

16 February 2022

Voltas

Rating: Buy

Target Price: Rs.1400

Share Price: Rs.1208

Rising mercury to brighten the outlook; upgrading to a Buy

Rising mercury levels can brighten the outlook for Voltas' UCP category, impelling us to upgrade the stock to a Buy despite a slower pace of order inflows in its projects business and mounting losses in Voltas Beko JV. Hence, we lower revenue/net income 11%/13% over FY22-FY24.

Revenue dips 10% y/y; net income, 25%, as JV losses mount: Q3 FY22 revenue dipped 10% y/y. The EBITDA margin increased 140bps y/y as the gross margin rose 240bps y/y to 27%, and other manufacturing expenses shrank 9% y/y. Net income fell 25% y/y as depreciation charges rose 15% y/y, other income fell 44% y/y, the tax rate rose to 25% (from 20% a year ago) and the JV loss (chiefly Voltas Beko) shot up 57%.

Rising mercury augurs well for UCP; pace of price hikes, the key monitorable. Since the start of CY21, prices were hiked 13-15%, incl. 3-5% ~Oct'21. Channel partners are loaded with stocks and the pace of re-stocking has been slower considering duller secondary sales in Q3 FY22, expected to pick up in Q4 and Q1 FY23. The pace of price hikes in Q4 FY22 and Q1 FY23 needs to be keenly watched.

Inflows of Rs4bn; margins to be over 4.5-5%. The post-Q3 FY22 pending order book was Rs56bn, down 23% y/y. Q3 order inflows were of Rs4bn, down 43% y/y. For 9M FY22, orders of Rs11.7bn were booked, 13% lower y/y.

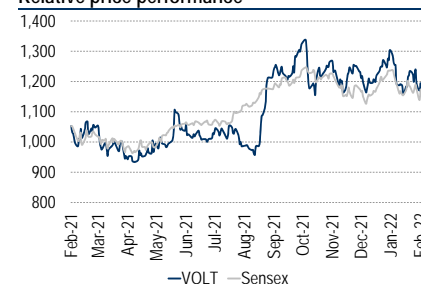
Outlook, Valuations. Post-Q3 FY22, we lower our FY22e-FY24e revenue/EBITDA by an average 13%/3%. We now model 19%/40% CAGRs in revenue/net income over FY22-24, leading to the RoE expanding from 10% to 16%. We upgrade the stock to a Buy based on a sum-of-parts valuation of Rs1,400 (earlier TP Rs1,367, 43x FY24e EPS of Rs32). **Risk.** Slower pace of order inflows from government schemes pertaining to household water pipeline connections and rural electrification is the primary risk for the projects business.

Key data	VOLT IN / VOLT.BO
52-week high / low	Rs.1357 / 918
Sensex / Nifty	58142 / 17352
3-m average volume	\$12.8m
Market cap	Rs.395bn / \$5244.5m
Shares outstanding	331m

Shareholding pattern (%)	Dec'21	Sep'21	Jun'21
Promoters	30.3	30.3	30.3
- of which, Pledged	-	-	-
Free float	69.7	69.7	69.7
- Foreign institutions	24.4	22.3	c17.3
- Domestic institutions	29.2	31.6	32.8
- Public	15.3	15.5	20.5

Estimates revision (%)	FY22e	FY23e	FY24e
Sales	(13)	(14)	(13)
EBITDA	(5)	(3)	0
Net Income	(17)	(10)	(5)

Relative price performance



Source: Bloomberg

Key financials (YE: Mar)	FY20	FY21	FY22e	FY23e	FY24e
Sales (Rs m)	76,581	75,558	77,876	92,127	110,868
Adj. net income (Rs m)	5,543	5,252	5,124	7,578	10,019
Adj. EPS (Rs)	16.7	15.9	15.5	22.9	30.3
P/E (x)	34.0	76.1	78.0	52.7	39.9
EV / EBITDA (x)	57.4	61.6	53.9	38.6	30.0
P/BV (x)	9.3	8.0	7.6	7.0	6.2
RoE (%)	12.1	10.5	9.7	13.2	15.6
RoCE (%) (post-tax)	10.4	8.8	8.8	11.6	13.4
RoICE (%) (post-tax)	22.3	23.2	24.3	28.1	30.4
Dividend yield (%)	0.3	0.4	0.5	0.7	0.7

Source: Company

Nirav Vasa
Research Analyst

Surbhi Lodha
Research Analyst

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Net revenues	76,581	75,558	77,876	92,127	110,868
Growth (%)	7.5	-1.3	3.1	18.3	20.3
Direct costs	55,549	55,785	56,460	65,871	79,271
SG&A	14,165	13,360	14,115	16,076	18,564
EBITDA	6,867	6,414	7,300	10,180	13,034
EBITDA margins (%)	9.0	8.5	9.4	11.1	11.8
- Depreciation	320	339	418	491	551
Other income	2,306	1,889	1,800	2,000	2,100
Interest expenses	211	262	250	165	165
One-offs	-512	-	-	-	-
PBT	8,130	7,702	8,432	11,524	14,417
Effective tax rates (%)	27.5	23.4	25.0	26.0	26.0
Share in JV & MI	-726	-646	-1,200	-950	-650
Net income	5,172	5,252	5,124	7,578	10,019
Adj net income	5,543	5,252	5,124	7,578	10,019
WANS	331	331	331	331	331
Adj EPS (Rs / sh)	16.7	15.9	15.5	22.9	30.3
FDEPS growth	7.2	-5.2	-2.4	47.9	32.2
Gross margin (%)	27.5	26.2	27.5	28.5	28.5

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
PBT	7,443	7,092	8,432	11,524	14,417
+ Non-cash items	153	742	-1,132	-1,344	-1,384
Oper. prof. before WC	7,596	7,834	7,300	10,180	13,034
- Incr. / (decr.) in WC	-911	-1,580	-678	-2,565	-3,372
Others incl. taxes	-2,061	-693	-2,108	-2,996	-3,749
Operating cash-flow	4,624	5,561	4,514	4,618	5,913
- Capex (tang. + intang.)	-832	-187	-1,199	-1,251	-1,051
Free cash-flow	3,792	5,374	3,315	3,367	4,862
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	-1,627	-1,358	-1,985	-2,646	-2,646
+ Equity raised	-	-	-	-	-
- Debt raised	-1,057	425	2,451	-2,250	-
- Fin investments	-1,411	-2,963	-2,289	-342	-1,940
- Misc. (CFI + CFF)	-4,095	308	545	885	1,135
Net cash-flow	-302	1,787	2,036	-986	1,410

Source: Company

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

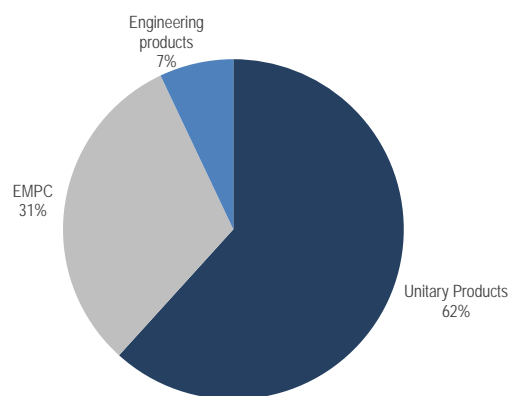
Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Share capital	331	331	331	331	331
Net worth	42,802	49,934	52,735	57,217	64,139
Debt	2,179	2,606	5,057	2,807	2,807
Minority interest	365	361	936	1,386	1,686
DTL / (Assets)	253	194	194	194	194
Capital employed	45,599	53,095	58,922	61,603	68,826
Net tangible assets	2,986	3,072	3,846	4,606	5,106
Net intangible assets	95	85	90	90	90
Goodwill	723	723	723	723	723
CWIP (tang. & intang.)	263	88	90	90	90
Investments (strategic)	2,776	2,832	3,332	4,332	5,332
Investments (financial)	21,635	28,595	31,282	30,625	31,565
Current assets (excl cash)	50,000	46,573	48,552	57,130	68,410
Cash	3,084	4,588	6,624	5,637	7,048
Current liabilities	35,962	33,460	35,617	41,630	49,537
Working capital	14,038	13,112	12,935	15,500	18,873
Capital deployed	45,599	53,095	58,922	61,603	68,826
Contingent liabilities	7,160	6,624	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
P/E (x)	34.0	76.1	78.0	52.7	39.9
EV / EBITDA (x)	57.4	61.6	53.9	38.6	30.0
EV / Sales (x)	5.1	5.2	5.1	4.3	3.5
P/B (x)	9.3	8.0	7.6	7.0	6.2
RoE (%)	12.1	10.5	9.7	13.2	15.6
RoCE (%) (post-tax)	10.4	8.8	8.8	11.6	13.4
RoIC (%) (post-tax)	22.3	23.2	24.3	28.1	30.4
DPS (Rs / sh)	4.0	5.0	6.0	8.0	8.0
Dividend yield (%)	0.3	0.4	0.5	0.7	0.7
Dividend payout (%) - incl. DDT	23.9	31.5	38.7	34.9	26.4
Net debt / equity (x)	-0.1	-0.1	-0.1	-0.1	-0.1
Receivables (days)	87	87	90	90	90
Inventory (days)	70	62	65	65	65
Payables (days)	128	119	125	125	125
CFO : PAT %	83.4	105.9	88.1	60.9	59.0

Source: Company

Fig 6 – Q3 FY22 revenue break-up



Source: Company

Fig 7 – Financial performance

(Rs m)	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	% Y/Y	% Q/Q
Income	14,219	14,925	20,896	12,969	16,125	19,946	26,516	17,852	16,891	17,936	-10.1	6.2
RM costs	10,181	10,655	14,912	9,082	11,926	15,041	19,735	12,877	12,405	13,097	-12.9	5.6
Employee expenses	1,576	1,734	1,776	1,574	1,432	1,547	1,463	1,474	1,540	1,562	1.0	1.5
Other expenses	1,404	1,561	2,288	1,646	1,787	1,899	2,011	2,143	1,655	1,720	-9.4	3.9
EBITDA	1,059	976	1,920	667	980	1,459	3,307	1,358	1,291	1,556	6.7	20.5
Depreciation	80	80	82	82	84	84	89	86	95	97	15.3	2.1
Interest	49	57	61	67	58	32	104	35	62	36	13.1	-42.0
Other income	726	543	605	674	383	516	316	750	483	288	-44.3	-40.4
PBT	1,594	1,381	2,362	1,192	1,221	1,859	3,430	1,986	1,617	1,711	-8.0	5.8
Tax	430	314	572	258	353	372	821	456	385	425	14.3	10.5
PAT	1,164	1,067	1,790	934	867	1,487	2,609	1,530	1,232	1,286	-13.5	4.4
Share in JV, & MI	(91)	(187)	(195)	(117)	(71)	(201)	(222)	(306)	(189)	(320)	59.5	69.4
Net income	1,064	869	1,587	811	784	1,279	2,377	1,218	1,036	960	-24.9	-7.4
Adj. income	1,126	869	1,607	811	784	1,279	2,377	1,218	1,036	960	-24.9	-7.4
EPS (Rs)	3.4	2.6	4.9	2.5	2.4	3.9	7.2	3.7	3.1	2.9	-24.9	-7.4
As % of income											bps y/y	bps q/q
Gross margins	28.4	28.6	28.6	30.0	26.0	24.6	25.6	27.9	26.6	27.0	238.8	42.3
Employee costs	11.1	11.6	8.5	12.1	8.9	7.8	5.5	8.3	9.1	8.7	95.3	(40.3)
Other expenses	9.9	10.5	10.9	12.7	11.1	9.5	7.6	12.0	9.8	9.6	7.0	(20.7)
EBITDA margins	7.4	6.5	9.2	5.1	6.1	7.3	12.5	7.6	7.6	8.7	136.5	103.3
PBT margins	11.6	9.2	11.4	9.2	7.6	9.3	12.9	11.1	9.6	9.5	22.0	(3.2)
Effective tax rates	27.0	22.7	24.2	21.6	28.9	20.0	23.9	23.0	23.8	24.8	483.4	105.1
PAT margins	7.9	5.8	7.7	6.3	4.9	6.4	9.0	6.8	6.1	5.4	(106.0)	(78.3)
Segment revenues												
EMPC	8,093	8,081	8,046	4,118	9,278	8,468	8,755	6,884	5,365	5,538		
Unitary products	5,255	6,005	11,989	8,113	5,717	8,468	16,547	9,631	10,068	10,936		
Engineering products	803	826	948	476	933	1,209	977	1,151	1,254	1,247		
Less: Inter-segment revenues	(2)	(42)	(198)	-	(52)	(68)	-	-	-	-		
Y/Y (%)												
EMPC	(10)	(8)	(18)	(50)	15	5	9	67	(42)	(35)		
Unitary products	19	14	20	(54)	9	41	38	19	76	29		
Engineering products	10	(1)	21	(36)	16	46	3	142	34	3		
Segment EBIT												
EMPC	561.1	374.2	112.9	-436.7	229.8	136.3	565.8	305.8	113.3	362.9		
Unitary products	462.8	606.8	1753.7	1139.5	631.1	136.3	2609.9	1180.3	1017.3	1017.1		
Engineering products	252.9	231	269.4	196.7	288	320.4	338	378.8	392.2	400.1		
EBIT - (%)												
EMPC	6.9	4.6	1.4	(10.6)	2.5	1.6	6.5	4.4	2.1	6.6		
Unitary products	8.8	10.1	14.6	14.0	11.0	1.6	15.8	12.3	10.1	9.3		
Engineering products	31.5	28.0	28.4	41.3	30.9	26.5	34.6	32.9	31.3	32.1		
Capital employed												
EMPC	12,128	12,132	11,010	9,221	12,103	11,482	8,778	11,719	11,385	12,082		
Unitary products	2,799	3,068	4,765	9,621	9,238	6,991	7,921	8,343	6,212	10,090		
Engineering products	801	851	840	684	612	554	448	470	479	403		
Unallocated	25,541	26,034	26,553	24,811	22,257	26,845	33,148	31,731	30,584	30,270		
Total	41,269	42,085	43,167	44,336	44,209	45,872	50,295	52,263	48,660	52,846		
Pending order book	65,670	70,240	77,880	76,630	68,520	72,750	66,350	61,490	60,000	56,000		
Order inflows	26,160	12,470	4,330	3,660	2,780	7,000	7,000	5,000	2,720	4,000		
NWC days												
Inventory	39		70		72		62		55			
Receivables	78		87		90		87		81			
Payables	92		128		105		119		81			
NWC	24		29		57		30		54			

Source: Company

Q3 FY22 Con-call Highlights

Rising mercury augurs well for UCP; pace of price hikes, the key monitorable. Since the start of CY21, prices were hiked 13-15%, including 3-5% around Oct'21. Channel partners were loaded with inventory and the pace of re-stocking has been slower considering lower secondary sales in Q3, expected to pick up in Q4 and Q1 FY23. Lower volume offtake made price hikes difficult.

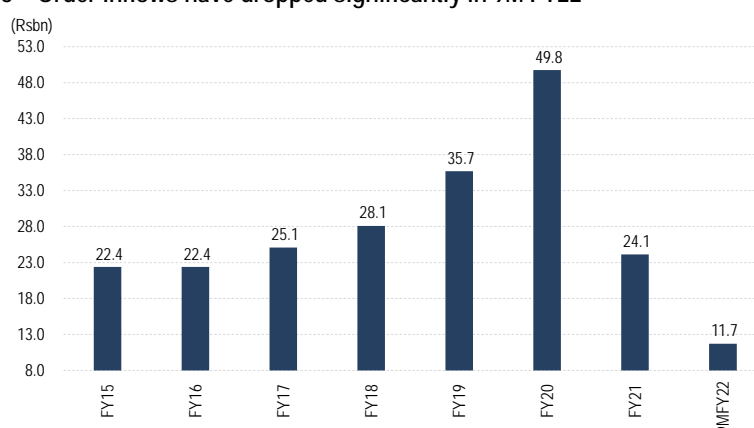
The pace of price hikes in Q4 FY22 and Q1 FY23 needs to be keenly watched. (Important: peer Blue Star does not intend price hikes in Q4 FY22, as communicated in its conference call.) Inverter-based air-conditioners accounted for 65% of industry-wide ACs sold (60% a year ago). Despite challenging times, its market share in room ACs was 25.8%.

The new star rating for air-conditioners is expected to be applicable from 1st Jul'22. Deferred application of the new standards and associated rises in costs are important monitorables. Commercial cooling products, accounting for 20% of UCP revenues, grew because of expanding trade sales, rising exports and deeper penetration with OEMs. In air-coolers, the company has a 12.5% market share, the second highest in the category.

Orders of Rs4bn booked in Q3FY22, margins to be above 4.5-5%. The post-Q3 FY22 pending order book was Rs56bn, down 23% y/y. Q3 FY22 order inflows were Rs4bn, down 43% y/y. For 9M FY22, orders of Rs11.7bn were booked, 13% lower y/y.

The tepid pace of order inflows can be attributed to (a) slower ordering by government agencies and (b) inability to meet pre-qualification for several projects as its projects business is in process of being transferred to a wholly-owned subsidiary, resulting in constrained order inflows for FY22. The pace of inflows can pick up in FY23, by which time, the projects business would have been transferred to the subsidiary. Further details need to be keenly watched.

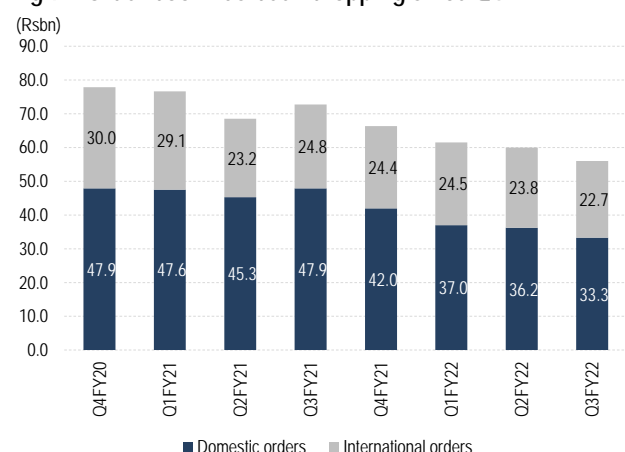
Fig 8 – Order inflows have dropped significantly in 9M FY22



Source: Company

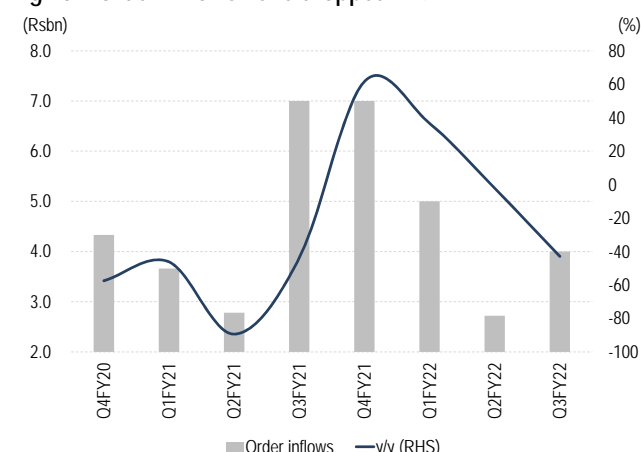
The projects business EBIT margin was 4.4% (-0.3% for 9M FY21), expected to remain above 4.5-5%. Voltas had raised price-escalation claims with customers to pass on rising commodity costs. Across its international business Voltas was recognised as one of the HVaC power-25 list in the Middle East.

Fig 9 – Order book has been dropping since Q4 FY21



Source: Company, Anand Rathi Research

Fig 10 – Order inflows have dropped in 9M FY22



Source: Company, Anand Rathi Research

PLI in textiles to drive prospects in engineering products. Production-linked incentives (PLI) for textiles can drive growth prospects in engineering products. Supply-chain distortions and price hikes by its principal, Lakshmi Machine Works (LMW), can be near term challenges to be watched.

Voltas Beko targets break even by FY24-25: The Voltas Beko JV had a 2.8% market share in refrigerators and 3.4% in washing machines. It continues to expand its product range and targets break even by FY24-25.

Rs2.5bn-3bn capex planned. To comply with PLI requirements to manufacture components, Voltas will incur Rs1bn-1.25bn capex. A further Rs1.25bn would be needed to expand commercial cooling product capacity. The entire capex (~Rs2.5bn-3bn) is expected to be commissioned over 18-20 months. Considering the strong balance sheet, funding is expected to be via internal accruals.

Valuation and Outlook

Post-Q3 FY22, we lower our revenue/EBITDA over FY22-FY24 by an average of 13%/3% to factor in the lower projects revenue as order inflows were slow in 9M FY22 and expected to continue in Q4 FY22, as the business is in the process of being transferred to the fully-owned subsidiary. Rising losses of Voltas Beko impel us to lower net income over FY22-24 by an average of 11%. Management expects this JV to break even in FY24-25, a key monitorable.

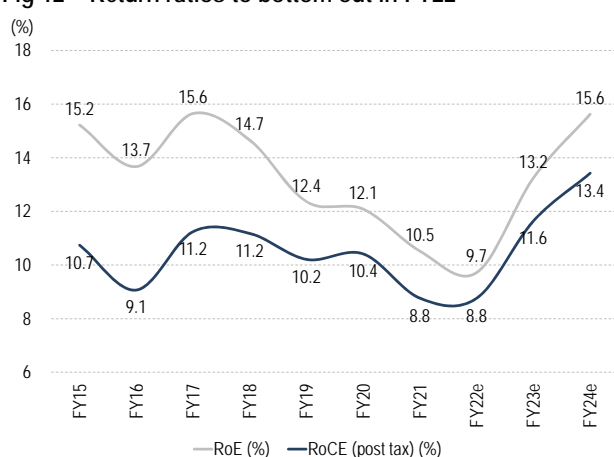
We now model 19%/40% CAGRs in revenue/net income over FY22-24, leading to the RoE expanding from 10% to 16%. The RoCE (post-tax) can expand from 9% to 14%. Voltas's balance sheet is loaded with cash, which lowers the RoCE. Its RoIC (post-tax) can expand from 25% to 32%.

Fig 11 – Estimate revision table

(Rs m)	Revised			Previous			Variance (%)		
	FY22e	FY23e	FY24e	FY22e	FY23e	FY24e	FY22	FY23	FY24
Revenue	77,876	92,127	110,868	89,442	106,631	127,544	(13)	(14)	(13)
Y/Y (%)	3	18	20	18	19	20			
EBITDA	7,252	10,135	13,004	7,668	10,465	12,949	(5)	(3)	0
EBITDA - (%)	9.3	11.0	11.7	8.6	9.8	10			
PAT	6,324	8,528	10,669	7,011	9,088	11,067	(10)	(6)	(4)
PAT - (%)	8.1	9.3	9.6	7.8	8.5	9			
JV & MI	(1,200)	(950)	(650)	(850)	(650)	(550)	41	46	18
Net income	5,124	7,578	10,019	6,161	8,438	10,517	(17)	(10)	(5)
Net income (%)	6.6	8.2	9.0	6.9	7.9	8.2			
EPS (Rs)	15.5	22.9	30.3	18.6	25.5	31.8			

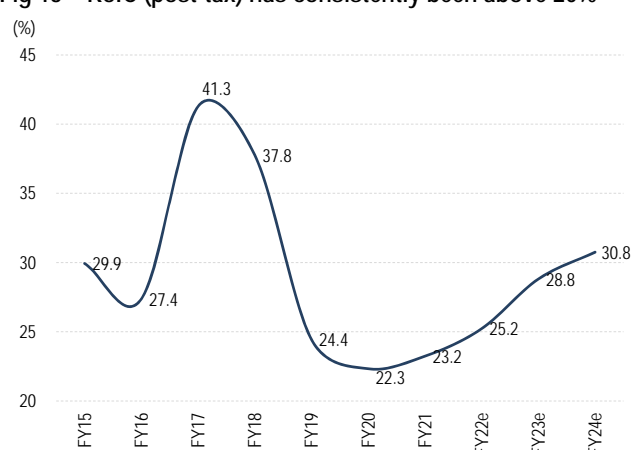
Source: Company

Fig 12 – Return ratios to bottom out in FY22



Source: Company, Anand Rathi Research

Fig 13 – RoIC (post-tax) has consistently been above 20%



Source: Company, Anand Rathi Research

At the CMP of Rs1.208, the stock trades at 53x/40x the FY23e/FY24e EPS of Rs23/30. We change the valuation to a sum-of-parts method, deriving a TP of Rs1,400 and now recommend a Buy (earlier a Hold at a TP of Rs1,367 (43x FY24e EPS of Rs32). We upgrade the stock as summer is expected to be normal after two consecutive seasons being impacted by lockdowns.

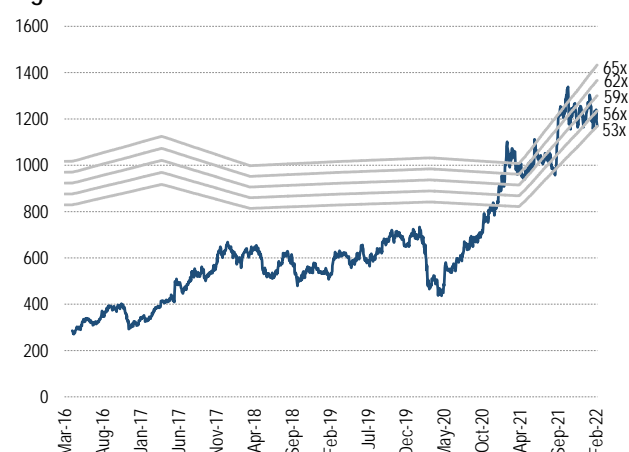
Key monitorables for the stock would include (a) transfer of its projects business to its fully-owned subsidiary and pace of order inflows in FY23, (b) price hikes in Q4 and Q1 FY23, peak seasons for UCP and (c) PLI-related announcements, which could drive inflows in engineering products.

Fig 14 – Sum-of-parts valuation

Business segment	FY24e EBIT	Multiple assigned (x)	M.Cap derived
EMP	1,528	12	18,339
Unitary cooling	10,588	40	427,760
Engineering products	1,866	8	14,929
M.Cap			461,027
(Rs m)			
Investment in Voltas Beko JV at end-FY21	2,207	1	2,207
Value			463,234
No. of shares			331
Derived value per share			1,400
CMP			1,208
Upside (%)			16

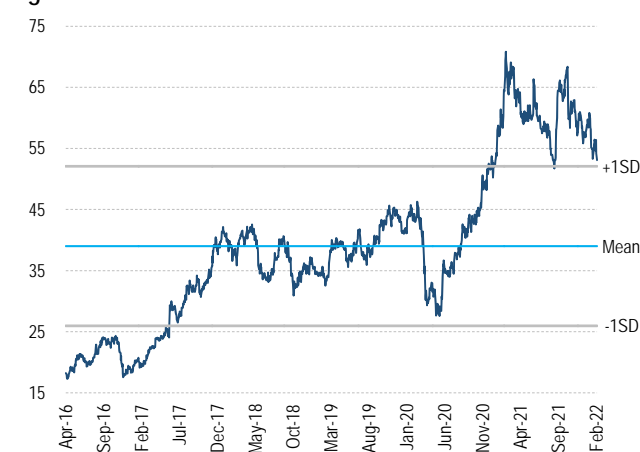
Source: Company

Fig 15 – Stock trades at around 55x



Source: Company, Anand Rath Research

Fig 16 – Mean PE is 39x



Source: Company, Anand Rath Research

Key risks to our earnings. The slower pace of order inflows from government schemes pertaining to household water-pipeline connections and rural electrification is the primary risk for the projects business. The pace can increase once results of state elections, currently underway in Uttar Pradesh, Uttaranchal and Goa, are announced. Voltas needs to beef up its order book for greater revenue assurance. The huge increase in losses of the Voltas Beko JV in FY23 can also be a risk to our earnings estimate.

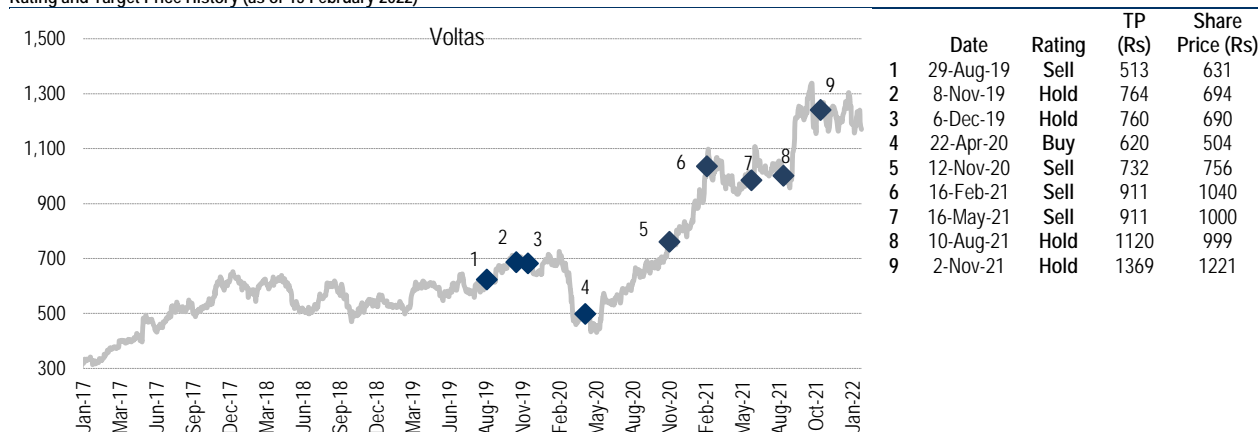
Appendix

Analyst Certification

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ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.