

Retail Equity Research

Voltas Limited

Capital Goods

BSE CODE: 500575

NSE CODE: VOLTAS

Bloomberg CODE: VOLT:IN

SENSEX: 34,371

REDUCE

12M Investment period

Rating as per Mid Cap

CMP Rs. 561

TARGET Rs. 528

RETURN -6%

(Closing: 08-06-20)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

Decent Q4; Short-term outlook challenging

Voltas is India's leading air conditioning and engineering services company. In FY20, Voltas derived ~53% & 43% of its turnover from Unitary Cooling Products (UCP) & Electro-Mechanical Projects (EMP) segment, respectively.

- Revenue inched up 1.3% YoY to Rs. 2,078cr, as growth in UCP (+20.1% YoY) was largely offset by declines in EMP revenue (-17.6%). We expect lockdown related challenges to severely impact FY21 revenue.
- EBITDA margin expanded 220bps YoY to 9.2%, aided by better mix and lower costs. PAT increased 13.6% YoY to Rs. 159cr in Q4FY20. Pricing pressures to impact EBITDA margin in the near-term.
- We have trimmed down FY21-22 revenue estimates by 13.7%/12.5% on account of COVID-19 related challenges. Amidst uncertainty, we remain cautious and maintain our REDUCE rating on the stock with a revised target price of Rs. 528 based on 30x FY22E adj. EPS

Weak EMP operations offset growth in UCP revenues

Voltas registered a revenue growth of 1.3% YoY in Q4FY20 to reach Rs. 2,079cr. This growth was mainly attributable to growing revenue from UCP (+20.1% YoY to Rs. 1,199cr), on account of severe summer prediction and expected supply chain disruptions amidst COVID-19 situation. However, it was offset by the decline in EMP segment (-17.6% YoY to Rs. 805cr), largely due to the slow pace of project execution, postponement of Mega events like the Dubai Expo 2020 and challenges such as remobilization of workforce. We expect the lockdown related issues, economic scenario across the globe and stressed liquidity to severely impact sales in FY21.

Margins to be under pressure

Company posted robust growth in Q4FY20 EBITDA (+33.1% YoY to Rs. 192cr), as EBITDA margin expanded 220bps YoY to 9.2%, aided by better mix and lower raw material costs. Reported PAT increased 13.6% YoY to Rs. 159cr in Q4FY20, partially pulled down by the higher taxes. Inventory days increased substantially by FY20-end, reflecting higher inventory and low demand which could lead to pricing pressures going forward. Additionally, in an environment of subdued demand, where people's spending towards luxury products would be restricted, there would be further pressure on the margins in the near-term.

Key concall highlights

- International EMP operations were not impacted significantly as construction operations (considered as essential service in Middle East) were on, though at a slow pace.
- As of April 1st, 2020, the order book for EMP segment stood at Rs. 7,788cr vs. Rs. 5,000cr in April 2019 (of which the Central & State Government's order book adds up to Rs. 4,789cr, with a healthy mix of Water, Metro, Airport, Solar and general MEP projects).
- Voltas achieved market leader position in the inverter AC segment, while it was placed second in the AC segment with an improved market share of ~10%.

Valuation

We have trimmed down our FY21E Revenue/PAT estimates by 13.7%/16.9%, as the company has lost significant portion of its business amidst extended lockdown during Q1FY21 – which normally is the peak season. We remain cautious on the company's performance and thereby maintain our REDUCE rating on the stock with a revised target price of Rs. 528 based on 30x FY22E adj. EPS.

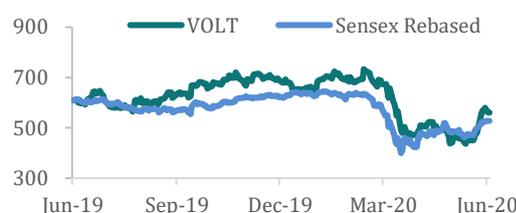
Company Data

Market Cap (cr)	Rs. 18,546
Enterprise Value (cr)	Rs. 18,500
Outstanding Shares (cr)	33.1
Free Float	70.0%
Dividend Yield	0.7%
52 week high	Rs. 741
52 week low	Rs. 428
6m average volume	62,766
Beta	0.8
Face value	Rs. 1

Shareholding %	Q2FY20	Q3FY20	Q4FY20
Promoters	30.3	30.3	30.3
FII's	10.2	10.9	9.9
MFs/Insti	39.5	38.6	40.0
Public	14.9	15.0	14.9
Others	5.1	5.2	4.9
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-16.7%	-18.7%	-7.9%
Absolute Sensex	-8.5%	-15.0%	-13.2%
Relative Return*	-8.2%	-3.7%	5.3%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	7,627	6,964	7,802
Growth (%)	7.7	(8.7)	12.0
EBITDA	687	606	702
EBITDA Margin (%)	9.0	8.7	9.0
Adj. PAT	568	498	582
Growth (%)	9.4	(12.4)	16.9
Adj. EPS	17.2	15.1	17.6
Growth (%)	9.4	(12.4)	16.9
P/E	27.9	38.5	32.9
P/B	3.7	4.2	3.8
EV/EBITDA	23.0	31.6	27.0
ROE (%)	12.1	10.8	11.6
D/E	0.1	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	QoQ Growth %	FY20	FY19	YoY Growth %
Revenue	2,078	2,052	1.3	1,487	39.8	7,627	7,085	7.7
EBITDA	192	144	33.1	98	96.8	687	612	12.3
EBITDA margins	9.2	7.0	220bps	6.6	260bps	9.0	8.6	40bps
Depreciation	8	6	38.3	8	2.2	32	24	33.3
EBIT	184	138	32.8	90	105.3	655	588	11.4
Interest	6	11	(43.1)	6	5.6	21	33	(36.0)
Other Income	60	57	5.8	54	11.5	231	186	23.8
Share of profit from Associates	(19)	(19)	0.7	(19)	4.0	(69)	(52)	32.6
Exceptional Items	(2)	-	-	-	-	(51)	(12)	334.9
PBT	217	166	30.9	119	81.6	744	677	9.9
Tax	57	24	139.9	31	82.5	223	164	36.5
Minority Interest	1	2	(60.6)	1	(19.2)	3	6	(44.2)
Reported PAT	159	140	13.6	87	82.6	517	508	1.8
Adjustments	2	-	-	-	-	51	12	-
Adjusted PAT	161	140	13.6	87	82.6	568	520	1.8
No. of shares	33.1	33.1	(0.1)	33.1	-	33.1	33.1	(0.1)
Adj. EPS (Rs.)	4.8	4.2	13.7	2.6	82.6	17.2	15.7	9.4

Segment-wise Revenue and EBIT

Rs. cr	Q4FY20			Q4FY19			YoY Growth %		
	Revenue	EBIT	% Margin	Revenue	EBIT	% Margin	Revenue	EBIT	% Margin
UCP	1,199	175	14.6	999	104	10.4	20.1	69.1	425
EMP	805	11	1.4	976	44	4.5	(17.6)	(74.4)	(311)
EPS	95	27	28.4	78	27	34.9	20.8	(1.7)	(651)
Intersegment	(20)	-	-	-	-	-	-	-	-
Total	2,078	214	10.3	2,052	175	8.5	1.3	21.9	174

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	8,067	8,917	6,964	7,802	(13.7)	(12.5)
EBITDA	726	829	606	702	(16.5)	(15.3)
Margins (%)	9.0	9.3	8.7	9.0	(30bps)	(30bps)
Adj. PAT	599	675	498	582	(16.9)	(13.8)
EPS	18.1	20.4	15.1	17.6	(16.8)	(13.7)

PROFIT & LOSS

Y.E December (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	6,380	7,085	7,627	6,964	7,802
% change	5.8	11.0	7.7	(8.7)	12.0
EBITDA	663	612	687	606	702
% change	14.4	(7.7)	12.3	(11.7)	15.8
Depreciation	24	24	32	35	40
EBIT	638	588	655	571	662
Interest	12	33	21	20	16
Other Income	179	123	111	133	154
PBT	805	677	744	685	801
% change	11.8	(15.8)	9.9	(8.0)	16.9
Tax	227	164	223	181	211
Tax Rate (%)	28.2	24.1	30.0	26.4	26.4
Reported PAT	572	508	517	498	582
Adj*	(1)	12	51	-	-
Adj PAT	572	520	568	498	582
% change	12.6	(9.1)	9.4	(12.4)	16.9
No. of shares (cr)	33.1	33.1	33.1	33.1	33.1
Adj EPS (Rs.)	17.3	15.7	17.2	15.1	17.6
% change	12.6	(9.1)	9.4	(12.4)	16.9
DPS (Rs.)	4.0	4.0	4.0	4.0	4.0
CEPS (Rs.)	18.0	16.4	18.2	16.1	18.8

CASH FLOW

Y.E December (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	597	532	549	533	622
Non-cash adj.	(464)	(428)	43	(170)	(65)
Changes in W.C	192	(425)	(130)	(20)	(32)
C.F. Operation	325	(321)	462	342	525
Capital exp.	(33)	(80)	(83)	(70)	(85)
Change in inv.	(220)	396	(209)	(50)	(75)
Other invest.CF	54	77	82	-	(0)
C.F - Investment	(199)	393	(210)	(120)	(160)
Issue of equity	-	-	-	-	-
Issue/repay debt	(29)	172	(106)	(40)	(100)
Dividends paid	(141)	(158)	(163)	(167)	(167)
Other finance.CF	(12)	(33)	(25)	(20)	(16)
C.F - Finance	(181)	(18)	(294)	(226)	(283)
Chg. in cash	(55)	53	(42)	(4)	82
Closing cash	258	311	270	266	348

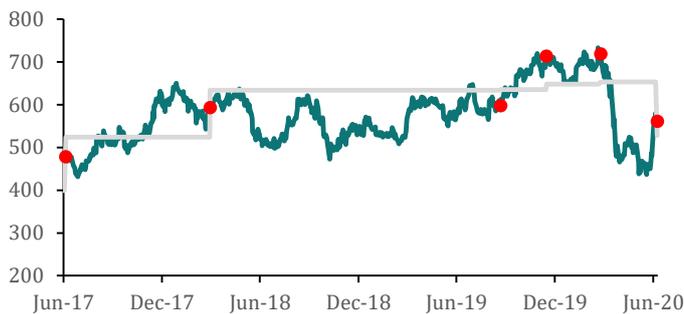
BALANCE SHEET

Y.E December (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	258	311	270	266	348
Accounts Receivable	1,570	1,803	1,827	1,741	1,989
Inventories	813	1,091	1,469	1,443	1,648
Other Cur. Assets	1,956	2,442	2,013	2,067	2,182
Investments	2,311	1,196	1,868	1,913	1,996
Gross Fixed Assets	408	453	478	548	633
Net Fixed Assets	170	216	240	248	292
CWIP	4	16	26	28	29
Intangible Assets	82	81	95	95	95
Def. Tax (Net)	18	106	73	9	21
Other Assets	127	260	275	295	289
Total Assets	7,310	7,522	8,156	8,103	8,889
Current Liabilities	3,129	2,971	3,519	3,175	3,642
Provisions	87	85	93	88	83
Debt Funds	142	315	218	178	78
Other Liabilities	14	7	9	8	9
Equity Capital	33	33	33	33	33
Reserves & Surplus	3,872	4,077	4,247	4,578	4,994
Shareholder's Fund	3,905	4,110	4,280	4,611	5,027
Minority Interest	32	35	36	43	50
Total Liabilities	7,310	7,522	8,156	8,103	8,889
BVPS (Rs.)	118	124	129	139	152

RATIOS

Y.E December	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	10.4	8.6	9.0	8.7	9.0
EBIT margin (%)	10.0	8.3	8.6	8.2	8.5
Net profit mgn.(%)	9.0	7.2	6.8	7.1	7.5
ROE (%)	14.7	12.4	12.1	10.8	11.6
ROCE (%)	15.6	13.2	14.4	11.8	12.9
W.C & Liquidity					
Receivables (days)	89.8	92.9	87.4	91.3	93.1
Inventory (days)	64.6	75.7	96.5	103.8	105.9
Payables (days)	173.0	164.7	176.7	184.0	191.3
Current ratio (x)	1.4	1.7	1.5	1.6	1.7
Quick ratio (x)	0.7	1.0	0.7	0.8	0.8
Turnover & Leverage					
Gross asset T.O (x)	15.8	16.5	16.4	13.6	13.2
Total asset T.O (x)	0.9	1.0	1.0	0.9	0.9
Int. coverage ratio (x)	53.5	17.8	31.0	29.1	41.4
Adj. debt/equity (x)	0.0	0.1	0.1	0.0	0.0
Valuation					
EV/Sales (x)	3.1	2.9	2.1	2.7	2.4
EV/EBITDA (x)	30.0	33.5	23.0	31.6	27.0
P/E (x)	35.0	39.3	27.9	38.5	32.9
P/BV (x)	5.1	5.0	3.7	4.2	3.8

Recommendation Summary



Dates	Rating	Target
9-Mar-17	HOLD	399
5-Jun-17	HOLD	524
28-Feb-18	HOLD	634
22-Aug-19	HOLD	635
15-Nov-19	REDUCE	648
24-Feb-20	REDUCE	653
09-Jun-20	REDUCE	528

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

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

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