

Cost saving initiatives drive UCP segment margin...

Voltas' unitary cooling product (UCP) segment performance was better than our expectation both in terms of topline, profitability. Despite lower volume in Q1FY21, Voltas clocked UCP segment EBIT margin of ~15.5% (up 240 bps YoY), highest margin in the last eight quarters supported by better product mix, lower raw material prices. UCP segment sales decline of ~60% was largely due to loss of revenue for almost 40 days amid pandemic related lockdowns. However, with its robust supply chain management and pan-India distribution network (~19,000 touch points) Voltas managed to gain market share (YTD market share of 26.2%) in Q1FY21. With festive season around the corner and changing consumer habits as more people stay at home due to lockdown, we believe trade level inventory (of ~45 days) would be liquidated by end of Q3FY21. On the project, product & services front, Voltas reported decline in revenue by ~37%, ~36%, respectively, mainly impacted by lockdown, slow execution of projects. We believe while project business may face delay in revival (on lower private expenditure) UCP segment would recover from H2FY21 led by good festive demand and onset of second summer. We maintain our positive stance on the stock, considering Voltas' robust balance sheet and well distributed dealer network that would help the company to sail through this challenging scenario.

Lockdown drags topline

Voltas lost almost 40 days of sales due to lockdown and reported ~51% YoY fall in revenue in Q1FY21. Revenues from UCP, electro-mechanical projects (EMPS) and engineering & product services declined ~60%, 37% and ~36%, respectively. The drag on EMPS business was largely on account of slow execution of international and domestic orders amid strict government regulations. Despite a strong order book of ₹ 7663 crore, the lockdown situation may impact the pace of execution, job closures, thereby resulting in stretched working capital and low profitability in the near term.

Losses of EMPS segment offset strong UCP segment margin

While UCP segment EBIT margin was up 240 bps YoY (90 bps QoQ), the EMPS segment reported loss of ₹ 39 crore in Q1FY21 mainly due to higher fixed cost. As a result, the EBITDA margin fell ~583 bps YoY at 5.1%. Despite such a high margin in Q1FY21, the management continues to maintain annual margin guidance of UCP segment at ~11-12%.

Valuation & Outlook

Voltas being a market leader in the cooling product segment would recoup sales with recovery in demand, going ahead. We like Voltas for its strong brand recall and healthy balance sheet, which would cushion the company from any adverse situations arise due to project business. We maintain our **BUY** rating on the stock with a revised target price of ₹ 725/share ascribing PE multiple 8x, 8x and 36x to EMPS, EPS and UCP segment, respectively.

Key Financial Summary

(₹Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (19-22E)
Net Sales	6404.4	7124.1	7658.1	6003.9	8317.6	5.3
EBITDA	662.6	611.7	686.7	394.2	857.6	11.9
EBITDA Margin (%)	10.3	8.6	9.0	6.6	10.3	
Net Profit	577.9	513.9	521.0	353.7	751.4	13.5
EPS (₹)	17.5	15.5	15.8	10.7	22.7	
P/E(x)	35.9	40.4	39.9	58.7	27.6	
Price/Book (x)	5.3	5.1	4.9	4.7	4.3	
Mcap/Sales (x)	3.2	2.9	2.7	3.5	2.5	
RoE (%)	14.8	12.7	13.0	8.0	15.6	
RoCE(%)	19.8	17.3	19.5	11.5	20.4	

Source: Company, ICICI Direct Research

VOLTAS

Particulars

Particular	Amount
Market Cap (₹Crore)	20,770.1
Total Debt (FY 20) (₹Crore)	217.9
Cash & Inv (FY 20) (₹Crore)	828.9
EV (₹Crore)	20,159.0
52 week H/L	741 / 427
Equity capital (₹Crore)	33.1
Face value (₹)	1.0

Key Highlights

- Lockdown in peak season hurt overall topline growth
- Market share gain in RAC segment. Strong EBIT margin of UCP segment led by change in product mix, various cost control measure
- Project business performance marred by lockdown in April
- Maintain BUY rating with revised target price of ₹ 725/share

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Exhibit 1: Variance Analysis

	Q1FY21	11FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Revenue	1,296.9	1,008.3	2,654.0	-51.1	2,089.6	-37.9	Better than expected recovery in all three business verticals
Other Income	67.4	33.5	43.3	55.8	60.5	11.5	
Raw Material Exp	534.8	421.4	1,212.9	-55.9	452.3	18.2	Improved product mix and benign raw material prices helped improve the gross margin (up ~458 bps YoY)
Employee Exp	157.4	160.5	163.2	-3.5	177.6	-11.4	
Purchase of Traded goc	373.5	250.8	767.3	-51.3	1,039.0	-64.1	
Other Expenses	156.1	150.5	188.5	-17.2	207.6	-24.8	
EBITDA	66.7	25.1	291.2	-77.1	192.0	-65.2	
EBITDA Margin (%)	5.1	2.5	11.0	-583 bps	9.2	-404 bps	Sharp increase in margin of UCP segment (up 240 bps YoY) was completely offset by losses in the EMPS segment mainly due to higher fixed cost
Depreciation	8.2	8.5	7.7	6.5	8.2	0.2	
Interest	6.7	3.8	4.4	53.4	6.1	11.1	
Exceptional items	0.0	0.0	43.0		2.0		
Profit/(loss) from Asso & JVs	(11.7)	(21.3)	(21.4)		(19.5)		Loss from joint venture and associates companies, which includes losses from Voltas-Beko
PBT	107.5	25.0	258.0	-58.3	216.7	-50.4	
Total Tax	25.8	6.3	91.7	-71.9	57.2	-55.0	
PAT	81.8	18.7	166.3	-50.8	159.5	-48.7	PAT decline was largely due to lower sales and operating profit during the period

Key Metrics

EMPS	518	393	824	-37.1	805	-35.6	Decline in sales primarily due to slow pace of execution amid onset of pandemic and loss of revenue for almost 30 days in the domestic operations
EPS	48	37	74	-35.6	95	0.5	Focus on after sales service and additional maintenance contracts in Mozambique in mining and construction equipment drive sales
UCP	707.1	573	1749	-59.6	1199	-41.0	Loss of revenue for almost 40 days has put dent on topline

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6,079.8	6,003.9	(1.2)	8,468.9	8,317.6	(1.8)	Revising our estimate factoring the current quarter performance. We believe recovery to start from H2FY 21E onwards
EBITDA	378.2	394.2	4.2	863.1	857.6	(0.6)	
EBITDA Mar(%)	6.2	6.6	37bps	10.2	10.3	11bps	Lower operating leverage (owing to absence of volume growth in the UCP segment) would dent EBITDA margin in FY 21E
PAT	314.1	353.7	12.6	708.7	751.4	6.0	
EPS (₹)	9.5	10.7	12.6	21.4	22.7	6.0	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
EMPS	27.2	-10.3	-21.3	43.1	-19.3	45.2	We build flattish revenue CAGR in F19-22E owing to slow pick up in infrastructure activities
EPS	0.6	6.4	-10.2	11.8	-7.9	7.6	
UCP	-2.2	29.1	-23.8	38.2	-23.3	37.4	We model UCP segment revenue CAGR of ~11% for FY 19-22E led by same amount of volume CAGR in RAC segment

Source: Company, ICICI Direct Research

Conference call highlights

Unitary cooling products

- The company lost sales for almost 40 days in the UCP segment. However, it managed sales of ~3.4 lakhs units of unitary cooling products post relaxation from lockdown
- Industry volume declined ~49% in Q1FY21. However, volume fall was limited to 45% in case of Voltas. The company gained market share with its YTD market share at 26.2%
- For the month of June, Voltas had a lead of over 1400 bps above the nearest competitor, also well ahead of the market share of the No. 2 and No. 3 players, combined
- Inverter AC now accounts for 63% of the split air-conditioner and 44% of overall AC sales. In the inverter AC segment, June market share was at 22.9%
- Geography wise, the company reported early demand revival in the north, south and eastern regions while western region demand was impacted by lockdown and early rains
- Channel inventory was at 45 days by the end of Q1FY21. The company has not taken any substantial price cut to push inventory
- Air cooler segment reported ~70% YoY fall in sales during Q1 while intermediate lockdown impacted sales of the commercial refrigeration segment
- Voltas investment in the Voltas Beko joint venture was at ₹ 373 crore. It has direct cool refrigerator manufacturing capacity of 1 million units. Voltas-Beko losses have reduced substantially during Q1FY21. Voltas Beko currently has ~ 6000 touch points

Electro-mechanical projects & services

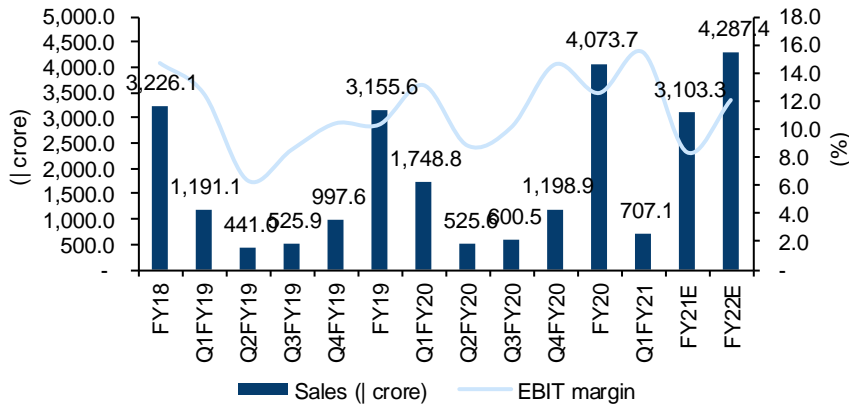
- EMPS segment order book was up 61% YoY to ₹ 7663 crore in Q1FY21
- The company's international order book was at ₹ 2908 crore while its domestic order book was at ₹ 4755 crore
- Covid-19 has not had much impact on international project business as construction activity is statutorily considered an essential service in the Middle East. Nevertheless, the pace of execution has significantly reduced and certain mega events like Expo 2020 have been postponed
- On the domestic front, while project work commenced post relaxation from lockdown, the mobilisation of the work force remains challenging
- The domestic order represent a healthy mix of water, metro, airport, solar and general MEP projects
- Delay in completion of the projects may increase the receivable days for the company

Engineering products & services

- The textile industry is passing through a difficult period of low demand. In this scenario, the company's focus continues on after-sales business in both spinning and post spinning segments. In the mining & construction equipment, Mozambique operations continue to drive the majority of revenues

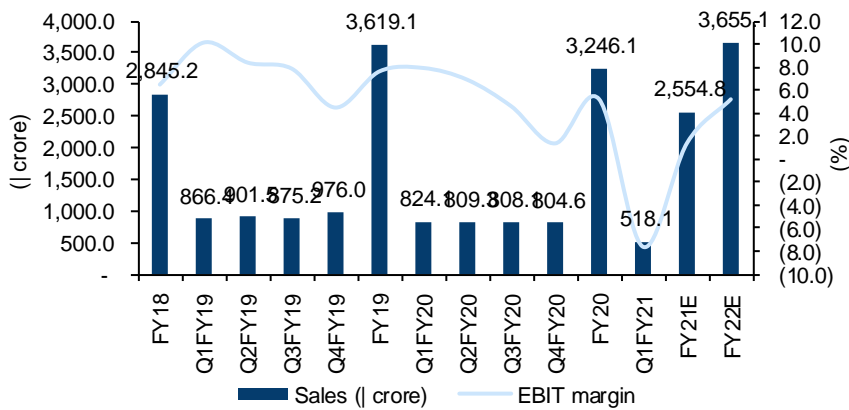
Financial story in charts

Exhibit 4: UCP segment sales and margin trend



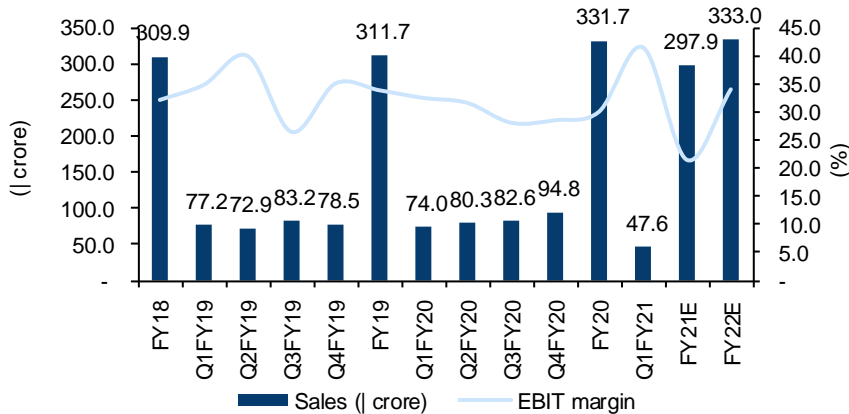
Source: Company, ICICI Direct Research

Exhibit 5: EMPS segment sales and margin trend



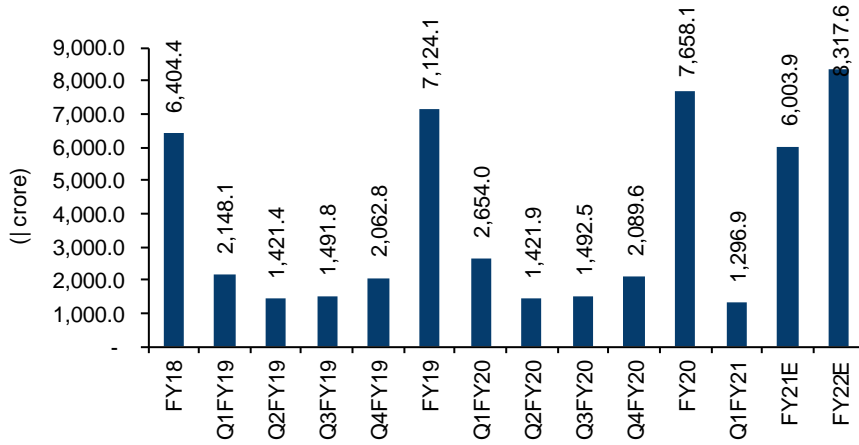
Source: Company, ICICI Direct Research

Exhibit 6: EPS segment sales and margin trend



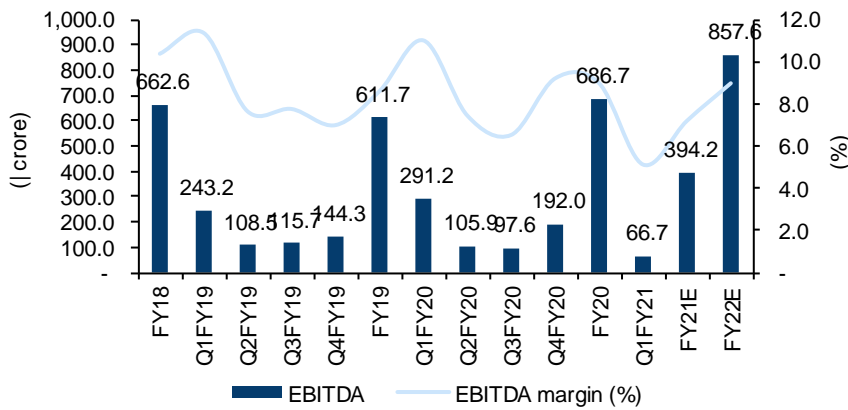
Source: Company, ICICI Direct Research

Exhibit 7: Consolidated revenue trend



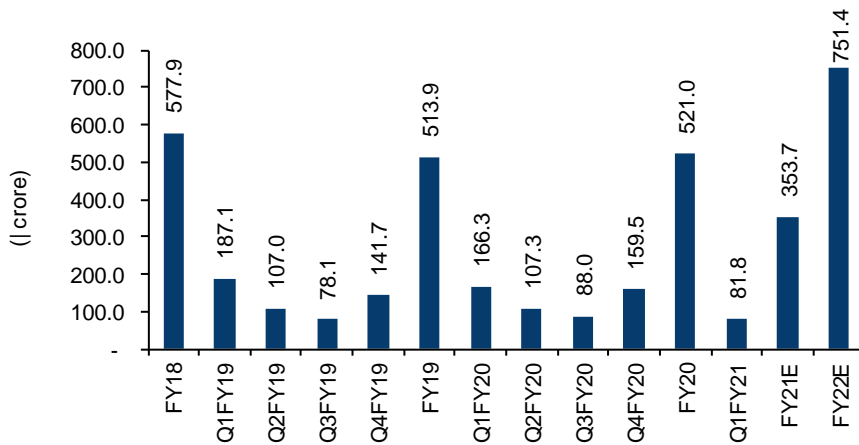
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA and EBITDA margin to be in range of historical margin trend



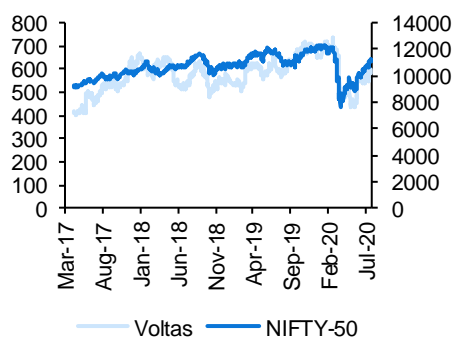
Source: Company, ICICI Direct Research

Exhibit 9: Sales growth, slight recovery in margin to drive PAT in FY19-22E



Source: Company, ICICI Direct Research

Exhibit 10: Historical price chart



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	30.3	30.3	30.3	30.3	30.3
FII	13.0	10.2	10.9	9.9	10.7
DII	35.7	39.0	38.6	40.0	39.3
Others	21.0	20.5	20.2	19.8	19.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Net Sales	7,124.1	7,658.1	6,003.9	8,317.6	
Expenses					
Raw Material Expenses	3,277.2	2,986.7	2,286.5	3,113.2	
(inc)/Dec in stocks	-	-	-	-	
Purchase of traded good	1,985.0	2,568.3	2,047.4	2,797.9	
Employee Expenses	641.9	671.7	611.0	651.7	
Other expenses	530.7	672.8	627.6	820.1	
Total Operating Expendit	6,512.4	6,971.4	5,609.7	7,460.1	
EBITDA	611.7	686.7	394.2	857.6	
Other Income	186.3	230.6	178.6	231.7	
Interest	33.0	21.1	18.1	19.1	
PBDT	765.0	896.2	554.7	1,070.2	
Depreciation	24.0	32.0	36.0	44.9	
PBT before Exceptional I	741.0	864.2	518.7	1,025.3	
Less: Exceptional Items	11.8	51.2	-	-	
Total Tax	163.5	223.3	119.5	250.5	
PAT before MI	513.9	521.0	353.7	751.4	
PAT after MI	513.9	521.0	353.7	751.4	
Profit from Associates	(51.8)	(68.7)	(45.5)	(23.5)	
PAT	513.9	521.0	353.7	751.4	

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Profit after Tax	513.9	521.0	353.7	751.4	
Depreciation	24.0	32.0	36.0	44.9	
Cash Flow before working cap	570.8	574.1	407.8	815.3	
Net Increase in Current Assets	(293.8)	(635.7)	735.2	(1,321.7)	
Net Increase in Current Liabilitie	(160.9)	557.5	(926.2)	1,035.3	
Net cash flow from operatir	116.1	495.8	216.8	529.0	
Long term loans and advances	(64.3)	(21.5)	38.3	(53.6)	
Other non current assets	(39.2)	(17.0)	19.7	(27.5)	
Liquid Investments	367.7	42.6	-	-	
(Purchase)/Sale of Fixed Asse	(81.5)	(79.9)	(50.0)	(100.0)	
Others	(92.0)	36.2	-	-	
Net Cash flow from Investir	90.8	(39.6)	8.0	(181.1)	
Proceeds/(Repament) loans	172.4	(96.8)	8.0	8.0	
Total Outflow on account of div	(154.8)	(154.8)	(77.4)	(116.1)	
Others	(187.3)	(217.2)	(180.4)	(219.1)	
Net Cash flow from Financi	(169.7)	(468.8)	(249.8)	(327.1)	
Net Cash flow	37.2	(12.6)	(25.0)	20.7	
Cash and Cash Equivalent at th	283.8	321.0	308.5	283.6	
Cash	321.0	308.5	283.6	304.4	

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Equity Capital	33.1	33.1	33.1	33.1	
Reserve and Surplus	4,076.9	4,247.1	4,361.1	4,796.3	
Total Shareholders funds	4,110.0	4,280.2	4,394.1	4,829.4	
Total Debt	314.7	217.9	225.9	233.9	
Deferred Tax Liability	6.6	1.4	1.4	1.4	
Other Non Current Liabilitie	0.7	7.3	7.3	7.3	
Total Liability	4,466.7	4,543.3	4,665.3	5,108.7	
Net Block	270.7	308.1	322.1	377.1	
Total Fixed Assets	286.4	334.4	348.3	403.4	
Other Investments	1,150.2	1,822.9	1,872.9	1,922.9	
Goodwill on Consolidation	72.3	72.3	72.3	72.3	
Deferred Tax Assets	105.9	72.9	72.9	72.9	
Long term loans and advar	156.0	177.5	139.1	192.7	
Other non current assets	74.1	91.1	71.4	99.0	
Liquid Investments	1,235.7	520.4	470.4	420.4	
Inventory	1,090.7	1,468.9	1,315.9	1,595.2	
Debtors	1,833.0	1,833.6	1,562.7	2,164.9	
Cash	321.0	308.5	283.6	304.4	
Loans and Advances	11.6	2.3	4.5	6.3	
Other Current Assets	1,185.2	1,451.4	1,137.9	1,576.4	
Net Current Assets	1,386.2	1,452.0	1,618.1	1,925.3	
Total Assets	4,466.7	4,543.3	4,665.3	5,108.7	

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Per Share Data					
EPS	15.5	15.8	10.7	22.7	
Cash EPS	16.3	16.7	11.8	24.1	
BV	124.3	129.4	132.9	146.0	
DPS	4.7	4.7	2.3	3.5	
Operating Ratios					
EBITDA margin	8.6	9.0	6.6	10.3	
PAT margin	7.3	7.3	5.9	9.0	
Return Ratios					
RoE	12.7	13.0	8.0	15.6	
RoCE	17.3	19.5	11.5	20.4	
RoIC	19.9	16.5	8.8	17.4	
Valuation Ratios					
EV / EBITDA	31.9	29.4	51.3	23.6	
P/E	40.4	39.9	58.7	27.6	
EV / Net Sales	2.7	2.6	3.4	2.4	
Sales / Equity	1.7	1.8	1.4	1.7	
Market Cap / Sales	2.9	2.7	3.5	2.5	
Price to Book Value	5.1	4.9	4.7	4.3	
Turnover Ratios					
Asset turnover	1.6	1.7	1.3	1.6	
Debtors Days	93.9	87.4	95.0	95.0	
Creditors Days	121.7	128.2	120.0	120.0	
Solvency Ratios					
Debt / Equity	0.1	0.1	0.1	0.0	
Current Ratio	1.6	1.6	1.9	1.8	
Quick Ratio	1.2	1.1	1.3	1.3	

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Asian Paints (ASIPAI)	1,836	1,900	Hold	1,76,072	29.0	21.8	32.6	63.4	84.4	56.2	38.9	45.6	32.9	27.4	19.4	26.9	30.5	22.6	31.0
Astral Polytechnik (ASTP)	1,058	1,120	Hold	15,940	16.6	15.0	23.3	63.9	70.7	45.5	36.1	39.3	27.8	20.5	17.0	23.1	16.6	13.1	17.9
Amber Enterprises (AM)	1,774	1,980	Buy	5,579	52.2	18.4	63.7	34.0	96.5	27.9	18.1	27.6	13.2	14.3	7.0	17.4	14.5	5.3	15.5
Bajaj Electricals (BAJEL)	485	495	Buy	5,514	0.0	4.1	14.8	NM	118.5	32.9	26.1	26.3	15.0	8.4	6.7	13.4	4.5	4.2	10.2
Berger Paints (BERPAI)	541	570	Hold	52,542	6.8	6.0	10.0	80.1	90.3	54.0	46.9	51.1	33.7	26.6	21.5	31.9	24.7	19.4	27.7
Essel Propack (ESSPRO)	273	270	Buy	8,613	6.7	7.0	9.5	40.7	38.9	28.8	13.6	12.4	10.5	15.6	16.5	19.4	14.3	13.9	16.3
Havells India (HAVIND)	617	630	Hold	38,495	11.7	8.0	14.4	52.5	76.9	42.8	33.9	40.7	25.5	19.6	14.3	22.6	17.0	11.4	18.3
Kansai Nerolac (KANNE)	477	510	Buy	25,706	9.9	7.9	11.8	48.0	60.1	40.3	30.3	35.3	24.2	17.6	14.7	19.9	14.1	11.3	15.3
Pidilite Industries (PIDINI)	1,380	1,595	Buy	70,076	22.1	17.8	28.0	62.5	77.4	49.3	43.5	53.3	35.1	31.0	23.4	34.0	26.1	19.2	27.7
Polycab India (POLI)	899	950	Buy	13,384	51.4	42.2	55.4	17.5	21.3	16.2	10.7	13.4	9.8	26.5	16.8	22.2	20.0	13.9	17.0
Supreme Indus (SUPINC)	1,198	1,245	Hold	15,218	36.8	28.4	41.5	31.8	41.2	28.2	18.0	20.8	15.6	22.5	17.5	22.3	20.7	15.3	20.1
Symphony (SYMLIM)	830	960	Buy	5,806	26.0	20.5	32.0	31.9	40.4	25.9	26.7	33.9	21.0	28.8	23.5	37.0	29.0	23.0	35.1
Time Techno (TIMTEC)	39	42	Hold	882	7.5	3.2	9.0	5.2	12.3	4.3	3.1	4.4	2.8	12.5	7.1	13.1	9.3	4.0	10.7
V-Guard Ind (VGUARD)	162	210	Buy	6,938	4.3	3.6	5.2	37.5	45.1	31.1	27.4	32.5	22.6	24.8	19.7	24.3	18.6	14.8	18.5
Voltas Ltd (VOLTAS)	628	725	Buy	20,770	15.8	10.7	22.7	39.9	58.7	27.6	29.4	51.3	23.6	19.5	11.5	20.4	13.0	8.0	15.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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ANALYST CERTIFICATION

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