

Retail Equity Research

Voltas Limited

Capital Goods

BSE CODE: 500575

NSE CODE: VOLTAS

Bloomberg CODE: VOLT:IN

SENSEX: 43,953

HOLD

12M Investment period

Rating as per Mid Cap

CMP Rs. 775

TARGET Rs. 848

RETURN 9% ↑

(Closing:17-11-20)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Profit slips despite double-digit revenue growth

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.

- As lockdown relaxations ease the economy & improve the demand scenario, company's revenue has seen a double digit growth of 12.2% YoY with both EMP & UCP segments contributing to it.
- EBITDA margin shrank by 130bps YoY, despite implementing various cost-cutting measures, due to higher costs from EMP segment partly offset by cost reduction in UCP.
- With volume recovery in both UCP and EMP in upcoming quarters, we expect the topline to improve gradually. However, focus remains on the firm's ability to control costs in order to recoup margins. Hence we upgrade our rating to HOLD with a revised price target of Rs. 848 based on 40.0x FY22E adj. EPS.

Recovery in EMP revenues help topline growth

Voltas reported a consolidated revenue growth of 12.2% YoY in Q2FY21 (24.9% QoQ) to stand at Rs. 1,588cr. This is mainly driven by a sharp recovery from EMP segment (14.6% YoY to Rs. 928cr) which was hit severely in the recent past. Revenue growth of UCP segment (8.8% YoY to Rs. 572cr), on account of lockdown relaxations & work from home extensions, also aids the overall growth. Considering the fast-paced recovery in its business & the company's ability to retain market leadership despite challenging times, we expect further growth acceleration as the market gets back to normal level.

Margins remain under pressure

EBITDA came in at Rs. 98cr (-7.5% YoY vs. Rs. 106cr in Q2FY20) as EBITDA margin contracted by 130bps to 6.2% (vs. 7.5% in Q2FY20), mainly due to higher fixed costs associated with EMP segment. Thereby, Profit before Tax reduced to Rs. 115cr. (down 23.5% YoY), as contribution from other income was lower compared to same period previous year. Adjusted PAT decreased by 30.4% YoY to Rs. 78cr (vs Rs. 113cr in Q2FY20) due to low other income & higher taxes compared to Q2FY20.

Key concall highlights

- EMP segment received new orders from Government of Rs. 273cr as infrastructure spending increased.
- Transferring its B2B operations to a group co., named Rohini Industrial Electricals. Emphasized it as a part of internal restructuring to ensure B2B & B2C get additional focus going forward.
- Plans to setup another manufacturing unit in south India to capture supply-chain advantages. Projected Capex is around Rs. 200cr to Rs. 250cr through first-phase.

Valuation

Gradual pick-up in demand due to extended work-from-home situation may lead the topline to grow with good momentum. However, any increase in input cost or administrative expenses could pressurize margins further. We expect the company may improve EBITDA realization on sequential basis and hence we upgrade to HOLD rating over medium-term with price target revised to Rs. 848 based on 40.0x FY22E adj. EPS.

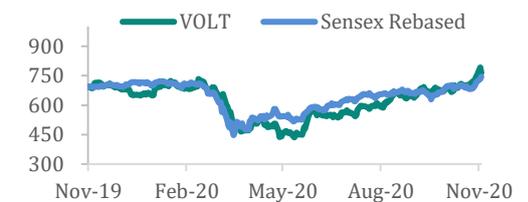
Company Data

Market Cap (cr)	Rs. 25,619
Enterprise Value (cr)	Rs. 25,512
Outstanding Shares (cr)	33.1
Free Float	70.0%
Dividend Yield	0.5%
52 week high	Rs. 803
52 week low	Rs. 428
6m average volume (lacs)	0.7
Beta	0.8
Face value	Rs. 1.0

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	30.3	30.3	30.3
FII's	9.9	10.7	12.4
MFs/Insti	40.0	39.3	39.2
Public	14.9	15.0	14.4
Others	4.9	4.7	3.6
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	23.2%	67.5%	8.6%
Absolute Sensex	15.5%	41.3%	8.9%
Relative Return*	7.7%	26.2%	-0.3%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	7,627	6,895	8,576
Growth (%)	7.7	(9.6)	24.4
EBITDA	687	539	808
EBITDA Margin (%)	9.0	7.8	9.4
Adj. PAT	568	456	701
Growth (%)	9.4	(19.7)	53.5
Adj. EPS	17.2	13.8	21.2
Growth (%)	9.4	(19.7)	53.5
P/E	27.9	56.1	36.6
P/B	3.7	5.6	5.0
EV/EBITDA	23.0	47.3	31.3
ROE (%)	12.1	9.9	13.6
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	1,588	1,415	12.2	1,271	24.9	2,858	4,062	(29.6)
EBITDA	98	106	(7.5)	67	46.8	165	397	(58.5)
EBITDA margins	6.2	7.5	(130bps)	5.3	90bps	5.8	9.8	(400bps)
Depreciation	8	8	4.6	8	2.1	17	16	5.5
EBIT	90	98	(8.4)	59	53.1	148	381	(61.2)
Interest	6	5	17.6	7	(13.5)	13	9	34.4
Other Income	31	63	(50.8)	56	(44.0)	87	85	1.8
Exceptional Items	-	(6)	n.m.	-	n.m.	-	(49)	n.m.
PBT	115	150	(23.5)	108	6.9	223	408	(45.5)
Tax	35	43	(17.8)	26	37.2	61	135	(54.6)
Share of profit from Associate	(7)	(9)	22.8	(12)	39.6	(19)	(31)	38.6
Minority Interest	1	1	54.1	1	111.3	2	2	(3.0)
Reported PAT	78	106	(26.4)	81	(3.5)	160	272	(41.3)
Adjustments	-	6	n.m.	-	n.m.	-	49	n.m.
Adj. PAT	78	113	(30.4)	81	(3.5)	160	321	(50.3)
No. of shares	33.1	33.1	-	33.1	-	33.1	33.1	-
Adj. EPS (Rs.)	2.4	3.4	(30.4)	2.5	(3.5)	4.8	9.7	(50.3)

Segment-wise Revenue and PBT

Rs. cr	Q2FY21			Q2FY20			YoY Growth %		
	Revenue	PBT	% Margin	Revenue	PBT	% Margin	Revenue	PBT	% Margin
UCP	572	63	11.0	526	46	8.8	8.8	36.4	223
EMP	928	23	2.5	809	56	6.9	14.6	(59.0)	(446)
EPS	93	29	30.9	80	25	31.5	16.2	13.9	(62)
Intersegment/Others	(5)	0	n.m.	(0)	23	n.m.	n.m.	n.m.	n.m.
Total	1,588	115	7.2	1,415	150	10.6	12.2	(23.5)	(179)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	6,964	7,802	6,895	8,576	(1.1)	9.9
EBITDA	606	702	539	808	(11.1)	15.1
Margins (%)	8.7	9.0	7.8	9.4	(90bps)	40bps
Adj. PAT	498	582	456	701	(8.3)	20.4
Adj. EPS	15.1	17.6	13.8	21.2	(8.3)	20.4



PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	6,380	7,085	7,627	6,895	8,576
% change	5.8	11.0	7.7	(9.6)	24.4
EBITDA	663	612	687	539	808
% change	14.4	(7.7)	12.3	(21.5)	49.8
Depreciation	24	24	32	35	35
EBIT	638	588	655	504	773
Interest	12	33	21	20	22
Other Income	179	123	111	133	197
PBT	805	677	744	618	948
% change	11.8	(15.8)	9.9	(17.0)	53.5
Tax	227	164	223	156	239
Tax Rate (%)	28.2	24.1	30.0	25.2	25.2
Reported PAT	572	508	517	456	701
Adj*	(1)	12	51	-	-
Adj PAT	572	520	568	456	701
% change	12.6	(9.1)	9.4	(19.7)	53.5
No. of shares (cr)	33.1	33.1	33.1	33.1	33.1
Adj EPS (Rs.)	17.3	15.7	17.2	13.8	21.2
% change	12.6	(9.1)	9.4	(19.7)	53.5
DPS (Rs.)	4.0	4.0	4.0	4.0	4.0
CEPS (Rs.)	18.0	16.4	18.2	14.9	22.2

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	597	532	549	491	736
Non-cash adj.	(464)	(428)	43	(172)	(29)
Changes in W.C	192	(425)	(130)	16	(126)
C.F. Operation	325	(321)	462	335	580
Capital exp.	(33)	(80)	(83)	(35)	(94)
Change in inv.	(220)	396	(209)	(50)	(75)
Other invest.CF	54	77	82	-	(0)
C.F - Investment	(199)	393	(210)	(85)	(169)
Issue of equity	-	-	-	-	-
Issue/repay debt	(29)	172	(106)	212	(100)
Dividends paid	(141)	(158)	(163)	(134)	(167)
Other finance.CF	(12)	(33)	(25)	(20)	(22)
C.F - Finance	(181)	(18)	(294)	59	(288)
Chg. in cash	(55)	53	(42)	310	124
Closing cash	258	311	270	579	703

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	258	311	270	579	703
Accounts Receivable	1,570	1,803	1,827	1,724	2,187
Inventories	813	1,091	1,469	1,467	1,821
Other Cur. Assets	1,956	2,442	2,013	2,065	2,196
Investments	2,311	1,196	1,868	1,913	1,996
Gross Fixed Assets	408	453	478	513	606
Net Fixed Assets	170	216	240	212	269
CWIP	4	16	26	28	29
Intangible Assets	82	81	95	95	95
Def. Tax (Net)	18	106	73	8	24
Other Assets	127	260	275	295	288
Total Assets	7,310	7,522	8,156	8,386	9,608
Current Liabilities	3,129	2,971	3,519	3,214	3,998
Provisions	87	85	93	88	83
Debt Funds	142	315	218	430	330
Other Liabilities	14	7	9	8	9
Equity Capital	33	33	33	33	33
Reserves & Surplus	3,872	4,077	4,247	4,570	5,104
Shareholder's Fund	3,905	4,110	4,280	4,603	5,137
Minority Interest	32	35	36	42	51
Total Liabilities	7,310	7,522	8,156	8,386	9,608
BVPS (Rs.)	118	124	129	139	155

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	10.4	8.6	9.0	7.8	9.4
EBIT margin (%)	10.0	8.3	8.6	7.3	9.0
Net profit mgn.(%)	9.0	7.2	6.8	6.6	8.2
ROE (%)	14.7	12.4	12.1	9.9	13.6
ROCE (%)	15.6	13.2	14.4	9.9	14.0
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	1.6
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	13.9	15.3
Total asset T.O (x)	0.9	1.0	1.0	0.8	1.0
Int. coverage ratio (x)	53.5	17.8	31.0	25.7	35.9
Adj. debt/equity (x)	0.0	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	3.1	2.9	2.1	3.7	2.9
EV/EBITDA (x)	30.0	33.5	23.0	47.3	31.3
P/E (x)	35.0	39.3	27.9	56.1	36.6
P/BV (x)	5.1	5.0	3.7	5.6	5.0

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
9-Jun-20	REDUCE	528
18-Nov-20	HOLD	848

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.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

General Disclosures and Disclaimers

CERTIFICATION

I, Cyril Charly, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit, a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. GEOJIT is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. GEOJIT will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION: The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE: GEOJIT and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose

his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER: We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by GEOJIT without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

JURISDICTION: The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES: GEOJIT's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), GEOJIT affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities. In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

GEOJIT confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

He, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, GEOJIT or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company and is in receipt of compensation from the subject company." (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by GEOJIT regarding the compensation paid to its Research Analyst:

GEOJIT hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Cyril Charly, Research Analyst(s) of GEOJIT have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither GEOJIT/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padiyattom, 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.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226