

Stellar Q4; Challenging FY21 as demand shifts to summer of '21. Maintain Buy

- Voltas had a stellar Q4, with main highlight being the 20% growth in the unitary cooling (compared to de-growth in teens for competitors) along with margin expansion and market share gains. Projects business was a laggard due to slower execution as well as provisioning in some projects.
- FY21 will be a challenging year with the peak summer sales lost and surplus inventory which will have to be liquidated first. For ACs, being high ticket discretionary items, we expect demand to shift to the next AC season and accordingly trim our FY21E and FY22E estimates as outlined in Exhibit 2
- As AC demand shifts next year, Voltas remains the pick given its strengths- brand, market share, distribution, range and balance sheet. We maintain Buy with a TP of Rs650, valuing it at 30XFY22E.

AC business leads big beat in Q4.

Voltas reported a strong Q4 with profitability was ahead of our and street estimates at operating level as well as PAT level (Refer Exhibit 1). The main highlight was the 20% growth in the unitary cooling business, which is way ahead of the 15%/14% degrowth for Blue star/Lloyds respectively. This was accompanied by a strong 423bps yoy jump in EBIT margins in the AC business. It continues to remain the leader with a strong market share of 24.2%, end FY20. These numbers are despite missing out on year end dispatches in March for the summer season. The project business continues to be a laggard, with a 311bps yoy drop in EBIT margins at 1.4%, most likely due to slow execution as well as possible provisioning. However, order book is strong at Rs78bn, compared to order book of Rs70bn end Q3. Overall EBDITA was up 220bps at Rs1.9 bn with savings in direct costs offsetting increase in other expense. PAT was a beat at Rs1.6bn, +14%yoy

Q4FY20 Result (₹ Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	20,896	20,628	1.3	14,925	40.0
Total Expense	18,976	19,185	(1.1)	13,950	36.0
EBITDA	1,920	1,443	33.1	975	96.9
Depreciation	82	59	38.3	80	2.2
EBIT	1,838	1,384	32.8	895	105.4
Other Income	605	572	5.7	543	11.4
Interest	61	106	(43.1)	57	5.6
EBT	2,362	1,849	27.7	1,380	71.2
Tax	572	239	139.9	314	82.5
RPAT	1,595	1,417	12.5	879	81.4
APAT	1,595	1,417	12.5	879	81.4
			(bps)		(bps)
Gross Margin (%)	28.6	23.5	518	28.6	3
EBITDA Margin (%)	9.2	7.0	219	6.5	266
NPM (%)	7.6	6.9	76	5.9	174
Tax Rate (%)	24.2	12.9	1133	22.7	150
EBIT Margin (%)	8.8	6.7	209	6.0	280

CMP	Rs 540
Target / Upside	Rs 650 / 20%
BSE Sensex	33,259
NSE Nifty	9,826

Scrip Details

Equity / FV	Rs 331mn / Rs 1
Market Cap	Rs 179bn
	USD 2bn
52-week High/Low	Rs 741/Rs 427
Avg. Volume (no)	2,633,220
NSE Symbol	VOLTAS
Bloomberg Code	VOLT IN

Shareholding Pattern Mar'20(%)

Promoters	30.3
MF/Banks/FIs	44.8
FIIIs	10.1
Public / Others	14.9

Valuation (x)

	FY20A	FY21E	FY22E
P/E	34.3	32.9	24.9
EV/EBITDA	25.1	31.3	22.3
ROE (%)	12.4	12.8	16.1
RoACE (%)	15.0	12.7	16.1

Estimates (₹ mn)

	FY20A	FY21E	FY22E
Revenue	76,581	62,774	75,562
EBITDA	6,867	5,336	7,330
PAT	5,211	5,434	7,186
EPS (Rs.)	15.7	16.4	21.7

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FY21 is a challenging year; well managed WC in a tough time.

FY21 is expected to be a challenging year for the company with the peak season disrupted between March to May. With dealers sitting on a 60-day inventory currently, primary sales are likely to be tough. Similarly, in the projects business, labor availability presents execution challenge. It is sitting on a good amount of cash (Rs 8bn) and can exploit market share by offering discounts, but it is refraining from offering broad based discounts and also hardly sells on credit. It has managed to retain its WC days at 28 days vs 27days and FY20 has also seen strong cash generation from operations, though inventory has gone up by Rs3.8bn, reflecting lost March sales.

Demand and growth shifts to next season. Maintain Buy

As AC demand shifts to next season, which is the summer of 2021, Voltas remains the pick for playing the AC penetration theme. It has its strengths- brand, market share, distribution, range and balance sheet, which should stand it in good stead as we shift focus to the next summer. We maintain Buy with a TP of Rs650, valuing it at 30XFY22E

Exhibit 1: Actual v/s DART estimates

Particulars (Rs mn)	Actual Q4FY20	DART Q4FY20E	Bloomberg Q4FY20E	DART Var (%)	Bloomberg Var (%)	Comments
Sales	20,896	22,020	19,986	(5.1)	4.6	Sales was led by strong UCP growth at 20%
EBITDA	1,920	1,620	1,604	18.5	19.7	Margin expansion was strong in ACs
EBITDA margins	9.2	7.4	8.0	183.2	116.4	
PAT	1,595	1,421	1,207	12.2	32.1	
Pat margins	7.6	6.5	6.0	118.0	159.4	The strong AC performance led to a PAT beat.
EPS	4.8	4.3	3.6	12.2	32.1	

Source: Company, DART

Exhibit 2: Change in Our Estimates

(Rs Mn)	FY21E			FY22E		
	Earlier	New	Chg (%)	Earlier	New	Chg (%)
Sales	84,358	62,774	(26)	96,065	75,562	(21)
EBITDA	7,170	5,336	(26)	8,556	7,330	(14)
EBITDA Margin (%)	8.5	8.5	0.0	8.9	9.7	79.4
PAT	7,028	5,434	(23)	8,522	7,186	(16)
EPS	21.2	16.4	(23)	25.7	21.7	(16)

Source: DART, Company

Exhibit 3: Quarterly Performance

Rs mn	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ (%)	YTD FY19	YTD FY20	YoY (%)
Net Revenue	20,628	26,540	14,219	14,925	20,896	1.3	40.0	71,241	76,580	7.5
Cost of materials consumed	9,048	8,858	7,848	7,746	8,438	(6.7)	8.9	35,568	32,890	(7.5)
Purchase of Stock in trade	7,182	7,673	3,079	4,541	10,390	44.7	128.8	19,850	25,683	29.4
Changes in Inventories, WIP & SIP	(440)	3,271	(746)	(1,632)	(3,915)	789.9	139.9	(2,796)	(3,023)	8.1
Total Raw Material Cost	15,790	19,802	10,181	10,655	14,912	(5.6)	40.0	52,622	55,549	5.6
Staff Expenditure	1,664	1,632	1,576	1,734	1,776	6.7	2.4	6,419	6,717	4.7
Other Expenses	1,732	2,194	1,404	1,561	2,288	32.1	46.6	6,083	7,448	22.4
EBITDA	1,443	2,912	1,059	975	1,920	33.1	96.9	6,117	6,866	12.2
Depreciation	59	77	80	80	82	38.3	2.2	240	320	33.3
EBIT	1,384	2,835	979	895	1,838	32.8	105.4	5,877	6,547	11.4
Other Income	572	433	726	543	605	5.7	11.4	1,863	2,306	23.8
Interest	106	44	49	57	61	(43.1)	5.6	330	211	(36.0)
Profit/(Loss) from Associates & JVs	(193)	(214)	(92)	(187)	(195)	0.7	4.0	(518)	(687)	32.6
Exceptional items	0	(430)	(61)	0	(20)	-	-	(118)	(512)	334.9
PBT	1,656	2,580	1503	1193	2167	30.9	81.7	6,774	7,443	9.9
Tax	239	917	430	314	572	139.9	82.5	1,635	2,233	36.5
Net Profit	1,417	1,663	1,073	879	1,595	12.5	81.4	5,139	5,210	1.4
Reported EPS	4.3	5.0	3.2	2.7	4.8	12.5	81.4	15.5	15.7	1.4

Source: Company, DART

Exhibit 4: Operating Cost as a % of sales

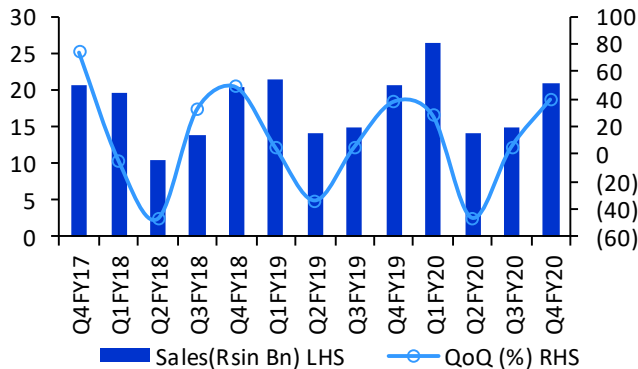
Particulars	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ(%)	YTD FY19	YTD FY20	YoY(%)
Operating Cost as a % of Sales										
Raw Material Cost	76.5	74.6	71.6	71.4	71.4	(518.2)	(2.8)	73.9	72.5	(132.8)
Staff Cost	8.1	6.1	11.1	11.6	8.5	43.3	(311.8)	9.0	8.8	(23.8)
Other Expenses	8.4	8.3	9.9	10.5	10.9	255.6	49.0	8.5	9.7	118.7
Margins (%)										
GM	23.5	25.4	28.4	28.6	28.6	518.2	2.8	26.1	27.5	132.8
EBITDA	8.4	8.3	9.9	10.5	10.9	255.6	49.0	8.5	9.7	118.7
EBIT	6.7	10.7	6.9	6.0	8.8	208.9	280.1	8.2	8.5	29.9
PBT	8.0	9.7	10.6	8.0	10.4	234.4	238.0	9.5	9.7	21.0
NPM	6.9	6.3	7.5	5.9	7.6	76.2	174.3	7.2	6.8	(41.0)

Source: Company, DART

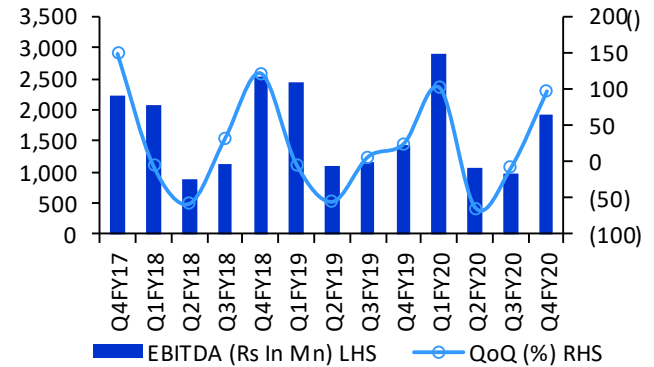
Exhibit 5: Segment Performance

Particulars (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ(%)	YTD FY19	YTD FY20	YoY(%)
Revenue										
Electro mechanical projects	9,760	8,241	8,093	8,081	8,046	(17.6)	(0.4)	36,191	32,461	(10.3)
Engineering products and services	784	740	803	826	948	20.9	14.8	3,116	3,317	6.4
Unitary Cooling Products and Comfort and commercial use	9,976	17,488	5,256	6,005	11,989	20.2	99.6	31,556	40,737	29.1
Less: Inter segmental Revenue	0	2	2	42	198	#DIV/0!	375.5	13	244	1787.6
Total	20,520	26,467	14,150	14,870	20,784	1.3	39.8	70,849	76,271	7.7
EBIT										
Electro mechanical projects	441	656	561	374	113	(74.4)	(69.8)	2,773	1,704	(38.5)
Engineering products and services	274	239	253	231	269	(1.7)	16.6	1,051	993	(5.5)
Unitary Cooling Products and Comfort and commercial use	1,037	2,298	463	607	1,754	69.1	189.0	3,254	5,121	57.4
EBIT Margin (%)										
Electro mechanical projects	4.5	8.0	6.9	4.6	1.4	(311.2)	(323)	7.7	5.2	(241.2)
Engineering products and services	35.0	32.4	31.5	28.0	28.4	(654.4)	45	33.7	29.9	(379.4)
Unitary Cooling Products and Comfort and commercial use	10.4	13.1	8.8	10.1	14.6	423.5	452	10.3	12.6	226.0
Segment Capital employed										
Electro mechanical projects	9,303	10,391	12,128	12,132	11,010	18.3	(9.3)	9,303	11,010	18.3
Engineering products and services	654	707	801	851	840	28.4	(1.3)	654	840	28.4
Unitary Cooling Products and Comfort and commercial use	5,556	(600)	2,799	3,068	4,765	(14.2)	55.3	5,556	4,765	(14.2)
Un allocable	25,935	32,165	25,541	25,934	26,553	2.4	2.4	25,935	26,553	2.4

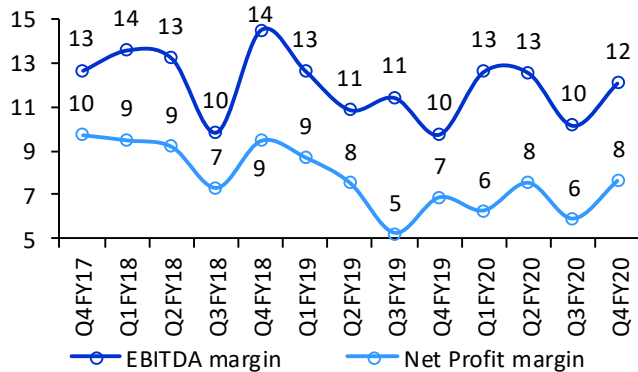
Source: Company, DART

Exhibit 1: Sales and QoQ growth (%)


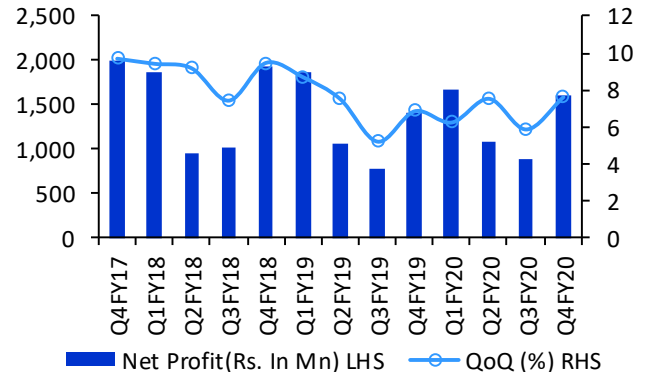
Source: Company, DART

Exhibit 2: EBITDA and QoQ growth (%)


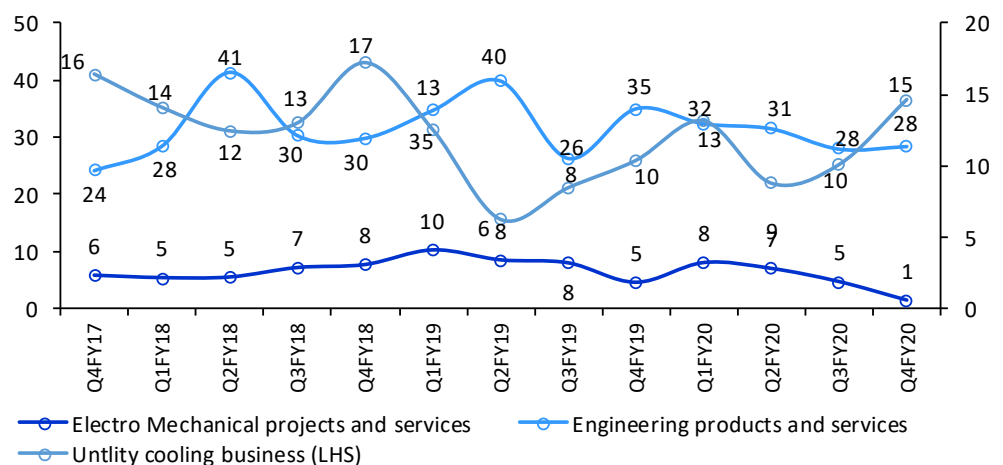
Source: Company, DART

Exhibit 3: Trend in margin (%)


Source: Company, DART

Exhibit 4: Net Profit and QoQ growth (%)


Source: Company, DART

Exhibit 5: Segmental EBIT margin (%)


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	71,241	76,581	62,774	75,562
Total Expense	65,124	69,714	57,438	68,232
COGS	52,622	55,549	45,511	55,009
Employees Cost	6,419	6,717	6,277	6,801
Other expenses	6,083	7,448	5,650	6,423
EBIDTA	6,117	6,867	5,336	7,330
Depreciation	240	320	323	328
EBIT	5,877	6,547	5,012	7,002
Interest	330	211	180	216
Other Income	1,863	2,306	2,511	2,796
Exc. / E.O. items	(118)	(512)	0	0
EBT	7,292	8,130	7,344	9,581
Tax	1,635	2,233	1,909	2,395
RPAT	5,139	5,211	5,434	7,186
Minority Interest	518	687	0	0
Profit/Loss share of associates	0	0	0	0
APAT	5,139	5,211	5,434	7,186

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	331	331	331	331
Minority Interest	348	365	365	365
Reserves & Surplus	40,769	42,471	41,979	46,503
Net Worth	41,099	42,802	42,310	46,833
Total Debt	3,147	2,179	1,632	1,965
Net Deferred Tax Liability	(992)	(715)	(715)	(715)
Total Capital Employed	43,601	44,631	43,593	48,448

Applications of Funds

Net Block	3,430	3,804	3,367	3,509
CWIP	157	263	263	263
Investments	11,502	18,229	18,729	19,229
Current Assets, Loans & Advances	59,072	58,536	53,050	62,316
Inventories	10,907	14,689	10,508	10,817
Receivables	18,032	18,273	15,478	18,011
Cash and Bank Balances	3,211	3,084	4,129	3,943
Loans and Advances	116	23	127	153
Other Current Assets	14,450	17,264	13,603	16,188
Less: Current Liabilities & Provisions	30,560	36,201	31,816	36,868
Payables	23,745	26,889	20,772	24,302
Other Current Liabilities	6,815	9,312	11,044	12,566
<i>sub total</i>				
Net Current Assets	28,512	22,335	21,234	25,447
Total Assets	43,601	44,631	43,593	48,448

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	26.1	27.5	27.5	27.2
EBIDTA Margin	8.6	9.0	8.5	9.7
EBIT Margin	8.2	8.5	8.0	9.3
Tax rate	22.4	27.5	26.0	25.0
Net Profit Margin	7.2	6.8	8.7	9.5
(B) As Percentage of Net Sales (%)				
COGS	73.9	72.5	72.5	72.8
Employee	9.0	8.8	10.0	9.0
Other	8.5	9.7	9.0	8.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.0	0.0
Interest Coverage	17.8	31.0	27.9	32.4
Inventory days	56	70	61	52
Debtors days	92	87	90	87
Average Cost of Debt	14.4	7.9	9.4	12.0
Payable days	122	128	121	117
Working Capital days	146	106	123	123
FA T/O	20.8	20.1	18.6	21.5
(D) Measures of Investment				
AEPS (Rs)	15.5	15.7	16.4	21.7
CEPS (Rs)	16.2	16.7	17.4	22.7
DPS (Rs)	4.7	5.7	6.9	8.0
Dividend Payout (%)	30.2	36.5	42.0	37.1
BVPS (Rs)	124.2	129.3	127.8	141.5
RoANW (%)	12.8	12.4	12.8	16.1
RoACE (%)	14.5	15.0	12.7	16.1
RoAIC (%)	15.0	16.0	12.4	16.7
(E) Valuation Ratios				
CMP (Rs)	540	540	540	540
P/E	34.8	34.3	32.9	24.9
Mcap (Rs Mn)	178,674	178,674	178,674	178,674
MCap/ Sales	2.5	2.3	2.8	2.4
EV	166,252	172,565	166,973	163,491
EV/Sales	2.3	2.3	2.7	2.2
EV/EBITDA	27.2	25.1	31.3	22.3
P/BV	4.3	4.2	4.2	3.8
Dividend Yield (%)	0.9	1.1	1.3	1.5
(F) Growth Rate (%)				
Revenue	11.2	7.5	(18.0)	20.4
EBITDA	(7.7)	12.3	(22.3)	37.4
EBIT	(7.9)	11.4	(23.4)	39.7
PBT	(9.0)	11.5	(9.7)	30.5
APAT	(11.1)	1.4	4.3	32.2
EPS	(11.1)	1.4	4.3	32.2

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	390	5,971	11,039	7,516
CFI	2,863	(374)	(4,386)	(4,970)
CFF	(156)	(3,081)	(3,008)	(2,546)
FCFF	(425)	5,172	11,152	7,046
Opening Cash	2,837	3,211	3,084	4,129
Closing Cash	3,211	3,084	4,129	3,943

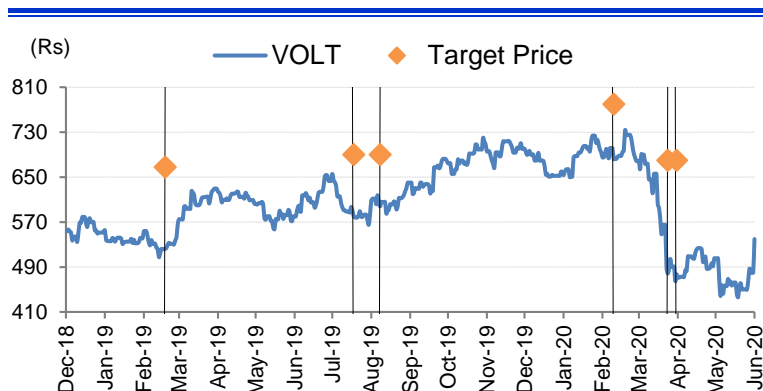
E – Estimates

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 (Rs.)	Price (Rs.)
Feb-19	Buy	668	522
Jul-19	Buy	690	580
Aug-19	Buy	690	598
Feb-20	Buy	780	682
Mar-20	Buy	680	478
Mar-20	Buy	680	477

*Price as on recommendation date

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I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

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