

Good show given the quarter; Maintain Buy

- Q1 saw good performance across all metrics, ahead of estimates (Exhibit 1), with RAC volumes growing 10%, double digit EBIT margins continuing at 12.3% and leadership position with a ~27% market share. The project business also had a good quarter in terms of execution and margins.
- It continues to focus on its distribution and reach. Voltas has its strengths- brand name, market share and distribution network which helps in expanding market share while maintaining profitability. It is aided by its product and regional mix. It is also splitting its business into B2C and B2B, which will give it a sharper focus on the durables business
- Voltas with its healthy growth and market leadership under RAC remains our pick. It has a clean debt-free balance sheet. We maintain Buy with a TP of Rs1240, valuing it at 52xSep22E.

Good show given the nature of the quarter

Sales for Q1FY22 came in higher by 37% YoY at Rs17.8bn vs. Rs17bn estimate. AC sales grew 19% YoY at Rs9.6bn with RAC volumes growing at 10% Company retained no.1 position in ACs with market share at 26.7%, up 100bps QoQ. EBITDA at Rs1.35bn up 103% YoY with lower GM by 230bps QoQ to 27.9%. AC EBIT was flat YoY at Rs1.2bn with margins lower by 180bps at 12.3% in Q1, given that lockdown began late and some sales promotional expenses incurred during the quarter. This segment also saw commercial air conditioning business move from projects segment to the cooling segment as customer facing businesses are segregated. The project business saw revenues rise by 67% YoY at Rs6.9bn due to increased execution in Q1, with margins at 4.4%. PAT for Q1 was Rs1.2bn vs. Rs1n estimate, higher by 50% YoY; due to better topline and cost rationalization. Beko also posted a higher than normal loss at Rs306mn due to promotional expenses incurred during the quarter. Inventory is higher especially on the RM side due to lower production, but this should get depleted over Q2 and Q3.

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	17,852	12,969	37.6	26,517	(32.7)
Total Expense	16,494	12,302	34.1	23,209	(28.9)
EBITDA	1,358	667	103.4	3,307	(58.9)
Depreciation	86	82	4.7	89	(2.9)
EBIT	1,272	585	117.3	3,219	(60.5)
Other Income	750	674	11.2	316	137.4
Interest	35	67	(47.9)	104	(66.4)
EBT	1,986	1,192	66.6	3,430	(42.1)
Tax	456	258	77.1	821	(44.4)
RPAT	1,224	818	49.7	2,387	(48.7)
APAT	1,224	818	49.7	2,387	(48.7)
			(bps)		(bps)
Gross Margin (%)	27.9	30.0	(210)	25.6	230
EBITDA Margin (%)	7.6	5.1	246	12.5	(487)
NPM (%)	6.9	6.3	55	9.0	(214)
Tax Rate (%)	23.0	21.6	136	23.9	(97)
EBIT Margin (%)	7.1	4.5	261	12.1	(501)

CMP	Rs 1,025
Target / Upside	Rs 1,240 / 21%
NIFTY	16,258

Scrip Details

Equity / FV	Rs 331mn / Rs 1
Market Cap	Rs 339bn
	USD 4.7bn
52-week High/Low	Rs 1,132/ 586
Avg. Volume (no)	1,507,700
Bloom Code	VOLT IN

Price Performance	1M	3M	12M
Absolute (%)	1	6	73
Rel to NIFTY (%)	(3)	(5)	30

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	30.3	30.3	30.3
MF/Banks/FIs	37.6	37.5	34.1
FIIIs	14.6	14.4	17.2
Public / Others	17.5	17.9	18.3

Valuation (x)

	FY21A	FY22E	FY23E
P/E	64.1	50.9	37.3
EV/EBITDA	52.2	45.1	32.4
ROE (%)	11.4	13.7	18.0
RoACE (%)	12.7	13.7	17.7

Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	75,558	86,686	105,818
EBITDA	6,414	7,455	10,264
PAT	5,288	6,669	9,083
EPS (Rs.)	16.0	20.1	27.4

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Leadership in RAC continue, progress in Beko

Voltas continues to lead the RAC industry with 26.7%, up by 100bps QoQ, notable in a truncated quarter. Inventory is believed to be at normal levels despite new lockdown, company will continue seeing growth in volumes. Voltas has been able to pass on the effect of increased input prices to customers which is visible in its RAC margins at 12.3%, best among peers. It continues to expand its distribution and currently has 22000 touchpoints over the country with 1200 Beko billing points. It is making steady progress in Beko and now stands at a market share of 3.1% and 2.7% in fridge and washing machines respectively. It is cautiously moving in its project business, where it has an order book of Rs61.5bn.

Our AC industry pick. Maintain Buy

Voltas with its healthy growth and market leadership under RAC remains our pick. We have tweaked our estimates on account of the quarter gone by. The company has a clean debt-free balance sheet with net cash at ~Rs25bn (end FY21). We maintain Buy with a TP of Rs1240, valuing it at 52xSep22E.

Exhibit 1: Actual v/s DART estimates

Particulars (Rs mn)	Actual	DART Consensus		DART Consensus		Comment
	Q1FY22	Q1FY22	Q1FY22	Var (%)	Var (%)	
Sales	17,852	16,920	19,050	5.5	(6.3)	Sales were in line with estimates
EBITDA	1,358	1,099	1,620	24	(16)	Margins helped by projects business
EBITDA margins (%)	7.6	6.5	8.5	111	(90)	
PAT	1,224	951	1,318	28.8	(7.1)	Leading to a PAT beat
Pat margins	6.9	5.6	6.9	124	(6)	
EPS (Rs)	3.7	2.9	4.0	28.8	(27.9)	

Source: Company, DART

Exhibit 2: Change in Our Estimates

Particulars (Rs mn)	FY22E			FY23E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	84,368	86,686	2.7	103,027	105,818	2.7
EBITDA	7,171	7,455	4.0	9,788	10,264	4.9
EBITDA Margin (%)	8.5	8.6	10	9.5	9.7	20
PAT	6,420	6,669	3.9	8,682	9,083	4.6
EPS (Rs)	19.4	20.1	3.9	26.2	27.4	4.6

Source: Company, DART

Exhibit 3: Quarterly Performance

Particulars (Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Net Revenue	17,852	12,969	37.6	26,517	(32.7)
Cost of materials consumed	8,794	3,896	125.7	13,367	(34.2)
Purchase of Stock in trade	3,633	3,735	(2.7)	5,939	(38.8)
Changes in Inventories, WIP & SIP	449	1,452	(69.0)	430	4.6
Total Raw Material Cost	12,877	9,082	41.8	19,735	(34.8)
Staff Expenditure	1,474	1,574	(6.3)	1,463	0.8
Other Expenses	2,143	1,646	30.3	2,011	6.6
EBITDA	1,358	667	103.4	3,307	(58.9)
Depreciation	86	82	4.7	89	(2.9)
EBIT	1,272	585	117.3	3,219	(60.5)
Other Income	750	674	11.2	316	137.4
Interest	35	67	(47.9)	104	(66.4)
Profit/(Loss) from Associates & JVs	(306)	(117)	161.7	(222)	37.9
PBT	1,681	1,075	56.3	3,209	(47.6)
Tax	456	258	77.1	821	(44.4)
Net Profit	1,224	818	49.7	2,387	(48.7)
Reported EPS	3.7	2.5		7	

Source: Company, DART

Exhibit 4: Operating Cost as a % of sales

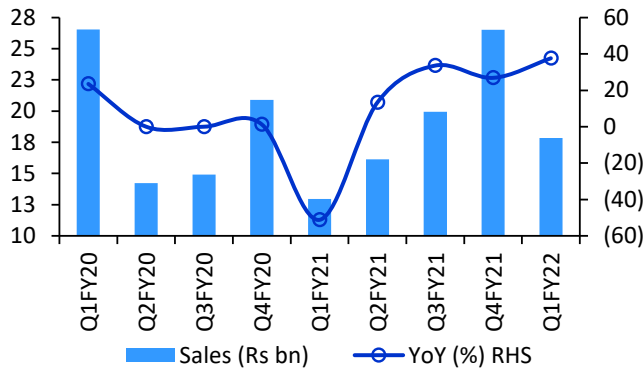
Particulars (Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Operating Cost as a % of Sales					
Raw Material Cost	72.1	70.0	210	74.4	(230)
Staff Cost	8.3	12.1	(388)	5.5	274
Other Expenses	12.0	12.7	(68)	7.6	442
Margins (%)					
Gross Margins	27.9	30.0	(210)	25.6	230
EBITDA	7.6	5.1	246	12.5	(487)
EBIT	7.1	4.5	261	12.1	(501)
PBT	9.4	8.3	112	12.1	(269)
NPM	6.9	6.3	55	9.0	(214)

Source: Company, DART

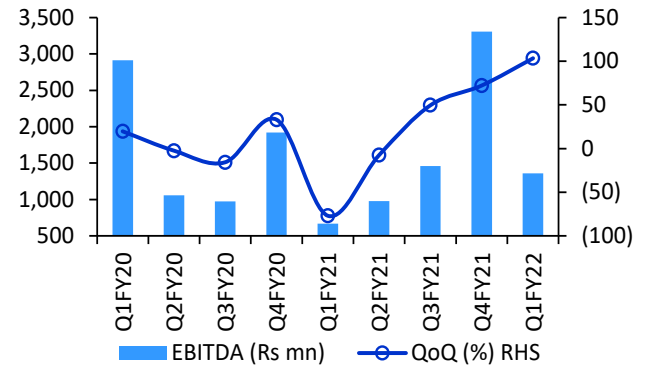
Exhibit 5: Segment Performance

Segmental	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue					
Electro mechanical projects	6,884	4,118	67.2	8,755	(21.4)
Engineering products and services	1,151	476	141.7	977	17.8
Unitary Cooling Products and Comfort and commercial use	9,631	8,113	18.7	16,547	(41.8)
Less: Inter segmental Revenue	2	0	92.6	0	#DIV/0!
Total	17,664	12,708	39.0	26,278	(32.8)
EBIT					
Electro mechanical projects	306	(437)	(170.0)	566	(46.0)
Engineering products and services	379	197	92.6	338	12.1
Unitary Cooling Products and Comfort and commercial use	1,180	1,140	3.6	2,610	(54.8)
EBIT Margin (%)					
Electro mechanical projects	4.4	(10.6)	1,505	6.5	(202)
Engineering products and services	32.9	41.3	(839)	34.6	(168)
Unitary Cooling Products and Comfort and commercial use	12.3	14.0	(179)	15.8	(352)
Segment Capital employed					
Electro mechanical projects	11,719	9,221	27	8,778	34
Engineering products and services	470	684	(31)	448	5
Unitary Cooling Products and Comfort and commercial use	8,343	9,621	(13)	7,921	5
Un allocable	30,831	24,811	24	33,148	(7)

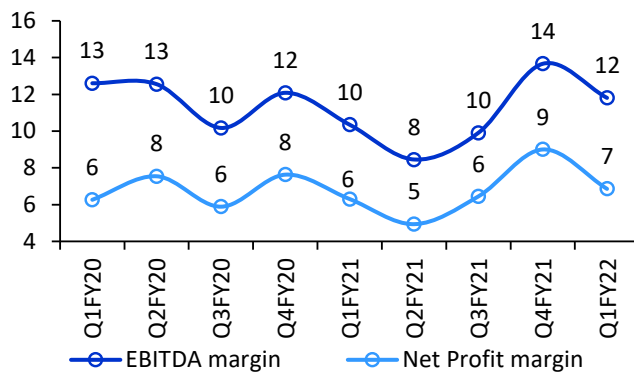
Source: Company, DART

Exhibit 6: Sales and YoY growth (%)


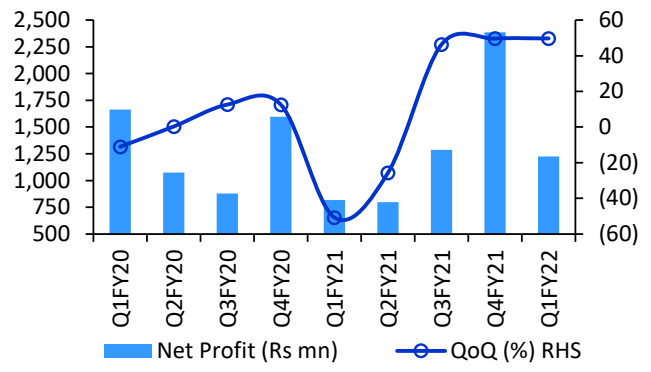
Source: Company, DART

Exhibit 7: EBITDA and YoY growth (%)


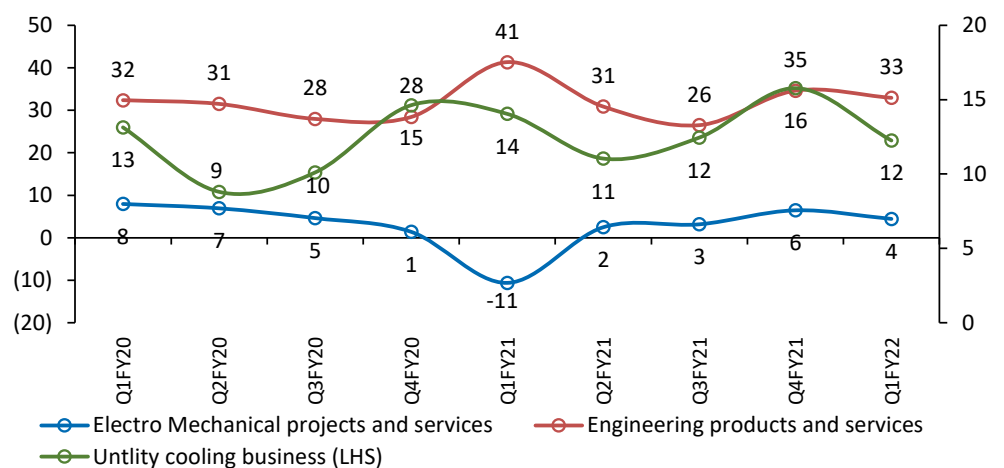
Source: Company, DART

Exhibit 8: Trend in margin (%)


Source: Company, DART

Exhibit 9: Net Profit and YoY growth (%)


Source: Company, DART

Exhibit 10: Segmental EBIT margin (%)


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	76,581	75,558	86,686	105,818
Total Expense	69,714	69,144	79,231	95,554
COGS	55,549	55,785	63,628	77,565
Employees Cost	6,717	6,017	7,802	8,465
Other expenses	7,448	7,343	7,802	9,524
EBIDTA	6,867	6,414	7,455	10,264
Depreciation	320	339	359	385
EBIT	6,547	6,075	7,096	9,879
Interest	211	262	371	414
Other Income	2,306	1,889	2,167	2,645
Exc. / E.O. items	(512)	0	0	0
EBT	8,130	7,702	8,892	12,111
Tax	2,233	1,804	2,223	3,028
RPAT	5,211	5,288	6,669	9,083
Minority Interest	687	610	0	0
Profit/Loss share of associates	0	0	0	0
APAT	5,211	5,288	6,669	9,083

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	331	331	331	331
Minority Interest	365	361	361	361
Reserves & Surplus	42,471	49,603	46,930	53,351
Net Worth	42,802	49,933	47,261	53,682
Total Debt	2,179	2,606	3,091	3,760
Net Deferred Tax Liability	(715)	(558)	(558)	(558)
Total Capital Employed	44,631	52,343	50,155	57,245

Applications of Funds

Net Block	3,804	3,880	3,302	3,387
CWIP	263	88	88	88
Investments	18,229	27,971	28,471	28,971
Current Assets, Loans & Advances	58,536	54,058	56,857	69,628
Inventories	14,689	12,796	12,514	13,858
Receivables	18,273	18,009	20,543	23,483
Cash and Bank Balances	3,084	4,588	2,564	4,475
Loans and Advances	23	23	46	109
Other Current Assets	17,264	16,149	17,697	22,210
Less: Current Liabilities & Provisions	36,201	33,654	38,563	44,829
Payables	26,889	24,645	28,219	34,033
Other Current Liabilities	9,312	9,009	10,344	10,796
<i>sub total</i>				
Net Current Assets	22,335	20,404	18,293	24,799
Total Assets	44,631	52,343	50,155	57,245

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	27.5	26.2	26.6	26.7
EBIDTA Margin	9.0	8.5	8.6	9.7
EBIT Margin	8.5	8.0	8.2	9.3
Tax rate	27.5	23.4	25.0	25.0
Net Profit Margin	6.8	7.0	7.7	8.6
(B) As Percentage of Net Sales (%)				
COGS	72.5	73.8	73.4	73.3
Employee	8.8	8.0	9.0	8.0
Other	9.7	9.7	9.0	9.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	31.0	23.2	19.1	23.9
Inventory days	70	62	53	48
Debtors days	87	87	87	81
Average Cost of Debt	7.9	10.9	13.0	12.1
Payable days	128	119	119	117
Working Capital days	106	99	77	86
FA T/O	20.1	19.5	26.3	31.2
(D) Measures of Investment				
AEPS (Rs)	15.7	16.0	20.1	27.4
CEPS (Rs)	16.7	17.0	21.2	28.6
DPS (Rs)	4.0	5.0	6.0	7.0
Dividend Payout (%)	25.4	31.3	29.8	25.5
BVPS (Rs)	129.3	150.9	142.8	162.2
RoANW (%)	12.4	11.4	13.7	18.0
RoACE (%)	15.0	12.7	13.7	17.7
RoAIC (%)	16.0	13.6	14.9	19.7
(E) Valuation Ratios				
CMP (Rs)	1025	1025	1025	1025
P/E	65.1	64.1	50.9	37.3
Mcap (Rs Mn)	339,176	339,176	339,176	339,176
MCap/ Sales	4.4	4.5	3.9	3.2
EV	333,066	334,701	336,210	332,967
EV/Sales	4.3	4.4	3.9	3.1
EV/EBITDA	48.5	52.2	45.1	32.4
P/BV	7.9	6.8	7.2	6.3
Dividend Yield (%)	0.4	0.5	0.6	0.7
(F) Growth Rate (%)				
Revenue	7.5	(1.3)	14.7	22.1
EBITDA	12.3	(6.6)	16.2	37.7
EBIT	11.4	(7.2)	16.8	39.2
PBT	11.5	(5.3)	15.5	36.2
APAT	1.4	1.5	26.1	36.2
EPS	1.4	1.5	26.1	36.2

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	5,971	5,718	10,509	5,377
CFI	(374)	(7,271)	(1,282)	(2,970)
CFF	(2,751)	(1,736)	(2,169)	(2,407)
FCFF	5,172	5,479	10,728	4,907
Opening Cash	3,211	3,084	4,588	2,564
Closing Cash	3,084	4,588	2,564	4,475

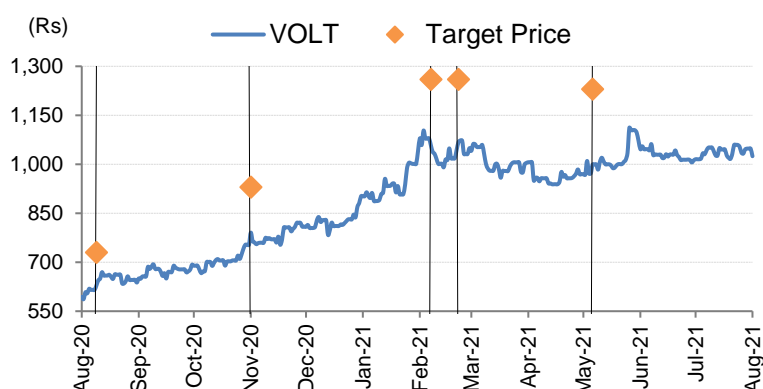
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-20	Buy	730	629
Nov-20	Buy	930	791
Feb-21	Buy	1,260	1,058
Mar-21	Buy	1,260	1,068
May-21	Buy	1,230	999

*Price as on recommendation date

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