Retail Equity Research

Voltas Limited

Capital Goods

BSE CODE: 500575 NSE CODE: VOLTAS

Bloomberg CODE: VOLT:IN SENSEX: 37,060

HOLD

12M Investment Period Rating as per Mid Cap

CMP Rs 592 **TARGET** Rs 635 **RETURN** 8%

(Closing: 21-08-19)

KEY CHANGES: ***TARGET*** ⟷ ***RATING*** ⟷ ***EARNINGS*** ↓

Outstanding performance in the UCP segment

Voltas is India's leading air conditioning and engineering services company. In FY19, Voltas derived ~51% and ~45% of its turnover from the electro-mechanical projects (EMP) and unitary cooling products (UCP) segments, respectively.

- **Voltas posted Q1FY20 revenue of Rs. 2,647cr (up 24% YoY).**
- **EBITDA margin declined 39bps YoY to 11.0% on the back of increased costs.**
- **Adjusted PAT stood at Rs. 208cr (up 13.2% YoY). The VRS scheme impacted Net PAT in Q1FY20. However, the company expects to derive long-term benefits from the scheme.**
- **UCP segment revenue grew 46.8% YoY with a 13.1% operating margin.**
- **We maintain our Hold rating on the stock with a target price of Rs. 635 based on 29x FY21E adjusted EPS.**

Margins contract as costs increase

Q1FY20 revenue was Rs. 2,647cr (up 24.0% YoY) against Rs. 2,134cr. for the same period last year. EBITDA margin declined 39bps YoY due to an increase in cost of sales (up 26.7% YoY), marginally offset by a decrease in employee benefit expenses (down 8.0% YoY). Reported PAT reduced 10.2% YoY to Rs. 165cr, as the VRS scheme impacted PAT by Rs. 43cr. Considering this as an exceptional item, adjusted PAT stood at Rs. 208cr (up 13.2% YoY).

UCP segment outperforms

The UCP segment (66.1% of total revenue) registered strong revenue growth of 46.8% YoY. With ~24.1% share of the air conditioning business, which benefited from favourable weather conditions (hot summers) in the first quarter, the company continued to derive greater volumes for the UCP segment. The segment's operating margin stood at 13.1% in Q1FY20 (vs. 12.5% in Q1FY19), with a 61bps jump. EMP segment revenue slumped 4.9% YoY. However, the carry-forward order book looks optimistic (Rs. 4,756cr in Q1FY20 vs. Rs. 4,623cr in Q1FY19).

Key concall highlights

- Better quality, greater distribution, wider range of products and sensible advertising and pricing drove UCP segment growth. The company plans to maintain its focus on the segment to derive greater margins.
- With rural electrification picking up, the company expects to improve its revenue from the EMP segment in the coming quarters.
- Voltas-Beko products are now available through 150 brand outlets and the JV continues to be in the investment phase for the next 2 to 3 years, in line with company's long-term plan.
- Growing customer preference towards inverter ACs, especially in South India, might help the company sustain its growth rate.
- Company mentioned that the returns from its JV with Voltbek were in line with its expectations. It is expected to be profitable once the new manufacturing plant is operational.

Outlook & Valuation

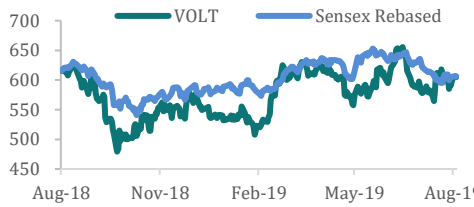
We expect the economy to stabilise and trade tensions to normalise by FY21E, prompting an uptick in all segments. Hence, we maintain our Hold rating with a target price of Rs. 635 based on 29x FY21E adjusted EPS.

Company Data	
Market Cap (cr)	Rs.19,466
Enterprise Value (cr)	Rs.19,572
Outstanding Shares (cr)	33.1
Free Float	70.0%
Dividend Yield	0.7%
52 week high	Rs.662
52 week low	Rs.471
6m average volume (lacs)	0.8
Beta	0.8
Face value	Rs.1

Shareholding %	Q3FY19	Q4FY19	Q1FY20
Promoters	30.3	30.3	30.3
FII's	14.6	13.7	13.0
MFs/Insti	33.3	35.1	36.3
Public	15.2	15.2	15.0
Others	6.6	5.7	5.4
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	0.7%	10.4%	-4.0%
Absolute Sensex	-4.9%	3.2%	-3.2%
Relative Return*	5.6%	7.1%	-0.8%

***over or under performance to benchmark index**



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	7,085	8,059	9,047
Growth (%)	11.0	13.7	12.3
EBITDA	612	784	871
EBITDA Margin (%)	8.6	9.7	9.6
Adj. PAT	520	616	726
Growth (%)	-9.1	18.6	17.7
Adj. EPS	15.7	18.6	21.9
Growth (%)	-9.1	18.7	17.7
P/E	40.1	31.6	26.8
P/B	5.1	4.3	3.8
EV/EBITDA	34.1	25.0	22.5
ROE (%)	12.4	12.6	14.3
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	QoQ Growth %
Revenue	2,647	2,134	*24.0*	2,052	*29.0*
EBITDA	**291**	**243**	*19.7*	**144**	*101.8*
EBITDA margins	11.0	11.4	(39bps)	7.0	400bps
Depreciation	8	6	*30.0*	6	*30.2*
EBIT	**283**	**237**	*19.5*	**138**	*104.9*
Interest	4	3	*60.4*	11	*(58.8)*
Other Income	22	29	*(23.7)*	38	*(42.1)*
Exceptional Items	(43)	-	*n.m.*	-	*n.m.*
PBT	**258**	**263**	*(2.0)*	**166**	*55.8*
Tax	92	76	*20.4*	24	*284.2*
Share of profit from Associate	(21)	1	*n.m.*	(19)	*10.5*
Minority Interest	1	3	*n.m.*	2	*(46.5)*
Reported PAT	**165**	**184**	*(10.2)*	**140**	*18.3*
Adjustments	43	-	*n.m.*	-	*n.m.*
Adjusted PAT	**208**	**184**	*13.2*	**140**	*49.1*
No. of shares	33.1	33.1	-	33.1	-
EPS (Rs)	**6.3**	**5.6**	*13.2*	**4.2**	*49.1*

Segment-wise performance

Rs. cr	Q1FY20			Q1FY19			YoY Growth %		
	Revenue	EBIT	% Margin	Revenue	EBIT	% Margin	Revenue	EBIT	Margin
EMP	824	66	*8.0*	866	88	*10.2*	*(4.9)*	*(26)*	*(220bps)*
EPS	74	24	*32.4*	77	27	*34.7*	*(4.1)*	*(11)*	*(230bps)*
UCP	1,749	230	*13.1*	1,191	149	*12.5*	*46.8*	*54*	*60bps*
Total	2,647	319	*12.1*	2135	264	*12.4*	*24.0*	*21*	*(30bps)*

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	**FY20E**	**FY21E**	**FY20E**	**FY21E**	**FY20E**	**FY21E**
Revenue	8,688	-	8,059	9,047	*(7.2)*	-
EBITDA	907	-	784	871	*(13.6)*	-
Margins (%)	10.4	-	9.7	9.6	(70bps)	-
Adj. PAT	777	-	616	726	(20.7)	-
EPS	23.5	-	18.6	21.9	(20.8)	-

PROFIT & LOSS

Y.E December (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	**6,033**	**6,380**	**7,085**	**8,059**	**9,047**
% change	3.4	5.8	11.0	13.7	12.3
EBITDA	**579**	**663**	**612**	**784**	**871**
% change	32.5	14.4	(7.7)	28.2	11.1
Depreciation	24	24	24	31	37
EBIT	**555**	**638**	**588**	**753**	**835**
Interest	16	12	33	74	31
Other Income	182	179	123	90	171
PBT	**720**	**805**	**677**	**770**	**974**
% change	30.5	11.8	(15.8)	13.6	26.6
Tax	209	227	164	189	240
Tax Rate (%)	29.0	28.2	24.1	24.6	24.6
Reported PAT	**509**	**572**	**508**	**573**	**726**
Adj*	(1)	(1)	12	43	-
Adj PAT	**508**	**572**	**520**	**616**	**726**
% change	47.3	12.6	(9.1)	18.6	17.7
No. of shares (cr)	33.1	33.1	33.1	33.1	33.1
Adj EPS (Rs)	**15.3**	**17.3**	**15.7**	**18.6**	**21.9**
% change	47.3	12.6	(9.1)	18.7	17.7
DPS (Rs)	3.5	4.0	4.0	4.5	5.7
CEPS (Rs)	16.1	18.0	16.4	19.6	23.1

BALANCE SHEET

Y.E December (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	313	258	311	250	257
Accounts Receivable	1,454	1,570	1,803	2,051	2,303
Inventories	907	813	1,091	1,220	1,370
Other Cur. Assets	1,315	1,956	2,442	2,456	2,469
Investments	2,114	2,311	1,196	1,217	1,241
Gross Fixed Assets	402	408	453	545	648
Net Fixed Assets	173	170	216	260	326
CWIP	1	4	16	16	16
Intangible Assets	81	82	81	82	83
Def. Tax (Net)	31	18	106	123	155
Other Assets	91	127	260	280	284
Total Assets	**6,480**	**7,310**	**7,522**	**7,955**	**8,504**
Current Liabilities	2,871	3,129	2,971	2,977	2,984
Provisions	91	87	85	80	75
Debt Funds	171	142	315	315	315
Other Liabilities	11	14	7	8	10
Equity Capital	33	33	33	33	33
Reserves & Surplus	3,274	3,872	4,077	4,501	5,037
Shareholder's Fund	3,307	3,905	4,110	4,534	5,071
Minority Interest	29	32	35	41	50
Total Liabilities	**6,480**	**7,310**	**7,522**	**7,955**	**8,504**
BVPS (Rs)	**100**	**118**	**124**	**137**	**153**

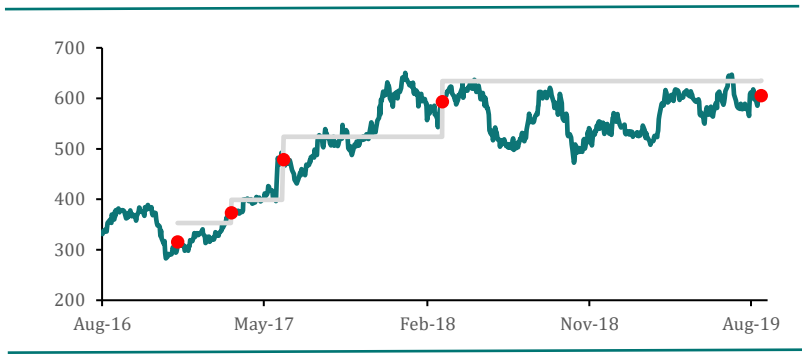
CASH FLOW

Y.E December (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	**533**	**597**	**532**	**604**	**763**
Non-cash adj.	(134)	(464)	(428)	16	8
Changes in W.C	29	192	(425)	(368)	(439)
C.F. Operation	**428**	**325**	**(321)**	**253**	**331**
Capital exp.	(23)	(33)	(80)	(92)	(103)
Change in inv.	(131)	(220)	396	-	-
Other invest.CF	80	54	77	-	-
C.F – Investment	**(74)**	**(199)**	**393**	**(92)**	**(103)**
Issue of equity	-	-	-	-	-
Issue/repay debt	(100)	(29)	172	-	-
Dividends paid	(94)	(141)	(158)	(149)	(189)
Other finance.CF	(17)	(12)	(33)	(74)	(31)
C.F – Finance	**(211)**	**(181)**	**(18)**	**(223)**	**(221)**
Chg. in cash	143	(55)	53	(61)	7
Closing cash	313	258	311	250	257

RATIOS

Y.E December	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	9.6	10.4	8.6	9.7	9.6
EBIT margin (%)	9.2	10.0	8.3	9.3	9.2
Net profit mgn.(%)	8.4	9.0	7.2	7.1	8.0
ROE (%)	15.4	14.7	12.4	12.6	14.3
ROCE (%)	15.8	15.6	13.2	15.4	15.4
W.C & Liquidity					
Receivables (days)	88.0	89.8	92.9	92.9	92.9
Inventory (days)	77.0	64.6	75.7	75.7	75.7
Payables (days)	169.4	173.0	164.7	147.8	129.6
Current ratio (x)	1.3	1.4	1.7	1.8	1.9
Quick ratio (x)	0.6	0.7	1.0	1.1	1.2
Turnover & Leverage					
Gross asset T.O (x)	13.3	15.8	16.5	16.1	15.2
Total asset T.O (x)	1.0	0.9	1.0	1.0	1.1
Int. covge. ratio (x)	34.6	53.5	17.8	10.2	26.5
Adj. debt/equity (x)	0.1	0.0	0.1	0.1	0.1
Valuation					
EV/Sales (x)	2.1	3.1	2.9	2.4	2.2
EV/EBITDA (x)	22.0	30.0	34.1	25.0	22.5
P/E (x)	25.3	35.0	40.1	31.6	26.8
P/BV (x)	3.9	5.1	5.1	4.3	3.8

Recommendation Summary (Last three years)



Dates	Rating	Target
8-Dec-16	ACCUMULATE	353
9-Mar-17	HOLD	399
5-Jun-17	HOLD	524
28-Feb-18	HOLD	634
22-Aug-19	HOLD	635

Source: Bloomberg, Geojit Research.

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	**Upside is above 10%.**	**Buy**	-	**Upside is above 15%.**
Hold	-	**Upside is between 0%- 10%.**	**Accumulate**	-	**Upside is between 10% - 15%.**
Reduce	-	**Downside is more than 0%.**	**Hold**	-	**Upside is between 0% - 10%.**
Neutral	-	**Not Applicable**	**Reduce/Sell**	-	**Downside is more than 0%.**
			Neutral	-	**Not Applicable**

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.
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ANIL R

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

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