

Strong performance of UCP segment...

Voltas' unitary cooling product (UCP) segment performance was better than our estimate both in terms of topline, profitability. The company clocked volume growth of ~11% in the room AC division, better than our estimate of -10%. Air cooler sales also came in ahead of our estimate with volume growth of 28% YoY. Better product mix and various cost optimisation measures help drive segment EBIT margin up 230 bps YoY to 11%. On the other hand, timely closure of some overseas projects help drive the electro mechanical project and services (EMPS) segment revenue growth of 15% YoY in Q2FY21. However, cost overruns of some old projects led to a decline in EBIT margin by ~450 bps YoY to 2.5%. According to the management, the domestic projects business witnessed improvement post easing of lockdown. We believe execution of domestic and international project business is likely to pick up with opening up of the economy. We also believe normalised RAC inventory at dealer level and pent up demand from metro, tier 1 cities would further help in demand recovery of room ACs in H2FY21. While we maintain our positive stance on Voltas due to its robust balance sheet and well distributed dealer network, we believe the recent run up in the stock captures all near term positives. We introduce our FY23 estimates.

Revenue growth amid challenging scenario

Voltas's consolidated revenue growth of ~13% YoY was much ahead of our estimates led by strong revenue growth in all three segments. The unitary cooling product (UCP), EMPS and engineering products & services segments reported revenue growth of ~9%, ~15% and ~16%, respectively in Q2FY21. Despite a weak season, the strong UCP performance was supported by its robust supply chain management and pan-India distribution network (~19,000 touch points) resulting in market share gains (YTD market share of 26.4%) in Q2FY21.

UCP segment leads strong margin recovery

While UCP segment EBIT margin was up 223 bps YoY to 11%, EMPS segment margin was largely hit by cost overruns of old projects. As a result, margin fell ~450 bps YoY to 2.5%. We believe while the UCP segment margin is likely to sustain at ~11-12%, the projects segment margin would improve with better execution rate after opening up of economy.

Valuation & Outlook

We introduce our FY23 estimates with revenue, earning CAGR of ~9% and ~24%, respectively. We believe at the CMP all near term positives are priced in. Hence, we downgrade our rating from BUY to **HOLD**. We roll over our valuation on FY23, and ascribe PE multiple 8x, 8x and 36x to EMPS, EPS and UCP segment, respectively with a revised target price of ₹ 845/share.

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

- UCP segment growth led by ~11% volume growth in RAC segment
- Market share gain in RAC segment. Strong EBIT margin of UCP segment led by change in product mix, various cost control measure
- EMPS segment performance likely to improve further with execution of high margin orders
- Revise our rating from BUY to HOLD with revised target price of ₹ 845/share

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (20-23E)
Net Sales	7124.1	7658.1	6988.3	8820.5	9818.2	8.6
EBITDA	611.7	686.7	464.7	859.8	1047.1	15.1
EBITDA Margin (%)	8.6	9.0	6.6	9.7	10.7	
Net Profit	513.9	521.0	406.9	746.9	982.7	23.6
EPS (₹)	15.5	15.8	12.3	22.6	29.7	
P/E(x)	49.3	48.6	62.3	33.9	25.8	
Price/Book (x)	6.2	5.9	5.7	5.2	4.4	
Mcap/Sales (x)	3.6	3.3	3.6	2.9	2.6	
RoE (%)	12.7	13.0	9.1	15.3	17.1	
RoCE(%)	17.3	19.5	12.8	20.1	21.1	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Revenue	1,612.5	1,260.6	1,421.9	13.4	1,296.9	24.3	Better-than-expected recovery in all three business
Other Income	38.3	61.7	72.6	-47.3	67.4	-43.2	Lower investment income drags other income
Raw Material Exp	869.8	555.6	710.2	22.5	534.8	62.7	
Employee Exp	143.2	143.2	157.6	-9.1	157.4	-9.0	
Purchase of Traded goods	322.8	321.0	307.9	4.8	373.5	-13.6	
Other Expenses	171.9	148.2	131.1	31.1	156.1	10.1	
EBITDA	98.0	86.9	105.9	-7.5	66.7	46.8	
EBITDA Margin (%)	6.1	6.9	7.4	-137 bps	5.1	93 bps	Sharp increase in margin of UCP segment (up 223 bps YoY) completely offset by decline in EBIT margin of EMPS segment mainly due to cost overruns of some overseas projects
Depreciation	8.4	9.6	8.0	4.6	8.2	2.1	
Interest	5.8	6.6	4.9	17.6	6.7	-13.5	
Exceptional items	0.0	0.0	6.1		0.0		
Profit/(loss) from Asso & JVs	(7.1)	(11.4)	(9.2)		(11.7)		Loss from joint venture and associates companies, which includes losses from Voltas-Beko
PBT	115.0	121.1	150.3	-23.5	107.5	6.9	
Total Tax	35.3	30.4	43.0	-17.8	25.8	37.2	
PAT	79.7	90.7	107.3	-25.7	81.8	-2.6	Lower EBITDA margin and decline in other income drags PAT
Key Metrics							
EMPS	928	690	809	14.6	518	79.1	Higher revenue largely attributable to international business wherein better labour availability and government support to access sites help complete project
EPS	93	72	80	16.2	48	4.1	Focus on after sales service, additional maintenance contracts in Mozambique in mining and construction equipment drive sales
UCP	571.7	473	526	8.8	707	-19.2	Swift recovery post ease in lockdown restrictions help drive volume growth of room AC by 11% YoY

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23 Introduced	Comments
	Old	New	% Chg	Old	New	% Chg		
Revenue	6,003.9	6,988.3	16.4	8,317.6	8,820.5	6.0	9,818.2	Revise our estimate factoring in current quarter performance. We believe recovery will start from H2FY21E onwards
EBITDA	394.2	464.7	17.9	857.6	859.8	0.3	1047.1	
EBITDA Mar(%)	6.6	6.6	5bps	10.3	9.7	-55bps	10.7	Better operating leverage in project business and intact margin profile of UCP segment to help drive overall EBITDA margin, going forward
PAT	353.7	406.9	15.0	751.4	746.9	(0.6)	982.7	
EPS (₹)	10.7	12.3	15.0	22.7	22.6	(0.5)	29.7	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current		FY23E		Earlier		Comments
	FY20	FY21E	FY22E	Introduced	FY21E	FY22E	
EMPS	-10.3	-1.1	15.9	8.2	-21.3	43.1	We build in 7% revenue CAGR in FY20-23E supported by pick-up in infrastructure activities
EPS	6.4	-3.8	11.6	8.0	-10.2	11.8	Improved traction from after sales service to help drive segment revenue
UCP	29.1	-16.8	38.7	14.0	-23.8	38.2	We model UCP segment revenue CAGR of ~10% for FY20-23E led by same amount of volume CAGR in RAC segment

Source: Company, ICICI Direct Research

Conference call highlights

Unitary cooling products

- The AC industry reported a recovery of ~40% in H1FY21 while Voltas' recovery was higher at ~43%
- Volume growth in RAC, commercial refrigeration and air cooler segment came in at 11%, 20% and 28%, respectively. Volume in RAC was further driven by 36% growth in inverter AC
- The company gained market share with its YTD market share at 26.4% in Q2FY21 vs. 26.2% in Q1FY21
- It reached the No. 2 spot in the air cooler business with July exit market share of 10.8%. Growth was largely driven by additions of distributors
- Voltas started building inventory in anticipation of strong demand in the upcoming summer
- Despite multiple problems amid lockdowns, Voltas Beko stepped up production of refrigerators to 35000 units at its Sanand facility
- Production of frost free refrigerators and automatic top/front load washing machines and dishwashers will also commence in a phased manner
- Voltas Beko currently has ~ 6000 touch points, which will be scaled up, going forward

Electro-mechanical projects & services

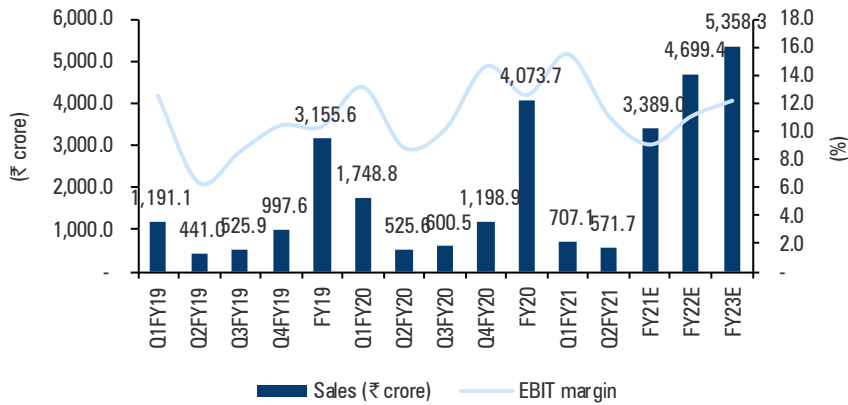
- EMPS segment outstanding order book was at ₹ 6852 crore
- The company's international order book was at ₹ 4529 crore while its domestic order book was at ₹ 2323 crore
- Covid-19 has not had much of an impact on international project business as construction activity is statutorily considered an essential service in the Middle East. Nevertheless, the pace of execution has significantly reduced and certain mega events like Expo 2020 have been postponed. The cost overruns of some old orders dragged the overall segment margin
- The company has won new order worth ₹ 273 crore in Q2FY21
- The domestic order represents a healthy mix of water, metro, airport, solar and general MEP projects

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

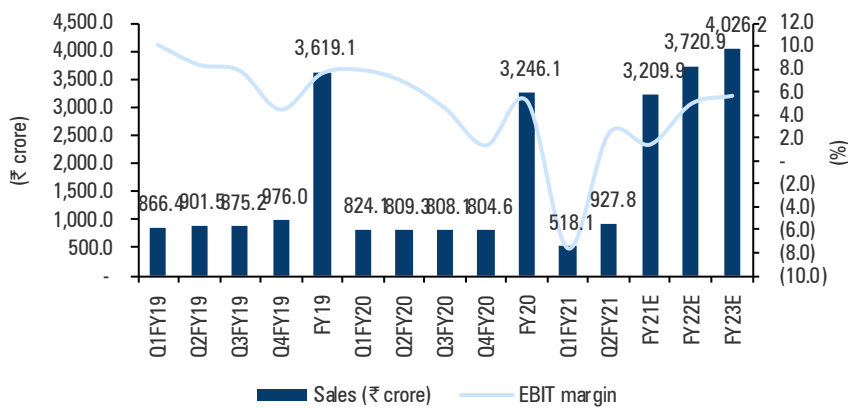
Financial story in charts

Exhibit 4: UCP segment sales and margin trend



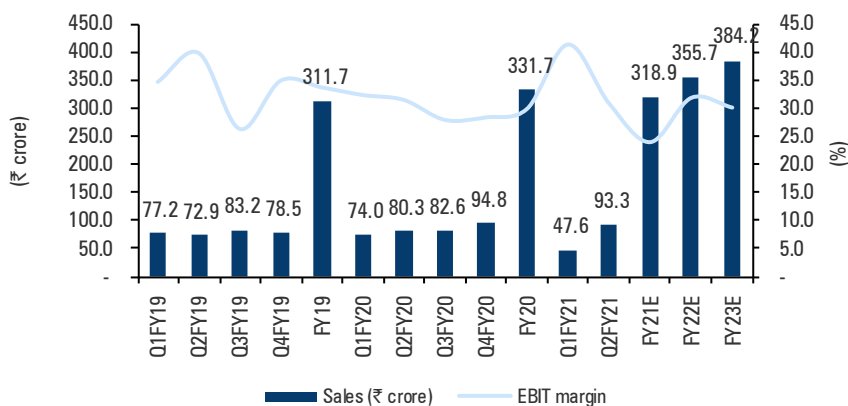
Source: Company, ICICI Direct Research

Exhibit 5: EMPS segment sales and margin trend



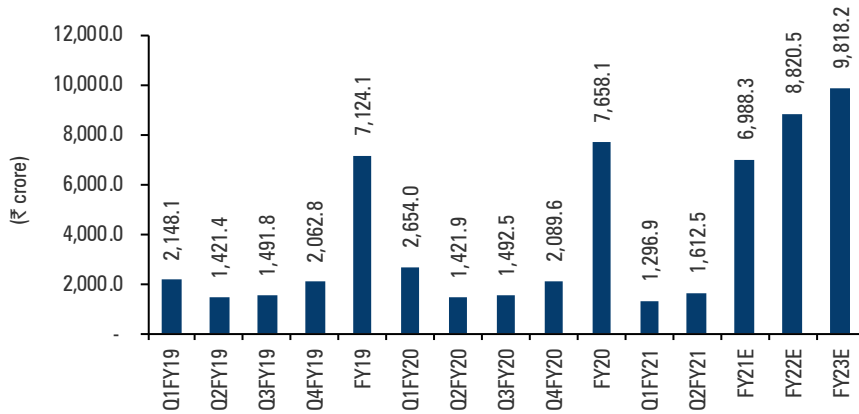
Source: Company, ICICI Direct Research

Exhibit 6: EPS segment sales and margin trend



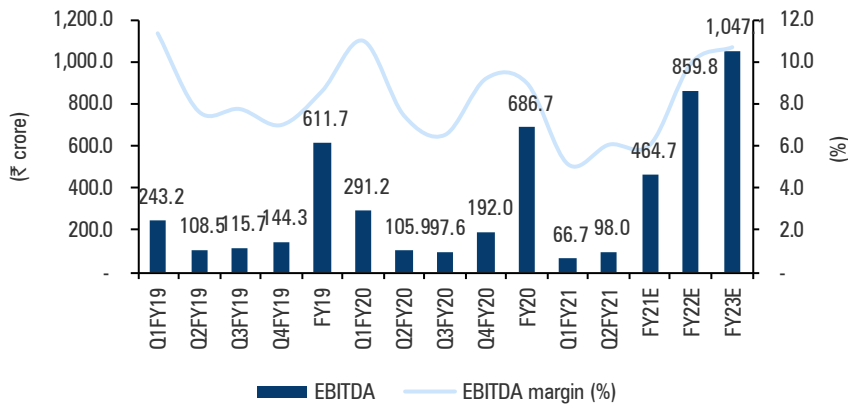
Source: Company, ICICI Direct Research

Exhibit 7: Consolidated revenue trend



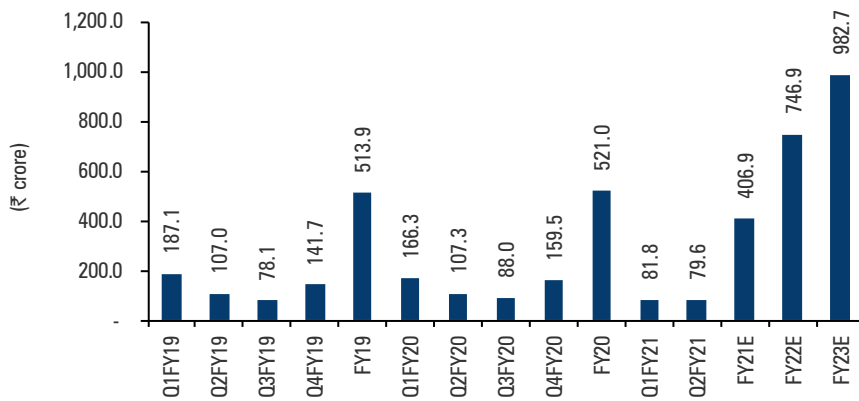
Source: Company, ICICI Direct Research

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



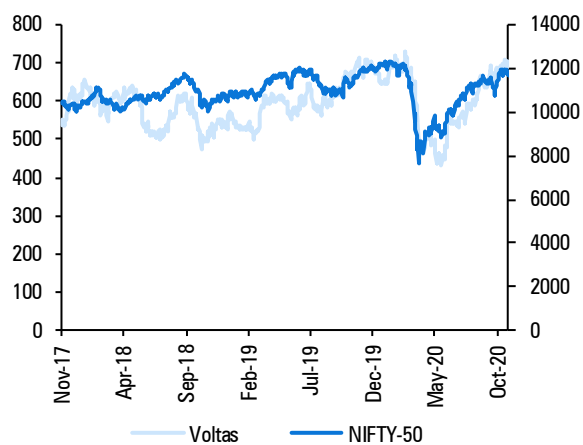
Source: Company, ICICI Direct Research

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 %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	30.3	30.3	30.3	30.3	30.3
FII	10.2	10.9	9.9	10.7	12.4
DII	39.0	38.6	40.0	39.3	39.3
Others	20.5	20.2	19.8	19.7	18.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Net Sales	7,658.1	6,988.3	8,820.5	9,818.2	
Expenses					
Raw Material Expenses	2,986.7	2,806.3	3,319.3	3,690.2	
(inc)/Dec in stocks	-	-	-	-	
Purchase of traded goods	2,568.3	2,330.3	2,923.2	3,214.9	
Employee Expenses	671.7	622.8	763.4	819.3	
Other expenses	672.8	723.6	870.2	950.1	
Total Operating Expenditure	6,971.4	6,523.6	7,960.7	8,771.1	
EBITDA	686.7	464.7	859.8	1,047.1	
Other Income	230.6	172.9	219.4	273.5	
Interest	21.1	26.0	15.8	8.8	
PBDT	896.2	611.6	1,063.3	1,311.8	
Depreciation	32.0	34.9	44.1	49.1	
PBT before Exceptional Items	864.2	576.6	1,019.2	1,262.7	
Less: Exceptional Items	51.2	-	-	-	
Total Tax	223.3	141.7	248.7	328.3	
PAT before MI	521.0	406.9	747.1	985.0	
PAT after MI	521.0	406.9	747.1	985.0	
Profit from Associates	(68.7)	(28.0)	(23.5)	50.6	
PAT	521.0	406.9	747.1	985.0	

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Equity Capital	33.1	33.1	33.1	33.1	
Reserve and Surplus	4,247.1	4,414.3	4,845.3	5,598.2	
Total Shareholders funds	4,280.2	4,447.4	4,878.4	5,631.2	
Total Debt	217.9	225.9	225.9	125.9	
Deferred Tax Liability	1.4	1.4	1.4	1.4	
Other Non Current Liabilities	7.3	7.3	7.3	7.3	
Total Liability	4,543.4	4,718.6	5,149.6	5,802.5	
Net Block	308.1	323.1	379.0	429.9	
Total Fixed Assets	334.4	349.4	405.3	456.2	
Other Investments	1,822.9	1,872.9	1,772.9	1,872.9	
Goodwill on Consolidation	72.3	72.3	72.3	72.3	
Deferred Tax Assets	72.9	72.9	72.9	72.9	
Long term loans and advances	177.5	161.9	204.4	227.5	
Other non current assets	91.1	83.2	105.0	116.8	
Liquid Investments	520.4	470.4	420.4	370.4	
Inventory	1,468.9	1,531.7	1,933.3	2,017.4	
Debtors	1,833.6	1,818.9	2,295.7	2,555.4	
Cash	308.5	82.5	188.7	565.9	
Loans and Advances	2.3	5.3	6.6	7.4	
Other Current Assets	1,451.4	1,324.5	1,671.7	1,860.8	
Net Current Assets	1,452.0	1,635.8	2,096.7	2,613.8	
Total Assets	4,543.3	4,718.6	5,149.7	5,802.6	

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	521.0	406.9	747.1	985.0	
Depreciation	32.0	34.9	44.1	49.1	
Cash Flow before working capital ch	574.1	467.8	807.0	1,042.9	
Net Increase in Current Assets	(635.7)	76.0	(1,227.1)	(533.7)	
Net Increase in Current Liabilities	557.5	(485.8)	872.4	393.9	
Net cash flow from operating Acti	495.8	58.0	452.3	903.1	
Long term loans and advances	(21.5)	15.5	(42.5)	(23.1)	
Other non current assets	(17.0)	8.0	(21.8)	(11.9)	
Liquid Investments	42.6	-	150.0	(50.0)	
(Purchase)/Sale of Fixed Assets	(79.9)	(50.0)	(100.0)	(100.0)	
Others	36.2	-	-	-	
Net Cash flow from Investing Acti	(39.6)	(26.5)	(14.3)	(185.0)	
Proceeds/(Repament) loans	(96.8)	8.0	-	(100.0)	
Total Outflow on account of dividend	(154.8)	(77.4)	(116.1)	(232.2)	
Others	(217.2)	(188.3)	(215.8)	(8.8)	
Net Cash flow from Financing Acti	(468.8)	(257.7)	(331.9)	(341.0)	
Net Cash flow	(12.6)	(226.1)	106.1	377.1	
Cash and Cash Equivalent at the beç	321.0	308.5	82.5	188.7	
Cash	308.5	82.5	188.7	565.9	

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per Share Data					
EPS	15.8	12.3	22.6	29.8	
Cash EPS	16.7	13.4	23.9	31.3	
BV	129.4	134.5	147.5	170.3	
DPS	4.7	2.3	3.5	7.0	
Operating Ratios					
EBITDA margin	9.0	6.6	9.7	10.7	
PAT margin	7.3	5.8	8.5	10.0	
Return Ratios					
RoE	13.0	9.1	15.3	17.5	
RoCE	19.5	12.8	20.1	21.9	
RoIC	16.5	9.8	16.8	19.1	
Valuation Ratios					
EV / EBITDA	36.0	53.8	29.0	23.4	
P/E	48.6	62.3	33.9	25.7	
EV / Net Sales	3.2	3.6	2.8	2.5	
Sales / Equity	1.8	1.6	1.8	1.7	
Market Cap / Sales	3.3	3.6	2.9	2.6	
Price to Book Value	5.9	5.7	5.2	4.5	
Turnover Ratios					
Asset turnover	1.7	1.5	1.7	1.7	
Debtors Days	87.4	95.0	95.0	95.0	
Creditors Days	128.2	120.0	122.0	120.0	
Solvency Ratios					
Debt / Equity	0.1	0.1	0.0	0.0	
Current Ratio	1.6	1.9	1.8	1.8	
Quick Ratio	1.1	1.3	1.2	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)	2,225	2,440	Buy	2,13,378	29.0	28.9	35.9	76.8	77.1	62.0	47.9	45.8	37.4	27.4	24.2	27.3	30.5	28.1	31.7
Astral Polytechnik (ASTPOL)	1,200	1,260	Hold	18,079	16.6	15.0	23.3	72.4	80.2	51.6	36.1	39.3	27.8	20.5	17.0	23.1	16.6	13.1	17.9
Amber Enterprises (AMBEN)	2,186	2,600	Buy	6,874	52.2	23.7	75.1	41.9	92.1	29.1	22.9	33.2	14.7	14.3	7.2	17.0	14.5	5.3	14.3
Bajaj Electricals (BAJELE)	496	585	Buy	5,639	-0.9	11.8	17.1	NM	41.9	29.1	31.4	22.1	16.9	8.0	10.8	14.7	-0.8	8.3	13.0
Berger Paints (BERPAI)	653	580	Hold	63,419	6.8	6.1	9.7	96.7	106.6	67.1	51.7	55.0	37.8	26.6	22.0	31.3	24.7	19.7	27.1
EPL (ESSPRO)	252	270	Buy	7,951	6.7	7.0	9.5	37.6	35.9	26.6	13.6	12.4	10.5	15.6	16.5	19.4	14.3	13.9	16.3
Havells India (HAVIND)	824	835	Buy	51,409	11.7	14.1	16.4	70.2	58.4	50.2	42.5	32.7	28.4	19.6	21.5	24.4	17.0	18.5	20.0
Kansai Nerolac (KANNER)	527	605	Buy	28,401	9.9	10.3	12.0	53.0	51.3	43.8	35.6	33.2	29.3	17.6	18.4	19.6	14.1	14.3	15.1
Pidilite Industries (PIDIND)	1,595	1,850	Buy	80,994	22.1	22.7	27.8	72.2	70.4	57.4	50.6	49.7	40.9	31.0	28.2	30.9	26.1	23.2	24.9
Polycab India (POLI)	928	1,040	Buy	13,816	51.4	58.4	62.9	18.0	15.9	14.8	11.4	11.2	9.5	26.5	21.4	23.2	20.0	18.2	18.0
Supreme Indus (SUPIND)	1,436	1,695	Buy	18,241	36.8	44.9	47.8	39.0	32.0	30.0	22.5	20.1	19.4	22.5	23.3	22.5	20.7	22.3	21.2
Symphony (SYMLIM)	846	960	Buy	5,918	26.0	20.5	32.0	32.5	41.2	26.4	26.7	33.9	21.0	28.8	23.5	37.0	29.0	23.0	35.1
Time Techno (TIMTEC)	39	47	Hold	882	7.5	3.4	9.4	5.2	11.5	4.2	3.3	4.5	3.0	12.5	7.4	13.5	9.3	4.3	11.0
V-Guard Ind (VGUARD)	168	210	Buy	7,195	4.3	3.7	5.3	38.9	45.4	31.7	28.2	31.0	22.9	24.8	20.1	25.2	18.6	15.1	19.4
Voltas Ltd (VOLTAS)	766	845	Hold	25,334	15.8	12.3	22.6	48.6	62.3	33.9	36.0	53.8	29.0	19.5	12.8	20.1	13.0	9.1	15.3

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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