

August 17, 2020

## Q1FY21 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	660		600	
Sales (Rs. m)	88,049	97,780	88,195	97,076
% Chng.	(0.2)	0.7		
EBITDA (Rs. m)	9,289	10,511	8,819	9,708
% Chng.	5.3	8.3		
EPS (Rs.)	23.1	27.3	21.5	24.7
% Chng.	7.5	10.3		

### Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	76,581	73,861	88,049	97,780
EBITDA (Rs. m)	6,867	6,869	9,289	10,511
Margin (%)	9.0	9.3	10.6	10.8
PAT (Rs. m)	5,684	5,556	7,651	9,021
EPS (Rs.)	17.2	16.8	23.1	27.3
Gr. (%)	9.4	(2.2)	37.7	17.9
DPS (Rs.)	4.0	4.0	4.8	6.3
Yield (%)	0.6	0.6	0.8	1.0
RoE (%)	13.5	12.4	15.4	16.0
RoCE (%)	19.9	18.3	21.5	21.6
EV/Sales (x)	2.6	2.7	2.2	2.0
EV/EBITDA (x)	29.4	28.9	21.1	18.3
PE (x)	36.6	37.5	27.2	23.1
P/BV (x)	4.9	4.4	3.9	3.5

### Key Data

### VOLT.BO | VOLT IN

52-W High / Low	Rs.741 / Rs.427
Sensex / Nifty	38,051 / 11,247
Market Cap	Rs.208bn/ \$ 2,780m
Shares Outstanding	331m
3M Avg. Daily Value	Rs.3006.47m

### Shareholding Pattern (%)

Promoter's	30.30
Foreign	10.71
Domestic Institution	38.88
Public & Others	20.11
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	9.1	(9.5)	4.6
Relative	6.1	(2.3)	2.7

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## RAC share gain continues

### Quick Pointers:

- RAC declined by 45% (Industry down 49%), Market share at 26.2%
- Management Expects Voltbek to break-even by 2023-2024

**We increase our FY21, FY22 & FY23 earnings by 10.6%, 7.5% and 10.3% given 1) sustained market share gains in Room AC 2) encouraging response to Voltas-Beko portfolio in first season and 3) Sufficient forward visibility in MEP with strong order book (Rs77bn) led by domestic operations**

**Even with lockdown disrupting peak summer season sales, VOLT continued to outperform the industry by reporting a 45% decline in RAC volumes vs 49% of industry on the back of 1) wide distribution reach (19,000 touchpoints) 2) heat-wave in the month of May and 3) strong brand recall. In MEP, although the order book remains healthy at Rs77bn, pace of execution remains slow and will take 2-3 months to bounce back given 1) non-availability of skilled labor 2) delayed inward transport, receipt of materials and certification and 3) liquidity constraints. With demand for Voltbek JV products encouraging, management maintains its guidance of achieving 10% market share in major product categories by 2025 and expect the JV to breakeven by 2023-2024. We expect JV to report a loss of Rs1.3bn/Rs1bn/Rs500mn in FY21/22/23.**

**We continue to maintain our positive stance on VOLT given 1) leadership position in high potential RAC segment 2) balance sheet comfort (Rs15bn net cash) and 3) sustained order wins in MEP segment. We estimate 16.6% EPS CAGR over FY20-23. Maintain Accumulate with SOTP based target price of Rs660/- (valuing UCP business at 32x Sept-22 EPS).**

**Sales declined by 51.1% to Rs13bn; Adj PAT down by 61%:** Revenues declined by 51.1% YoY to Rs13bn. Gross margins expanded by 460bps to 30%. EBITDA declined by 77.1% to Rs668mn. Unabsorbed costs due to no activity during lockdown led to 580bps decline in margins to 5.1%. Aided by 55.8% increase in other income to Rs674mn arrested PBT decline to 63% at Rs1.2bn. Lower tax outlay (21.6% vs 28.4%) and Rs117mn as share of loss from JV/Associates (vs214mn loss), limited adj PAT decline to 61% YoY to Rs812mn

**UCP segment margins at 15.5%; EMPS reports EBIT loss:** UCP segment revenues/EBIT declined by 59.6%/52.3% YoY to Rs7.1bn/ Rs1.1bn, while margins expanded by 240bps YoY to 15.5%. EMPS segment revenues declined by 37.1% to Rs5.2bn, Reported EBIT loss of Rs393mn vs Rs656mn profit, while margins came in at -7.6% vs 8%. Products & services segment revenues/EBIT declined by 35.6%/17.8% to Rs476mn/Rs197mn, while expanded by 890bps to 41.3%.

**Concall Takeaways: 1) RAC industry (secondary) de-grew by 49% in 1Q21 2) Voltas reported 45% decline in 1Q21. Market share at 26.2% 3) Air Coolers de-grew by 70%. 4) Channel inventory stands at 40 days (above normal) 5) Pace of execution in EMPS remains slow. Will take 2-3 quarters to bounce back 6) Electro-mechanical Projects (EMPS) order book at Rs77bn – up 61% YoY (Domestic – Rs48bn, International –Rs29bn). 7) Voltbek: Demand for washing machine, dishwashers, microwaves & direct cool-refrigerators remains strong.**

**Exhibit 1: Q1FY21 Result Overview (Rs m): Sales declined by 51.1% to Rs13bn; Adj. PAT declined by 61% to Rs812mn**

Y/e March	Q1FY21	Q1FY20	YoY gr.	Q4FY20	FY21E	FY20	YoY gr.
<b>Net Sales</b>	<b>12,969</b>	<b>26,540</b>	<b>-51.1%</b>	<b>20,896</b>	<b>73,861</b>	<b>76,581</b>	<b>-3.6%</b>
<b>Expenditure</b>							
Operating & Manufacturing Expenses	9,082	19,802	-54.1%	14,912	52,811	55,549	-4.9%
<i>% of Net Sales</i>	<i>70.0%</i>	<i>74.6%</i>		<i>71.4%</i>	<i>71.5%</i>	<i>72.5%</i>	
Gross Profit	3,887	6,738	-42.3%	5,984	21,050	21,031	0.1%
<i>% of Net Sales</i>	<i>30.0%</i>	<i>25.4%</i>		<i>28.6%</i>	<i>28.5%</i>	<i>27.5%</i>	
Personnel Cost	1,574	1,632	-3.5%	1,776	6,795	6,717	1.2%
<i>% of Net Sales</i>	<i>12.1%</i>	<i>6.1%</i>		<i>8.5%</i>	<i>9.2%</i>	<i>8.8%</i>	
Other Expenses	1,646	2,194	-25.0%	2,288	7,386	7,448	-0.8%
<i>% of Net Sales</i>	<i>12.7%</i>	<i>8.3%</i>		<i>10.9%</i>	<i>10.0%</i>	<i>9.7%</i>	
Total Expenditure	12,302	23,628	-47.9%	18,976	66,992	69,714	-3.9%
<b>EBITDA</b>	<b>668</b>	<b>2,912</b>	<b>-77.1%</b>	<b>1,920</b>	<b>6,869</b>	<b>6,867</b>	<b>0.0%</b>
<i>Margin (%)</i>	<i>5.1%</i>	<i>11.0%</i>		<i>9.2%</i>	<i>9.3%</i>	<i>9.0%</i>	
Other income	674	433	55.8%	605	2,074	2,306	-10.1%
Depreciation	82	77	6.5%	82	346	320	8.4%
<b>EBIT</b>	<b>1,259</b>	<b>3,268</b>	<b>-61.5%</b>	<b>2,443</b>	<b>8,597</b>	<b>8,853</b>	<b>-2.9%</b>
Interest	67	44	53.4%	61	206	211	-2.4%
<b>PBT</b>	<b>1,192</b>	<b>3,224</b>	<b>-63.0%</b>	<b>2,382</b>	<b>8,391</b>	<b>8,642</b>	<b>-2.9%</b>
Total Taxes	258	917	-71.9%	572	2,140	2,233	-4.2%
<i>ETR (%)</i>	<i>21.6%</i>	<i>28.4%</i>		<i>24.0%</i>	<i>25.5%</i>	<i>25.8%</i>	
Share of JV/Associates	-117	-214	NA	-195	-650	-687	NA
Minority Interest	6	11	-45.6%	8	45	39	16.3%
<b>Adj. PAT</b>	<b>812</b>	<b>2,082</b>	<b>-61.0%</b>	<b>1,607</b>	<b>5,556</b>	<b>5,684</b>	<b>-2.2%</b>
Exceptional Items	0	-430	NA	-20	0	-512	NA
<b>Reported PAT</b>	<b>812</b>	<b>1,652</b>	<b>-50.9%</b>	<b>1,587</b>	<b>5,556</b>	<b>5,172</b>	<b>7.4%</b>

Source: Company, PL

**Exhibit 2: Segmental breakup (Rs m): UCP EBIT margins up 240bps YoY to 15.5%; EMPS EBIT reports EBIT loss**

Y/e March	Q1FY21	Q1FY20	YoY gr.	Q4FY20	FY21E	FY20	YoY gr.
<b>Revenues</b>							
Unitary Cooling Products	7,071	17,488	-59.6%	11,989	38,496	40,737	-5.5%
Electro-Mechanical Projects & Services	5,181	8,241	-37.1%	8,046	31,931	32,461	-1.6%
Engineering Products & Services	476	740	-35.6%	948	3,250	3,317	-2.0%
<b>EBIT</b>							
Unitary Cooling Products	1,096	2,298	-52.3%	1,754	4,620	5,121	-9.8%
<i>EBIT margin (%)</i>	<i>15.5%</i>	<i>13.1%</i>		<i>14.6%</i>	<i>12.0%</i>	<i>12.6%</i>	
Electro-Mechanical Projects & Services	-393	656	-159.9%	113	878	1,704	-48.5%
<i>EBIT margin (%)</i>	<i>-7.6%</i>	<i>8.0%</i>		<i>1.4%</i>	<i>2.8%</i>	<i>5.2%</i>	
Engineering Products & Services	197	239	-17.8%	269	1,073	993	8.0%
<i>EBIT margin (%)</i>	<i>41.3%</i>	<i>32.4%</i>		<i>28.4%</i>	<i>33.0%</i>	<i>29.9%</i>	

Source: Company, PL

**Exhibit 3: SOTP**

FY22	Basis	Multiple	EPS	Value (Rs)	Value %
UCP	P/E	32	14.9	477	72%
EMPS	P/E	10	8.5	85	13%
EPS	P/E	10	2.9	29	4%
Voltbek-JV	Investment	2	10	20	3%
Cash & Investment	Per share		49	49	7%
<b>TP</b>				<b>660</b>	<b>100%</b>

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>76,581</b>	<b>73,861</b>	<b>88,049</b>	<b>97,780</b>
YoY gr. (%)	7.5	(3.6)	19.2	11.1
Cost of Goods Sold	55,549	52,811	62,823	69,766
Gross Profit	21,031	21,050	25,226	28,014
Margin (%)	27.5	28.5	28.7	28.7
Employee Cost	6,717	6,795	7,484	8,214
Other Expenses	7,448	6,463	7,044	7,725
<b>EBITDA</b>	<b>6,867</b>	<b>6,869</b>	<b>9,289</b>	<b>10,511</b>
YoY gr. (%)	12.3	0.0	35.2	13.2
Margin (%)	9.0	9.3	10.6	10.8
Depreciation and Amortization	320	346	422	500
<b>EBIT</b>	<b>6,547</b>	<b>6,523</b>	<b>8,867</b>	<b>10,012</b>
Margin (%)	8.5	8.8	10.1	10.2
Net Interest	211	206	200	197
Other Income	2,306	2,074	2,342	2,703
<b>Profit Before Tax</b>	<b>8,642</b>	<b>8,391</b>	<b>11,008</b>	<b>12,518</b>
Margin (%)	11.3	11.4	12.5	12.8
Total Tax	2,233	2,140	2,807	3,192
Effective tax rate (%)	25.8	25.5	25.5	25.5
<b>Profit after tax</b>	<b>6,409</b>	<b>6,251</b>	<b>8,201</b>	<b>9,326</b>
Minority interest	39	45	50	55
Share Profit from Associate	(687)	(650)	(500)	(250)
<b>Adjusted PAT</b>	<b>5,684</b>	<b>5,556</b>	<b>7,651</b>	<b>9,021</b>
YoY gr. (%)	9.4	(2.2)	37.7	17.9
Margin (%)	7.4	7.5	8.7	9.2
Extra Ord. Income / (Exp)	(512)	-	-	-
<b>Reported PAT</b>	<b>5,172</b>	<b>5,556</b>	<b>7,651</b>	<b>9,021</b>
YoY gr. (%)	1.8	7.4	37.7	17.9
Margin (%)	6.8	7.5	8.7	9.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,172	5,556	7,651	9,021
<b>Equity Shares O/s (m)</b>	<b>331</b>	<b>331</b>	<b>331</b>	<b>331</b>
<b>EPS (Rs)</b>	<b>17.2</b>	<b>16.8</b>	<b>23.1</b>	<b>27.3</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>6,276</b>	<b>7,396</b>	<b>9,209</b>	<b>10,522</b>
Tangibles	5,588	6,664	8,426	9,689
Intangibles	688	733	783	833
<b>Acc: Dep / Amortization</b>	<b>3,195</b>	<b>3,434</b>	<b>3,801</b>	<b>4,239</b>
Tangibles	2,602	2,802	3,127	3,521
Intangibles	593	632	674	718
<b>Net fixed assets</b>	<b>3,081</b>	<b>3,963</b>	<b>5,408</b>	<b>6,283</b>
Tangibles	2,986	3,862	5,299	6,168
Intangibles	95	101	109	115
Capital Work In Progress	263	263	263	263
Goodwill	723	723	723	723
Non-Current Investments	19,206	17,090	19,371	21,124
Net Deferred tax assets	715	798	908	1,034
Other Non-Current Assets	1,775	1,688	1,755	1,797
<b>Current Assets</b>				
Investments	5,204	7,386	10,566	13,689
Inventories	14,689	11,130	12,061	12,859
Trade receivables	18,273	18,212	20,987	23,307
Cash & Bank Balance	3,084	4,166	3,671	4,191
Other Current Assets	13,159	14,366	16,143	17,505
<b>Total Assets</b>	<b>81,561</b>	<b>81,075</b>	<b>93,212</b>	<b>1,04,276</b>
<b>Equity</b>				
Equity Share Capital	331	331	331	331
Other Equity	42,471	46,432	52,512	59,449
<b>Total Network</b>	<b>42,802</b>	<b>46,763</b>	<b>52,843</b>	<b>59,780</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	934	849	925	978
Other non current liabilities	73	73	73	73
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	2,090	2,216	2,421	2,445
Trade payables	26,889	23,150	27,539	30,582
Other current liabilities	8,339	7,540	8,875	9,820
<b>Total Equity &amp; Liabilities</b>	<b>81,561</b>	<b>81,075</b>	<b>93,212</b>	<b>1,04,276</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	8,642	8,391	11,008	12,518
Add. Depreciation	320	346	422	500
Add. Interest	211	206	200	197
Less Financial Other Income	2,306	2,074	2,342	2,703
Add. Other	(1,577)	(736)	(678)	(442)
Op. profit before WC changes	7,596	8,206	10,953	12,772
Net Changes-WC	(911)	(1,899)	381	(614)
Direct tax	(2,061)	(2,140)	(2,807)	(3,192)
<b>Net cash from Op. activities</b>	<b>4,625</b>	<b>4,168</b>	<b>8,527</b>	<b>8,967</b>
Capital expenditures	(832)	(1,228)	(1,868)	(1,374)
Interest / Dividend Income	443	-	-	-
Others	(1,716)	(57)	(5,382)	(4,791)
<b>Net Cash from Invt. activities</b>	<b>(2,105)</b>	<b>(1,285)</b>	<b>(7,250)</b>	<b>(6,165)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,057)	-	-	-
Dividend paid	(1,627)	(1,592)	(1,571)	(2,084)
Interest paid	(253)	(206)	(200)	(197)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(2,937)</b>	<b>(1,798)</b>	<b>(1,771)</b>	<b>(2,281)</b>
<b>Net change in cash</b>	<b>(417)</b>	<b>1,085</b>	<b>(495)</b>	<b>520</b>
Free Cash Flow	3,792	2,940	6,659	7,593

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

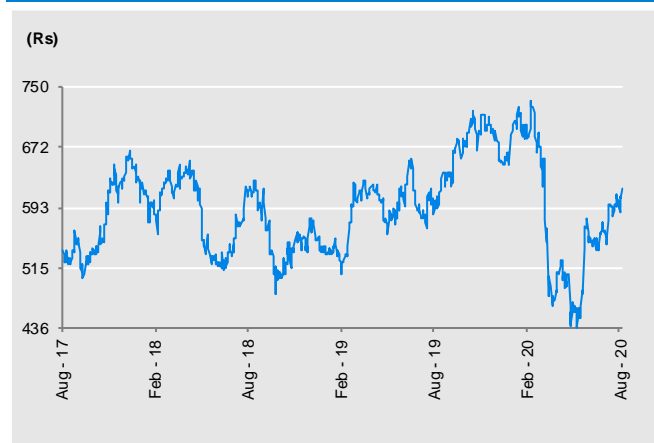
Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Net Revenue</b>	<b>14,219</b>	<b>14,925</b>	<b>20,896</b>	<b>12,969</b>
YoY gr. (%)	-	-	1.3	(51.1)
Raw Material Expenses	10,181	10,655	14,912	9,082
Gross Profit	4,039	4,270	5,984	3,887
Margin (%)	28.4	28.6	28.6	30.0
<b>EBITDA</b>	<b>1,059</b>	<b>976</b>	<b>1,920</b>	<b>668</b>
YoY gr. (%)	(2.5)	(15.7)	33.1	(77.1)
Margin (%)	7.4	6.5	9.2	5.1
Depreciation / Depletion	80	80	82	82
<b>EBIT</b>	<b>979</b>	<b>895</b>	<b>1,838</b>	<b>585</b>
Margin (%)	6.9	6.0	8.8	4.5
Net Interest	49	57	61	67
Other Income	726	543	605	674
<b>Profit before Tax</b>	<b>1,655</b>	<b>1,381</b>	<b>2,382</b>	<b>1,192</b>
Margin (%)	11.6	9.2	11.4	9.2
Total Tax	430	314	572	258
Effective tax rate (%)	26.0	22.7	24.0	21.6
<b>Profit after Tax</b>	<b>1,226</b>	<b>1,067</b>	<b>1,810</b>	<b>935</b>
Minority interest	9	10	8	6
Share Profit from Associates	(92)	(187)	(195)	(117)
<b>Adjusted PAT</b>	<b>1,126</b>	<b>869</b>	<b>1,607</b>	<b>812</b>
YoY gr. (%)	8.8	(6.2)	15.1	(61.0)
Margin (%)	7.9	5.8	7.7	6.3
Extra Ord. Income / (Exp)	(61)	-	(20)	-
<b>Reported PAT</b>	<b>1,064</b>	<b>869</b>	<b>1,587</b>	<b>812</b>
YoY gr. (%)	2.9	7.4	13.6	(50.9)
Margin (%)	7.5	5.8	7.6	6.3
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,064</b>	<b>869</b>	<b>1,587</b>	<b>812</b>
Avg. Shares O/s (m)	331	331	331	331
<b>EPS (Rs)</b>	<b>3.4</b>	<b>2.6</b>	<b>4.9</b>	<b>2.5</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	17.2	16.8	23.1	27.3
CEPS	18.2	17.8	24.4	28.8
BVPS	129.4	141.4	159.8	180.7
FCF	11.5	8.9	20.1	23.0
DPS	4.0	4.0	4.8	6.3
<b>Return Ratio(%)</b>				
RoCE	19.9	18.3	21.5	21.6
ROIC	13.4	13.7	17.4	18.3
RoE	13.5	12.4	15.4	16.0
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	29	31	23	21
<b>Valuation(x)</b>				
PER	36.6	37.5	27.2	23.1
P/B	4.9	4.4	3.9	3.5
P/CEPS	34.7	35.3	25.8	21.9
EV/EBITDA	29.4	28.9	21.1	18.3
EV/Sales	2.6	2.7	2.2	2.0
Dividend Yield (%)	0.6	0.6	0.8	1.0

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-20	Accumulate	600	575
2	01-Jun-20	Accumulate	564	539
3	16-Apr-20	BUY	1,244	888
4	13-Apr-20	Accumulate	553	509
5	10-Feb-20	Hold	694	682
6	03-Jan-20	Hold	662	664
7	13-Dec-19	Hold	662	695
8	07-Nov-19	Hold	662	667
9	03-Oct-19	Hold	626	674
10	19-Sep-19	Hold	609	631

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,829	1,717
2	Avenue Supermarts	Hold	2,055	2,163
3	Bajaj Electricals	BUY	500	436
4	Britannia Industries	BUY	4,316	3,785
5	Colgate Palmolive	Reduce	1,344	1,448
6	Crompton Greaves Consumer Electricals	BUY	288	247
7	Dabur India	Hold	469	494
8	Emami	BUY	419	257
9	Future Retail	Under Review	-	332
10	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
11	Havells India	Reduce	524	595
12	Hindustan Unilever	Hold	2,304	2,249
13	ITC	BUY	262	200
14	Jubilant FoodWorks	UR	-	1,746
15	Kansai Nerolac Paints	BUY	501	443
16	Marico	Hold	355	350
17	Nestle India	Reduce	14,089	17,095
18	Pidilite Industries	Hold	1,415	1,378
19	Titan Company	Hold	1,057	1,108
20	Voltas	Accumulate	600	575

**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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