

Beat on all fronts...

Voltas' Q3FY21 performance was much ahead of our expectation. Unitary cooling product (UCP) division reported strong volume growth of 40% YoY led by pent up demand and inventory building at dealer's level amid fear of price increase. Inverter AC sales increased sharply by 75% YoY in Q3FY21, and are now 60% of total AC sales (vs. 49% in Q3FY20). The company has also initiated a price hike in the range of 5-6% largely to offset input price pressure (the impact will be visible in Q4FY21). The EBIT margin of the division has also increased ~236 bps YoY to 12.5% supported by better gross margin (use of low cost of inventory) and favourable product mix. According to management, the room air conditioner (RAC) performance is likely to remain strong in Q4FY21 as well due to continuous inventory build-up at dealers' level (due to upcoming season) and a favourable base. We believe changing lifestyle (rising work from home culture) along with demand staying intact in semi urban and rural India is likely to drive UCP segment sales CAGR of ~15% for Voltas in FY20-23E.

Strong recovery in all three segment

Consolidated revenue growth of ~33% YoY was much ahead of our estimates led by 40%, 26% and 46% UCP, electro mechanical project and services (EMPS) and engineering products & services division (EPS), respectively. The strong revenue growth in the EMPS segment was largely driven by execution of international orders amid improved labour availability and access to project sites. Further, in the process of restructuring its business under B2B and B2C categories separately, the board has approved transfer of its domestic project business to its wholly owned subsidiary Universal MEP Project & Engineering Services (UMPES) on a slump sales basis. The transaction amount will be in the range of ₹ 1000-1200 crore and will be completed by September 2021.

Low profitability in EMPS division restricts overall margin gain

The consolidated EBITDA margin at ~8% was up 80 bps YoY in Q3FY21. While UCP EBIT margin was up 235 bps YoY to 12.5%, EMPS margin was down ~150 bps YoY to 3.2%, hit by cost overruns of old projects. For 9MFY21, consolidated revenue recovery was at 88% YoY while in UCP division it was at 74%. On the margin front, UCP EBIT margin improved 100 bps YoY to 13% led by various cost optimisation measures.

Valuation & Outlook

We tweak our revenue, PAT estimate upward by ~9%, 8% YoY, respectively, for FY23E, considering its strong future outlook and focus on premium product category. We build in revenue, PAT CAGR of ~12%, 27%, respectively, for FY20-23E, and revise our rating from HOLD to **BUY** by ascribing PE multiple 11x, 11x, 52x to EMPS, EPS, UCP segment, respectively. We also revise target price to ₹ 1260 (earlier ₹ 845).

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (20-23E)
Net Sales	7124.1	7658.1	7626.1	9681.8	10744.4	11.9
EBITDA	611.7	686.7	593.9	972.5	1203.2	20.6
EBITDA Margin (%)	8.6	9.0	7.8	10.0	11.2	
Net Profit	513.9	521.0	520.2	854.7	1061.2	26.8
EPS (₹)	15.5	15.8	15.7	25.8	32.1	
P/E(x)	68.1	67.2	67.3	40.9	33.0	
Price/Book (x)	8.5	8.2	7.7	6.9	5.9	
Mcap/Sales (x)	4.9	4.6	4.6	3.6	3.3	
RoE (%)	12.7	13.0	11.4	16.8	17.9	
RoCE(%)	17.3	19.5	16.3	22.6	24.2	

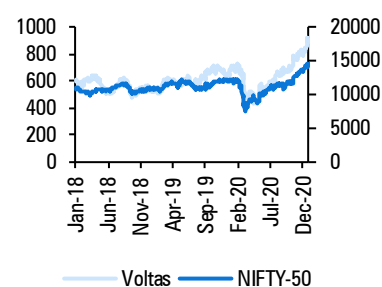
Source: Company, ICICI Direct Research

VOLTAS

Particulars

Particular	Amount
Market Cap (₹ Crore)	34,991.7
Total Debt (FY20) (₹ Crore)	217.9
Cash & Inv (FY20) (₹ Crore)	828.9
EV (₹ Crore)	34,380.6
52 week H/L	1131 / 428
Equity capital (₹ Crore)	33.1
Face value (₹)	1.0

Price Performance



Key risk to our call

- Lower than expected revenue growth in UCP segment (I-direct: 15%)
- Delay in margin improvement of electro mechanical project & services division

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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Revenue	1,994.6	1,559.8	1,492.5	33.6	1,612.5	23.7	Strong growth in all three business verticals
Other Income	51.6	37.3	54.3	-4.8	38.3	34.9	
Raw Material Exp	932.0	667.7	611.4	52.4	869.8	7.2	
Employee Exp	154.7	139.7	173.4	-10.7	143.2	8.0	
Purchase of Traded goods	572.1	434.8	454.1	26.0	322.8	77.2	
Other Expenses	189.9	186.3	156.1	21.6	178.7	6.2	
EBITDA	145.9	123.5	97.6	49.6	98.0	48.9	
EBITDA Margin (%)	7.3	7.9	6.5	78 bps	6.1	124 bps	Sharp increase in margin of UCP segment (up 230 bps YoY) partially offset by decline in EBIT margin of EMPS segment mainly due to cost overruns of some overseas projects
Depreciation	8.4	8.8	8.0	4.9	8.4	0.2	
Interest	3.2	6.7	5.7	-44.2	5.8	-44.9	
Exceptional items	0.0	0.0	0.0		0.0		
Profit/(loss) from Asso & JVs	(20.1)	(7.0)	(18.7)		(7.1)		Loss from JV & associates companies, which includes losses from Voltas-Beko
PBT	165.8	138.4	119.3	39.0	115.0	44.2	
Total Tax	37.2	42.5	31.4	18.6	35.3	5.3	
PAT	128.6	95.8	87.9	46.3	79.7	61.5	Strong sales growth help drive bottomline during Q3FY21
Key Metrics							
EMPS	1017	835	808	25.8	518	96.2	Higher revenue is largely attributable to international business
EPS	121	78	83	46.4	48	5.3	Strong growth in Mozambique operation mainly into mining & construction equipment drive sales
UCP	839.6	640	601	39.8	707	18.7	RAC sales volume grew by ~43% YoY led by strong pent up demand and channel inventory filling in Q3FY21

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	8,820.5	9,681.8	9.8	9,818.2	10,744.4	9.4	Revise our estimate upward by factoring in current quarter performance
EBITDA	859.8	972.5	13.1	1,047.1	1203.2	14.9	
EBITDA Mar(%)	9.7	10.0	34bps	10.7	11.2	50bps	Strong profitability in the UCP segment in addition to recovery in EMPS business to help drive overall EBITDA margin, going forward
PAT	746.9	854.7	14.4	982.7	1061.2	8.0	
EPS (₹)	22.6	25.8	14.4	29.7	32.1	8.0	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier			Comments
	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
EMPS	-10.3	7.0	7.8	5.0	-1.1	15.9	8.2	We build in 7% revenue CAGR in FY20-23E supported by pick-up in infrastructure activities
EPS	6.4	14.7	11.0	8.0	-3.8	11.6	8.0	Improved traction from after sales service to help drive segment revenue
UCP	29.1	-9.6	46.8	15.4	-16.8	38.7	14.0	We model UCP segment revenue CAGR of ~15% 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 company is exploring export opportunities to benefit from PLI schemes. However, they are awaiting final notification
- Volume growth in RAC, commercial refrigeration and air cooler segment came in at 43%, 100% and 11%, respectively. Volume in RAC was further driven by 75% growth in inverter AC (contributes ~60% of all ACs sold in Q3FY21 vs. ~49% in Q3FY20)
- The company gained market share with its YTD market share at 26% at multi brand outlets
- It reached the No. 2 spot in the air cooler business with market share of 13%. Growth was largely driven by additions of distributors and trade schemes
- New plant in south is expected to start production of indoor units and some critical components in the next 18 months
- Despite multiple problems amid lockdowns, Voltas Beko stepped up production of DC refrigerators to 210000 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 (from the coming months)
- Voltas Beko currently has ~ 6000 touch points, which will be scaled up, going forward

Electro-mechanical projects & services

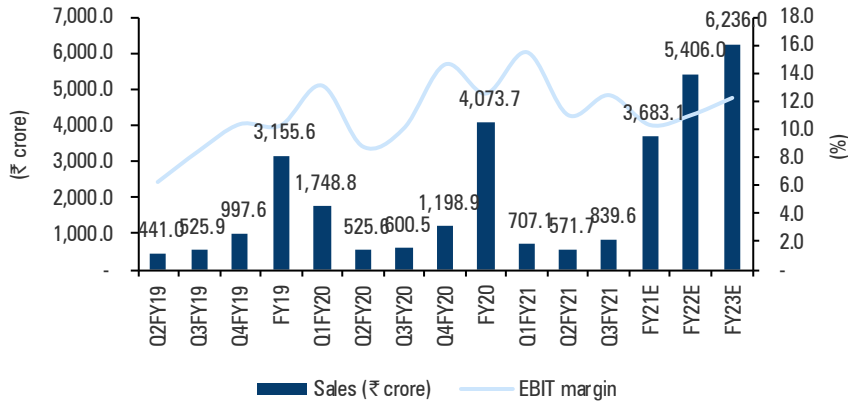
- EMPS segment outstanding order book was at ₹ 7275 crore
- The company's international order book was at ₹ 2481 crore while its domestic order book was at ₹ 4794 crore
- Recovery in oil prices and allocation of ₹ 5.5 lakh crore by the Finance Minister in the recent Budget opened up further opportunities in the Middle East and India
- The company has won new orders worth ₹ 700 crore in Q3FY21
- Under corporate restructuring plans, B2B businesses (domestic business) has been transferred to its 100% wholly owned subsidiary Universal MEP Projects & Engineering Services Ltd (formerly Rohini Industrial Electricals Ltd). The international B2B business will be transferred gradually over the period of time
- The transaction will be on a slump sale basis with a purchase consideration of ~₹ 1200 crore. The same is expected to be completed by September 2021

Engineering products & services

- Mozambique operations continue to drive the majority of revenues growth but capex in the textile machinery remains low

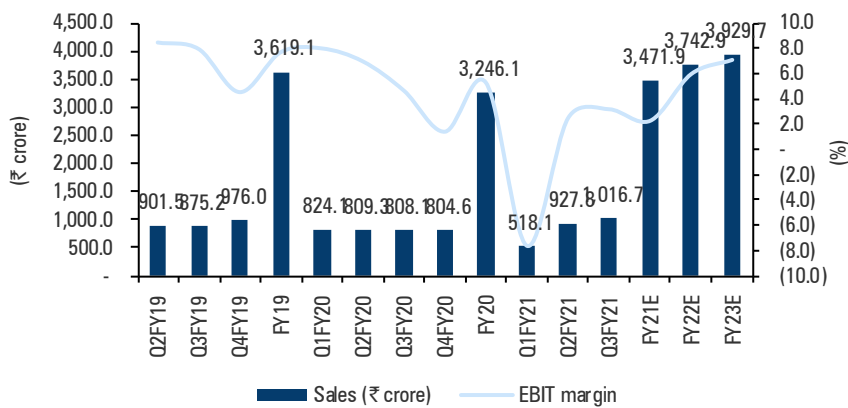
Financial story in charts

Exhibit 4: UCP segment sales and margin trend



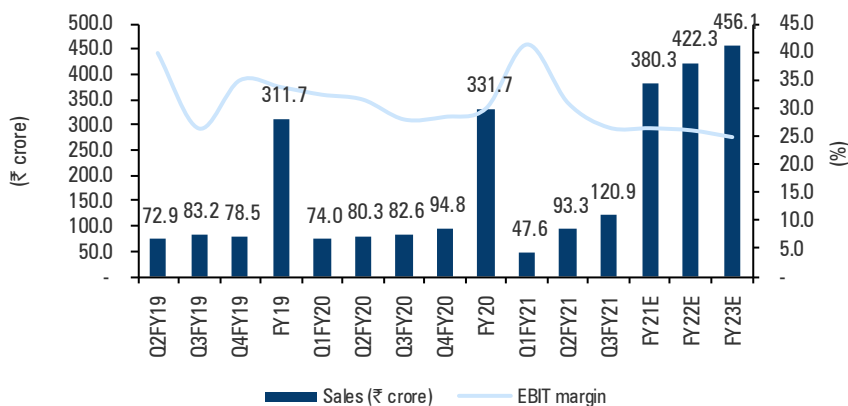
Source: Company, ICICI Direct Research

Exhibit 5: EMPS segment sales and margin trend



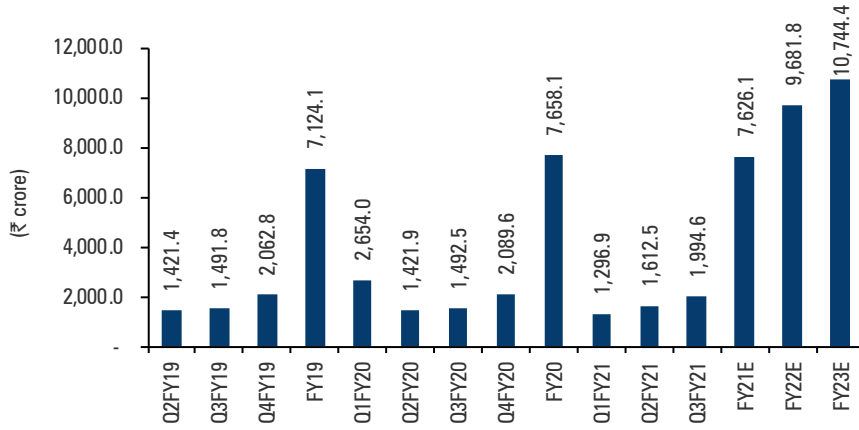
Source: Company, ICICI Direct Research

Exhibit 6: EPS segment sales and margin trend



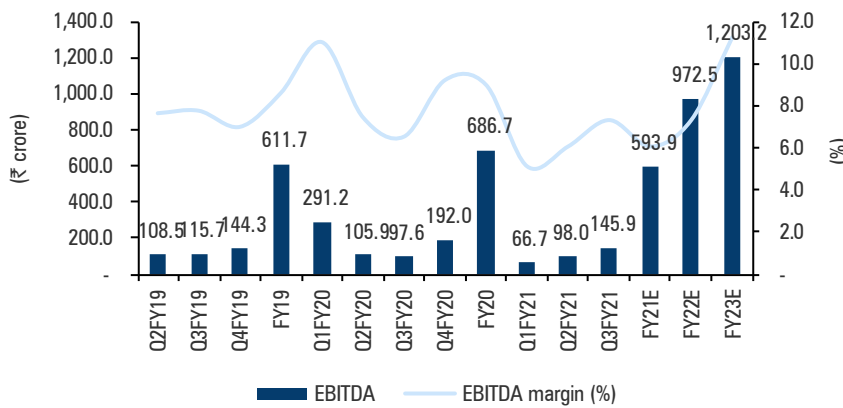
Source: Company, ICICI Direct Research

Exhibit 7: Consolidated revenue trend



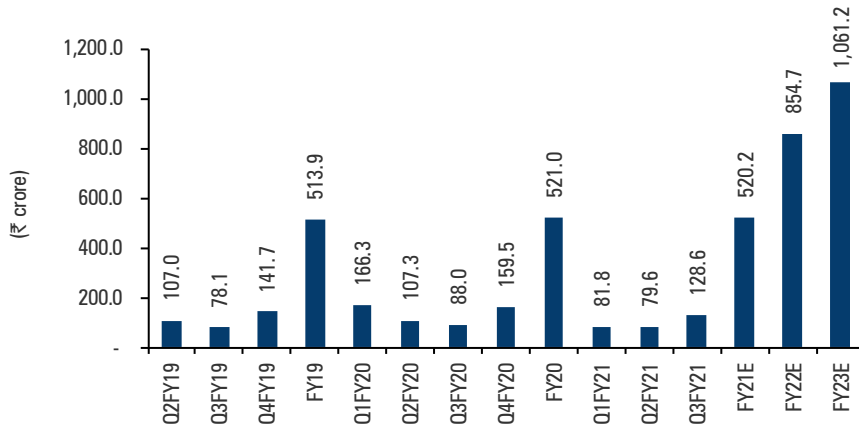
Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Net Sales	7,658.1	7,626.1	9,681.8	10,744.4	
Expenses					
Raw Material Expenses	2,986.7	2,982.6	3,684.8	4,048.9	
(inc)/Dec in stocks	-	-	-	-	
Purchase of traded goods	2,568.3	2,614.3	3,124.6	3,446.5	
Employee Expenses	671.7	643.8	845.0	896.1	
Other expenses	672.8	747.3	957.6	1,037.3	
Total Operating Expenditure	6,971.4	7,032.2	8,709.3	9,541.1	
EBITDA	686.7	593.9	972.5	1,203.2	
Other Income	230.6	225.6	287.1	318.6	
Interest	21.1	26.0	15.8	8.8	
PBDT	896.2	793.5	1,243.8	1,513.0	
Depreciation	32.0	34.3	43.6	48.3	
PBT before Exceptional Items	864.2	759.2	1,200.2	1,464.7	
Less: Exceptional Items	51.2	-	-	-	
Total Tax	223.3	176.0	284.9	353.7	
PAT before MI	521.0	520.2	854.7	1,061.2	
PAT after MI	521.0	520.2	854.7	1,061.2	
Profit from Associates	(68.7)	(63.1)	(60.7)	(49.8)	
PAT	521.0	520.2	854.7	1,061.2	

Source: Company, ICICI Direct Research

Exhibit 12: 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	4,527.6	5,066.2	5,895.2	
Total Shareholders funds	4,280.2	4,560.6	5,099.2	5,928.2	
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	4,831.8	5,370.4	6,099.5	
Net Block	308.1	323.8	380.2	431.8	
Total Fixed Assets	334.4	350.0	406.5	458.1	
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	176.7	224.4	249.0	
Other non current assets	91.1	90.7	115.2	127.8	
Liquid Investments	520.4	470.4	420.4	370.4	
Inventory	1,468.9	1,671.5	2,122.0	2,207.7	
Debtors	1,833.6	1,984.9	2,519.9	2,796.5	
Cash	308.5	31.0	191.9	635.4	
Loans and Advances	2.3	5.7	7.3	8.1	
Other Current Assets	1,451.4	1,445.3	1,835.0	2,036.3	
Net Current Assets	1,452.0	1,726.0	2,286.2	2,876.4	
Total Assets	4,543.3	4,831.8	5,370.5	6,099.6	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	521.0	520.2	854.7	1,061.2	
Depreciation	32.0	34.3	43.6	48.3	
Cash Flow before working capital ch	574.1	580.4	914.1	1,118.3	
Net Increase in Current Assets	(635.7)	(351.2)	(1,376.8)	(564.4)	
Net Increase in Current Liabilities	557.5	(200.4)	977.5	417.8	
Net cash flow from operating Acti	495.8	28.9	514.8	971.6	
Long term loans and advances	(21.5)	0.7	(47.6)	(24.6)	
Other non current assets	(17.0)	0.4	(24.5)	(12.6)	
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)	(48.9)	(22.1)	(187.3)	
Proceeds/(Repayment) 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)	(277.7)	160.8	443.4	
Cash and Cash Equivalent at the beç	321.0	308.5	31.0	191.9	
Cash	308.5	31.0	191.9	635.4	

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per Share Data					
EPS	15.8	15.7	25.8	32.1	
Cash EPS	16.7	16.8	27.2	33.5	
BV	129.4	137.9	154.2	179.2	
DPS	4.7	2.3	3.5	7.0	
Operating Ratios					
EBITDA margin	9.0	7.8	10.0	11.2	
PAT margin	7.3	6.8	8.8	9.9	
Return Ratios					
RoE	13.0	11.4	16.8	17.9	
RoCE	19.5	16.3	22.6	24.2	
RoIC	16.5	12.2	18.1	20.9	
Valuation Ratios					
EV / EBITDA	50.1	58.5	35.6	28.4	
P/E	67.2	67.3	40.9	33.0	
EV / Net Sales	4.5	4.6	3.6	3.2	
Sales / Equity	1.8	1.7	1.9	1.8	
Market Cap / Sales	4.6	4.6	3.6	3.3	
Price to Book Value	8.2	7.7	6.9	5.9	
Turnover Ratios					
Asset turnover	1.7	1.6	1.8	1.8	
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	0.0	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 14: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,456	3,010	Hold	2,35,530	32.8	39.9	46.3	74.8	61.5	53.0	52.7	43.8	37.5	26.7	28.6	28.5	31.1	33.4	34.0
Astral Polyteknik (ASTPOL)	2,024	2,225	Hold	30,494	22.2	30.4	37.1	91.1	66.5	54.6	54.8	42.8	35.7	23.9	28.1	29.3	18.3	21.8	22.5
Amber Enterprises (AMBEN)	3,232	3,015	Buy	10,164	29.8	68.2	97.6	108.3	47.4	33.1	35.9	18.7	14.0	8.4	15.3	18.7	6.5	13.0	15.8
Bajaj Electricals (BAJELE)	1,098	585	Buy	12,483	11.8	17.1	23.0	NM	64.3	47.7	26.3	20.2	15.9	10.8	14.7	18.6	8.3	13.0	15.4
Berger Paints (BERPAI)	764	810	Hold	74,200	7.6	9.7	12.4	100.5	78.6	61.8	63.9	52.3	42.5	26.1	30.0	35.1	23.4	26.0	29.0
Crompton Greaves(CROGR)	395	480	Buy	24,767	7.9	9.5	12.0	49.7	41.5	32.8	37.6	31.9	25.8	31.1	34.8	41.1	27.4	28.4	32.1
EPL (ESSPRO)	228	250	Hold	7,193	7.8	8.9	10.8	29.1	25.6	21.1	11.6	10.8	9.2	18.3	19.0	21.3	15.6	15.6	17.0
Havells India (HAVIND)	1,172	1,255	Hold	73,121	16.1	17.8	22.9	72.9	65.8	51.1	45.8	41.2	32.5	23.7	25.5	30.8	20.6	21.2	25.7
Kansai Nerolac (KANNER)	591	675	Buy	31,850	9.7	12.7	15.0	60.6	46.5	39.5	37.9	30.4	25.9	17.9	20.7	21.6	13.7	15.9	16.6
Pidilite Industries (PIDIND)	1,766	1,920	Buy	89,677	22.1	28.2	32.9	79.8	62.7	53.7	50.0	39.9	34.7	28.4	31.5	32.4	22.8	25.3	25.9
Polycab India (POLI)	1,320	1,385	Buy	19,652	57.9	67.2	79.7	22.8	19.6	16.6	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1
Supreme Indus (SUPIND)	1,950	2,010	Buy	24,770	62.2	50.0	58.0	31.3	39.0	33.6	19.5	21.4	18.6	27.3	21.7	23.2	28.4	20.4	20.9
Symphony (SYMLIM)	1,059	1,090	Hold	7,408	13.1	29.8	40.0	80.6	35.6	26.5	61.3	26.7	19.7	16.7	35.7	41.8	17.1	34.1	38.7
Time Techno (TIMTEC)	52	43	Hold	1,176	7.5	4.0	9.1	7.0	13.0	5.7	3.1	4.3	2.8	12.5	8.0	13.2	9.3	5.0	10.7
V-Guard Ind (VGUARD)	223	280	Buy	9,551	4.2	6.1	7.0	52.7	36.7	31.7	37.2	27.9	24.1	23.6	27.9	28.8	16.8	21.1	21.8
Voltas Ltd (VOLTAS)	1,058	1,260	Buy	34,992	15.7	25.8	32.1	67.3	40.9	33.0	58.5	35.6	28.4	16.3	22.6	24.2	11.4	16.8	17.9

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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