate	357	315
16	Nestle India	Reduce	12,093	14,594
17	Pidilite Industries	Hold	1,447	1,522
18	Titan Company	Hold	1,264	1,273
19	Voltas	Hold	662	664

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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