

Voltas (VOLT IN)

Rating: HOLD | CMP: Rs999 | TP: Rs955

May 14, 2021

Q4FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	955		1,000	
Sales (Rs. m)	87,265	99,520	91,124	1,02,078
% Chng.	(4.2)	(2.5)		
EBITDA (Rs. m)	8,421	10,350	9,523	11,229
% Chng.	(11.6)	(7.8)		
EPS (Rs.)	21.0	26.7	24.1	28.5
% Chng.	(13.0)	(6.0)		

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	76,581	75,558	87,265	99,520
EBITDA (Rs. m)	6,867	6,414	8,421	10,350
Margin (%)	9.0	8.5	9.6	10.4
PAT (Rs. m)	5,684	5,251	6,935	8,847
EPS (Rs.)	17.2	15.9	21.0	26.7
Gr. (%)	9.4	(7.6)	32.1	27.6
DPS (Rs.)	4.1	5.0	6.5	8.0
Yield (%)	0.4	0.5	0.7	0.8
RoE (%)	13.5	11.3	13.2	15.1
RoCE (%)	19.9	16.4	18.5	20.3
EV/Sales (x)	4.2	4.3	3.7	3.2
EV/EBITDA (x)	47.2	50.8	38.7	30.9
PE (x)	58.2	62.9	47.7	37.4
P/BV (x)	7.7	6.6	6.0	5.3

Key Data

VOLT.BO | VOLT IN

52-W High / Low	Rs.1,132 / Rs.432
Sensex / Nifty	48,733 / 14,678
Market Cap	Rs.331bn/ \$ 4,512m
Shares Outstanding	331m
3M Avg. Daily Value	Rs.4231.67m

Shareholding Pattern (%)

Promoter's	30.30
Foreign	14.38
Domestic Institution	37.22
Public & Others	18.10
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.3	31.5	118.7
Relative	3.9	17.3	43.6

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Facing Covid-19 led heat wave

Quick Pointers:

- Inverter AC sales up 22%; Overall AC market share at 25.6% YTD Feb
- Demand environment uncertain, commodity inflation to impact margins
- Voltbek achieves 30% market share in dishwasher, 3%/ 2.5% in Refrigerator/ Washing machine

We cut FY22/23 earnings by 13%/ 6% given 1) dampened summer season sales due to Covid-19 and 2) commodity inflation led margin pressure. VOLT remained cautiously optimistic even as buoyant summer season demand has been impacted by 2nd wave of covid-19. Unprecedented increase in commodity cost & ocean freights are likely to put pressure on margins despite 2 tranches of price hikes (5%/3%). However, management remains confident of sustained market share gains in RAC (1% annually; currently at 25.6%) while maintaining margins at minimum of 12%-12.5% led by 1) wide distribution reach (19,000 touchpoints) 2) strong brand recall 3) supply chain efficiencies 4) calibrated price increases. MEP segment continues to show improvement while focusing on domestic infrastructure projects (urban infrastructure, Metro, Waste water management). Voltbek JV continues to witness consumer acceptance for its products led by strong distribution, technology with target to breakeven and 10% market share by FY25.

We continue to like VOLT for the longer term given 1) leadership position in high potential RAC segment 2) balance sheet comfort (Rs11bn net cash) and 3) Restructuring in B2B business to focus on B2C. We estimate 29.8% EPS CAGR over FY21-23. Maintain Hold rating with SOTP based target price of Rs955/- (valuing UCP business at 46x FY23 EPS)

Sales grew by 26.9% YoY to Rs26.5bn; Adj PAT up by 48%: Sales grew by 26.9% YoY to Rs26.5bn. Gross margins contracted by 310bps YoY to 25.6%. EBITDA grew by 72.2% to Rs3.3bn. Margins expanded by 330bps YoY to 12.5%, as a % of sales, op ex/ employee cost was down by 340bps/ 300bps YoY. PBT grew by 44% YoY to Rs3.4bn. Adj PAT grew by 48% YoY to Rs2.4bn. Share of loss of JV at Rs222mn vs loss of Rs195mn.

UCP sales up 19.8%, margins at 15.6%; EMPS margins at 8.4%: UCP segment revenues/EBIT grew by 19.8%/ 28.1% YoY to Rs14.4bn/ Rs2.2bn, while margins expanded by 100bps YoY to 15.6%. EMPS segment revenues/ EBIT grew by 37.2%/ 8.2x YoY to Rs11bn/ Rs929mn, while margins expanded by 700bps YoY to 8.4%. Products & services segment revenues/EBIT grew by 3%/ 25.5% to Rs977mn / Rs338mn, while margins expanded by 620bps to 34.6%.

Concall Takeaways: 1) RAC sales aided by channel stocking amidst fears of supply chain disruptions and price escalations. 2) UCP margins aided by i) product mix ii) cost efficiencies iii) lower inventory holding iv) calibrated price hikes and v). 3) Channel Inventory: In March was low at 30-35 days. Currently in excess of 45-50 days. 4) Total MEP carry forward order book at Rs66bn (Rs42bn domestic). 5) **Voltbek:** Dishwashers/ Refs/ WM market share at 30%/ 3%/ 2.5%. Selling through 6000 touchpoints. 6) Commercial Refs/ Air Coolers grew by 17%/ 37%

Exhibit 1: Q4FY21 Result Overview (Rs m): Sales grew by 26.9% YoY to Rs26.5bn; Adj PAT grew by 48% to Rs2.4bn

Y/e March	Q4FY21	Q4FY20	YoY gr. (%)	Q3FY21	FY21	FY20	YoY gr. (%)
Net Sales	26,517	20,896	26.9	19,946	75,558	76,581	(1.3)
Expenditure							
Operating & Manufacturing Expenses	19,735	14,912	32.3	15,041	55,785	55,549	0.4
<i>% of Net Sales</i>	<i>74.4</i>	<i>71.4</i>		<i>75.4</i>	<i>73.8</i>	<i>72.5</i>	
Gross Profit	6,782	5,984	13.3	4,905	19,773	21,031	(6.0)
<i>% of Net Sales</i>	<i>25.6</i>	<i>28.6</i>		<i>24.6</i>	<i>26.2</i>	<i>27.5</i>	
Personnel Cost	1,463	1,776	(17.6)	1,547	6,017	6,717	(10.4)
<i>% of Net Sales</i>	<i>5.5</i>	<i>8.5</i>		<i>7.8</i>	<i>8.0</i>	<i>8.8</i>	
Other Expenses	2,011	2,288	(12.1)	1,899	7,343	7,448	(1.4)
<i>% of Net Sales</i>	<i>7.6</i>	<i>10.9</i>		<i>9.5</i>	<i>9.7</i>	<i>9.7</i>	
Total Expenditure	23,209	18,976	22.3	18,488	69,144	69,714	(0.8)
EBITDA	3,307	1,920	72.2	1,459	6,414	6,867	(6.6)
<i>Margin (%)</i>	<i>12.5</i>	<i>9.2</i>		<i>7.3</i>	<i>8.5</i>	<i>9.0</i>	
Other income	316	605	(47.8)	516	1,889	2,306	(18.1)
Depreciation	89	82	8.2	84	339	320	6.0
EBIT	3,534	2,443	44.7	1,891	7,963	8,853	(10.0)
Interest	104	61	72.2	32	262	211	23.9
PBT	3,430	2,382	44.0	1,859	7,702	8,642	(10.9)
Total Taxes	821	572		372	1,804	2,233	
<i>ETR (%)</i>	<i>23.9</i>	<i>24.0</i>		<i>20.0</i>	<i>23.4</i>	<i>25.8</i>	
Share of JV/Associates	(222)	(195)		(201)	(610)	(687)	
Minority Interest	10	8		7	37	39	
Adj. PAT	2,377	1,607	48.0	1,279	5,251	5,684	(7.6)
Exceptional Items	-	(20)		-	-	(512)	
Reported PAT	2,377	1,587	49.8	1,279	5,251	5,172	1.5

Source: Company, PL

Exhibit 2: Segmental breakup (Rs m): UCP margins up 100bps YoY to 15.6%; EMPS margins up 700bps to 8.4%

Y/e March	Q4FY21	Q4FY20	YoY gr. (%)	Q3FY21	FY21	FY20	YoY gr. (%)
Revenues							
Unitary Cooling Products	14,367	11,989	19.8	8,396	35,550	40,737	(12.7)
Electro-Mechanical Projects & Services	11,038	8,046	37.2	10,167	35,664	32,461	9.9
Engineering Products & Services	977	948	3.0	1,209	3,595	3,317	8.4
EBIT							
Unitary Cooling Products	2,247	1,754	28.1	1,046	5,019	5,121	(2.0)
<i>EBIT margin (%)</i>	<i>15.6</i>	<i>14.6</i>		<i>12.5</i>	<i>14.1</i>	<i>12.6</i>	
Electro-Mechanical Projects & Services	929	113	722.4	322	1,088	1,704	(36.2)
<i>EBIT margin (%)</i>	<i>8.4</i>	<i>1.4</i>		<i>3.2</i>	<i>3.0</i>	<i>5.2</i>	
Engineering Products & Services	338	269	25.5	320	1,143	993	15.2
<i>EBIT margin (%)</i>	<i>34.6</i>	<i>28.4</i>		<i>26.5</i>	<i>31.8</i>	<i>29.9</i>	

Source: Company, PL

Exhibit 3: SOTP – Implied PE of 35.7 FY23 EPS

FY22	Basis	Multiple	EPS	Value (Rs)	Value %
UCP	P/E	46	17.0	782	82%
EMPS	P/E	12	7.3	88	9%
EPS	P/E	12	3.2	38	4%
Voltbek-JV	Investment	5	10	48	5%
TP				955	100%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	76,581	75,558	87,265	99,520
YoY gr. (%)	7.5	(1.3)	15.5	14.0
Cost of Goods Sold	55,549	55,785	63,267	71,655
Gross Profit	21,031	19,773	23,998	27,866
Margin (%)	27.5	26.2	27.5	28.0
Employee Cost	6,717	6,017	6,981	7,962
Other Expenses	7,448	6,285	7,287	8,111
EBITDA	6,867	6,414	8,421	10,350
YoY gr. (%)	12.3	(6.6)	31.3	22.9
Margin (%)	9.0	8.5	9.6	10.4
Depreciation and Amortization	320	339	371	442
EBIT	6,547	6,075	8,050	9,908
Margin (%)	8.5	8.0	9.2	10.0
Net Interest	211	262	221	204
Other Income	2,306	1,889	2,145	2,492
Profit Before Tax	8,642	7,702	9,974	12,196
Margin (%)	11.3	10.2	11.4	12.3
Total Tax	2,233	1,804	2,493	3,049
Effective tax rate (%)	25.8	23.4	25.0	25.0
Profit after tax	6,409	5,898	7,480	9,147
Minority interest	39	37	45	50
Share Profit from Associate	(687)	(610)	(500)	(250)
Adjusted PAT	5,684	5,251	6,935	8,847
YoY gr. (%)	9.4	(7.6)	32.1	27.6
Margin (%)	7.4	7.0	7.9	8.9
Extra Ord. Income / (Exp)	(512)	-	-	-
Reported PAT	5,172	5,251	6,935	8,847
YoY gr. (%)	1.8	1.5	32.1	27.6
Margin (%)	6.8	7.0	7.9	8.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,172	5,251	6,935	8,847
Equity Shares O/s (m)	331	331	331	331
EPS (Rs)	17.2	15.9	21.0	26.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	6,276	6,690	8,306	9,475
Tangibles	5,588	5,975	7,541	8,660
Intangibles	688	715	765	815
Acc: Dep / Amortization	3,195	3,534	3,797	4,185
Tangibles	2,602	2,903	3,126	3,470
Intangibles	593	630	671	714
Net fixed assets	3,081	3,157	4,509	5,290
Tangibles	2,986	3,072	4,415	5,190
Intangibles	95	85	94	100
Capital Work In Progress	263	88	88	88
Goodwill	723	723	723	723
Non-Current Investments	19,206	28,934	31,907	31,832
Net Deferred tax assets	715	558	608	669
Other Non-Current Assets	1,775	1,202	1,039	1,084
Current Assets				
Investments	5,204	2,493	4,363	9,952
Inventories	14,689	12,796	14,345	14,996
Trade receivables	18,273	18,009	20,800	23,721
Cash & Bank Balance	3,084	4,588	3,078	3,611
Other Current Assets	13,159	12,897	13,471	14,004
Total Assets	81,561	86,555	96,000	1,07,086
Equity				
Equity Share Capital	331	331	331	331
Other Equity	42,471	49,603	54,882	61,579
Total Network	42,802	49,933	55,213	61,910
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	875	899	960	1,095
Other non current liabilities	73	70	70	70
Current Liabilities				
ST Debt / Current of LT Debt	2,090	2,512	2,618	2,538
Trade payables	26,889	24,645	27,734	31,410
Other current liabilities	8,160	7,884	8,788	9,388
Total Equity & Liabilities	81,561	86,555	96,000	1,07,086

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	8,642	7,702	9,974	12,196
Add. Depreciation	320	339	371	442
Add. Interest	211	262	221	204
Less Financial Other Income	2,306	1,889	2,145	2,492
Add. Other	(1,577)	(469)	(453)	(309)
Op. profit before WC changes	7,596	7,834	10,113	12,533
Net Changes-WC	(911)	(1,580)	(772)	43
Direct tax	(2,061)	(693)	(2,493)	(3,049)
Net cash from Op. activities	4,625	5,561	6,847	9,527
Capital expenditures	(832)	(187)	(1,723)	(1,223)
Interest / Dividend Income	443	323	-	-
Others	(1,716)	(2,695)	(4,757)	(5,417)
Net Cash from Inv. activities	(2,105)	(2,559)	(6,480)	(6,640)
Issue of share cap. / premium	-	(15)	-	-
Debt changes	(1,057)	425	-	-
Dividend paid	(1,627)	(1,358)	(1,654)	(2,150)
Interest paid	(253)	(267)	(221)	(204)
Others	-	-	-	-
Net cash from Fin. activities	(2,937)	(1,215)	(1,875)	(2,354)
Net change in cash	(417)	1,787	(1,508)	533
Free Cash Flow	3,792	5,375	5,124	8,304

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	17.2	15.9	21.0	26.7
CEPS	18.2	16.9	22.1	28.1
BVPS	129.4	151.0	166.9	187.2
FCF	11.5	16.2	15.5	25.1
DPS	4.1	5.0	6.5	8.0
Return Ratio(%)				
RoCE	19.9	16.4	18.5	20.3
ROIC	13.4	11.2	12.7	15.6
RoE	13.5	11.3	13.2	15.1
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	29	30	31	27
Valuation(x)				
PER	58.2	62.9	47.7	37.4
P/B	7.7	6.6	6.0	5.3
P/CEPS	55.1	59.1	45.2	35.6
EV/EBITDA	47.2	50.8	38.7	30.9
EV/Sales	4.2	4.3	3.7	3.2
Dividend Yield (%)	0.4	0.5	0.7	0.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Net Revenue	12,969	16,125	19,946	26,517
YoY gr. (%)	(51.1)	13.4	33.6	26.9
Raw Material Expenses	9,082	11,926	15,041	19,735
Gross Profit	3,887	4,199	4,905	6,782
Margin (%)	30.0	26.0	24.6	25.6
EBITDA	668	980	1,459	3,307
YoY gr. (%)	(77.1)	(7.5)	49.6	72.2
Margin (%)	5.1	6.1	7.3	12.5
Depreciation / Depletion	82	84	84	89
EBIT	585	896	1,375	3,219
Margin (%)	4.5	5.6	6.9	12.1
Net Interest	67	58	32	104
Other Income	674	383	516	316
Profit before Tax	1,192	1,221	1,859	3,430
Margin (%)	9.2	7.6	9.3	12.9
Total Tax	258	353	372	821
Effective tax rate (%)	21.6	28.9	20.0	23.9
Profit after Tax	935	867	1,487	2,609
Minority interest	6	13	7	10
Share Profit from Associates	(117)	(71)	(201)	(222)
Adjusted PAT	812	784	1,279	2,377
YoY gr. (%)	(61.0)	(30.4)	47.2	48.0
Margin (%)	6.3	4.9	6.4	9.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	812	784	1,279	2,377
YoY gr. (%)	(50.9)	(26.4)	47.2	49.8
Margin (%)	6.3	4.9	6.4	9.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	812	784	1,279	2,377
Avg. Shares O/s (m)	331	331	331	331
EPS (Rs)	2.5	2.4	3.9	7.2

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Apr-21	Hold	1,000	977
2	15-Feb-21	Hold	1,000	1,058
3	08-Jan-21	UR	-	882
4	09-Nov-20	Hold	767	801
5	06-Oct-20	Accumulate	702	672
6	17-Aug-20	Accumulate	660	629
7	07-Jul-20	Accumulate	600	575
8	01-Jun-20	Accumulate	564	539

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,136	2,556
2	Avenue Supermarts	BUY	3,360	2,896
3	Bajaj Electricals	BUY	1,033	991
4	Britannia Industries	Accumulate	3,755	3,541
5	Burger King India	BUY	221	145
6	Colgate Palmolive	Hold	1,685	1,551
7	Crompton Greaves Consumer Electricals	BUY	447	374
8	Dabur India	Hold	531	535
9	Emami	BUY	568	507
10	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
11	Havells India	Hold	1,128	1,026
12	Hindustan Unilever	BUY	2,562	2,408
13	ITC	BUY	248	214
14	Jubilant FoodWorks	Accumulate	3,279	2,862
15	Kansai Nerolac Paints	Accumulate	620	566
16	Marico	Accumulate	452	410
17	Nestle India	Accumulate	18,450	17,096
18	Pidilite Industries	Hold	1,819	1,880
19	Polycab India	BUY	1,480	1,376
20	Titan Company	Accumulate	1,663	1,507
21	Voltas	Hold	1,000	977
22	Westlife Development	BUY	572	420

PL's Recommendation Nomenclature (Absolute Performance)

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

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