

Estimate change

TP change

Rating change



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Bloomberg	VOLT IN
Equity Shares (m)	331
M.Cap.(INRb)/(USDb)	339.1 / 4.6
52-Week Range (INR)	1131 / 586
1, 6, 12 Rel. Per (%)	-3/-11/30
12M Avg Val (INR M)	1805

Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	75.6	82.5	101.0
EBITDA	6.4	7.1	9.1
PAT	5.3	5.7	7.3
EBITDA (%)	8.5	8.6	9.0
EPS (INR)	15.9	17.2	22.2
EPS Gr. (%)	(5.1)	8.5	29.0
BV/Sh. (INR)	150.9	163.9	180.5

Ratios

Net D/E	(0.0)	(0.1)	(0.1)
RoE (%)	10.5	10.5	12.3
RoCE (%)	11.6	12.1	13.3
Payout (%)	25.9	25.0	25.0

Valuations

P/E (x)	64.6	59.5	46.1
P/BV (x)	6.8	6.3	5.7
EV/EBITDA (x)	52.5	47.2	36.6
Div Yield (%)	0.4	0.4	0.5
FCF Yield (%)	1.7	1.5	1.3

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	30.3	30.3	30.3
DII	34.1	37.5	39.3
FII	17.2	14.4	10.7
Others	18.3	17.9	19.7

FII Includes depository receipts

CMP: INR1,025

TP: INR1,065 (+4%)

Neutral

Disappointing results; outlook remains cautious

Upcoming festive season key for RAC offtake

- Voltas (VOLT) reported a weak set of earnings, with revenue/EBITDA miss of 9%/27%. The strong show in the Electromechanical Projects (EMP) segment failed to offset the weakness in the Unitary Cooling Products (UCP) segment.
- The ordering intake/outlook for the Projects business remained subdued with clients delaying their capex spends. AC sales volumes may fall short of FY20 levels, with no sign of pent-up demand this time around during a lean summer. However, this would still mean some growth in YoY terms. On a positive note, unlike last time, channel inventory is not high, although brands have higher inventory this time around.
- We cut our FY22/FY23/FY24 EPS estimate by 8%/3%/4%. Our new TP stands at INR1,065 as we roll forward to Sep'23 EPS (target multiple of 45x to the UCP segment v/s 50x earlier – to account for segmental reclassification). At CMP, the UCP business is trading at an FY23E/FY24E PE multiple of 46x/40x. Maintain **Neutral**.

Weak performance from UCP segment leads to earnings miss

- **1QFY22 snapshot:** Consolidated revenue grew 38% YoY and **was 9% below our expectation**. EBITDA doubled to INR1.4b and **was 27% below our expectation**. JV losses increased to INR306m v/s loss of INR117m last year. Adj. PAT grew 50% YoY to INR1.2b and **was 15% below our expectation**.
- **Segmental highlights:** Voltas has reclassified its segments and moved its Commercial Air Conditioner (CAC) and Customer Care business from the EMP segment to the UCP segment. The said business reported PBIT of INR818m in FY21. On a reported basis: **a) EMP | 1QFY22:** Revenue grew 67% YoY to INR6.9b, and the PBIT margin came in at 4.4%; **b) UCP | 1QFY22:** Revenue grew 19% YoY to INR9.6b, and the PBIT margin stood at 12.3% (-170bps YoY). **We note that the restated UCP segment PBIT has grown just 4% YoY, a reflection of weak topline growth despite a favorable base and margin compression.**

Key takeaways from management commentary

- **UCP:** The management expects FY22 industry volume growth to be lower than FY20 levels. Voltas has taken a price increase of 8–10% in the current calendar year and is yet to fully pass on the commodity price inflation to the end consumer. Inventory levels are normal with trade partners, but higher at the company level. The management does not anticipate any pent-up demand this time around during non-season, but hopes for a good festive season. Daikin, Hitachi, Samsung, and Lloyd have gained market share, while Samsung has seen minor moderation lately.
- **EMP:** Order inflow stood at INR5b during the quarter, while the order book at INR61.5b (Domestic: 60%; International: 40%). Order inflows were moderately subdued as clients delayed their capex plans as well as due to a cautious stance adopted by the company in taking new orders.

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- ## Valuation and view

- ## Quarterly Performance

9 August 2021

Exhibit 1: Financial summary

INR m	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Order Book	43,210	50,620	49,760	77,880	66,350	71,350	75,422	80,673
YoY	10.4%	17.1%	-1.7%	56.5%	-14.8%	7.5%	5.7%	7.0%
Order Inflows	30,620	35,862	35,331	60,581	17,256	35,000	38,500	44,275
Segmental Revenue								
Electromechanical Projects	26,550	28,452	36,191	32,461	28,786	30,000	34,428	39,024
Engineering Products	3,318	3,099	3,117	3,317	3,595	4,500	4,500	4,500
Unitary Cooling Products	30,469	32,261	31,555	40,737	42,185	47,000	61,100	70,265
Others	613	466	378	66	992	992	992	992
Total Revenue	60,950	64,279	71,241	76,581	75,558	82,492	1,01,020	1,14,781
EMP (YoY)	-6.1%	7.2%	27.2%	-10.3%	-11.3%	4.2%	14.8%	13.3%
Engineering Products (YoY)	-10.5%	-6.6%	0.6%	6.4%	8.4%	25.2%	0.0%	0.0%
UCP (YoY)	20.9%	5.9%	-2.2%	29.1%	3.6%	11.4%	30.0%	15.0%
Segmental PBIT								
Electromechanical Projects	849	1,854	2,773	1,704	270	900	1,033	1,171
Engineering Products	956	992	1,051	993	1,143	1,440	1,440	1,440
Unitary Cooling Products	4,403	4,749	3,254	5,121	5,837	5,875	7,638	8,783
Total PBIT	6,208	7,595	7,077	7,817	7,250	8,215	10,110	11,394
Segmental PBIT (%)								
Electromechanical Projects	3.2	6.5	7.7	5.2	0.9	3.0	3.0	3.0
Engineering Products	28.8	32.0	33.7	29.9	31.8	32.0	32.0	32.0
Unitary Cooling Products	14.5	14.7	10.3	12.6	13.8	12.5	12.5	12.5
Total PBIT	10.3	11.9	9.9	10.2	9.6	10.0	10.0	9.9
EPS (INR/share)	15.6	17.3	15.7	16.7	15.9	17.2	22.2	25.9
NWC (Days)	35.5	42.0	66.3	67.0	64.4	64.4	64.4	64.4
EPS Composition (INR/share)	15.6	17.3	15.7	16.7	15.9	17.2	22.2	25.9
Electromechanical Projects	2.5	3.6	6.8	4.3	0.7	2.5	2.7	3.1
Engineering Products	2.2	2.2	2.4	2.2	2.6	3.3	3.3	3.3
Unitary Cooling Products	11.5	11.4	8.1	12.4	14.3	14.3	18.2	20.8
Voltas Beko JV	-0.6	0.1	-1.6	-2.1	-1.8	-2.8	-1.9	-1.3

Source: MOFSL, Company

Exhibit 2: We value VOLT at INR1,065/share

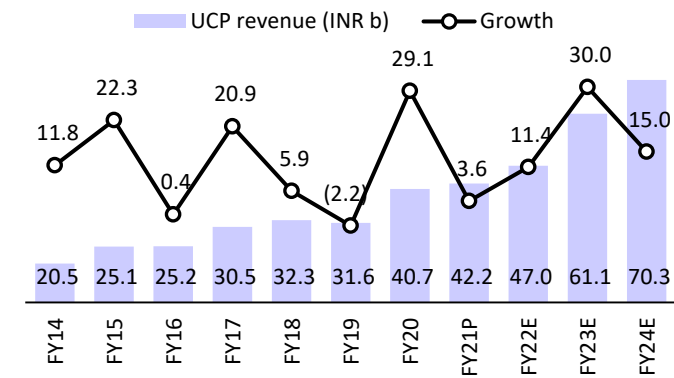
Name of the segment	Sep'23E EPS (INR)	Multiple (x)	Value/share (INR)
Unitary Cooling Products	19.5	45.0	878
Engineered Products Services	3.3	15.0	49
Electromechanical Products (incl. non-allocable)	2.9	12.0	34
Beko JV	(1.6)	DCF	105
Total	24.0		1,065

Source: MOFSL, Company

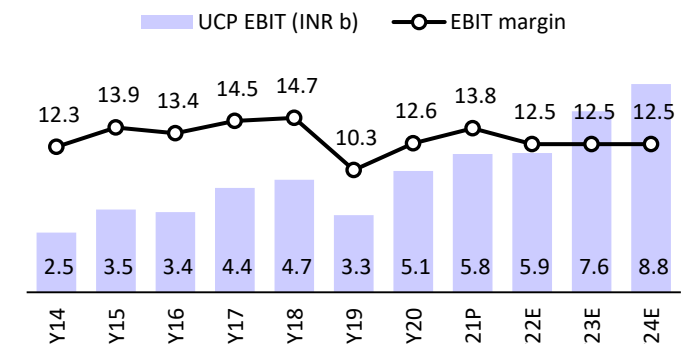
Exhibit 3: Impact of restatement of CAC business

(INR m)	Before restatement		Post restatement		Residual (CAC business)		FY21		
	1QFY21	4QFY21	1QFY21	4QFY21	1QFY21	4QFY21	Before	After	Residual
Revenue									
EMP	5,181	11,038	4,118	8,755	-1,063	-2,284	35,664	28,786	-6,878
UCP	7,071	14,367	8,113	16,547	1,042	2,180	35,550	42,185	6,634
PBIT									
EMP	-393	929	-437	566	-44	-363	1,088	270	-818
UCP	1,096	2,247	1,140	2,610	44	363	5,019	5,837	818
PBIT (%)									
EMP	-7.6	8.4	-10.6	6.5	4.1	15.9	3.0	0.9	11.9
UCP	15.5	15.6	14.0	15.8	4.2	16.6	14.1	13.8	12.3

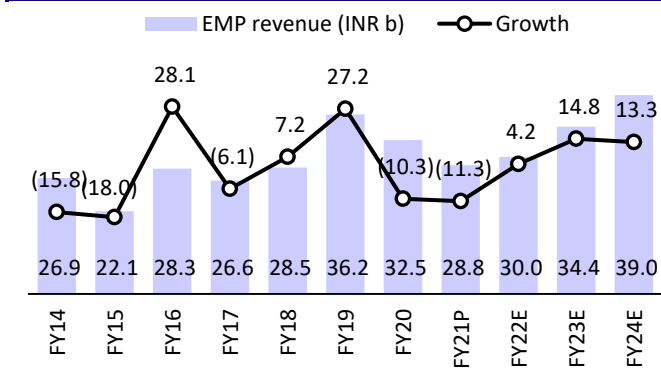
Source: MOFSL, Company

Exhibit 4: Expect ~19% revenue CAGR in UCP over FY21–24

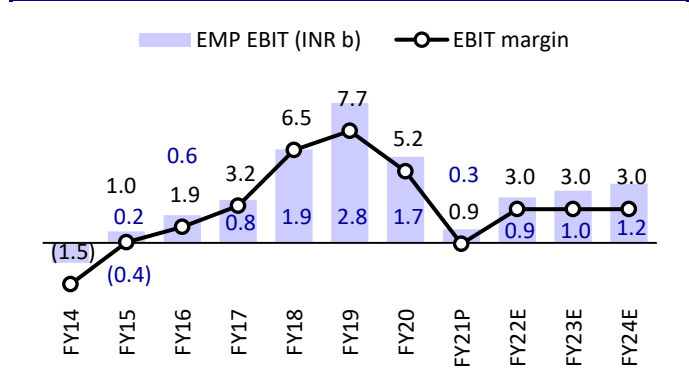
Source: MOFSL, Company

Exhibit 5: Margins to moderate over FY22–24E on rising competitive intensity and commodity cost inflation

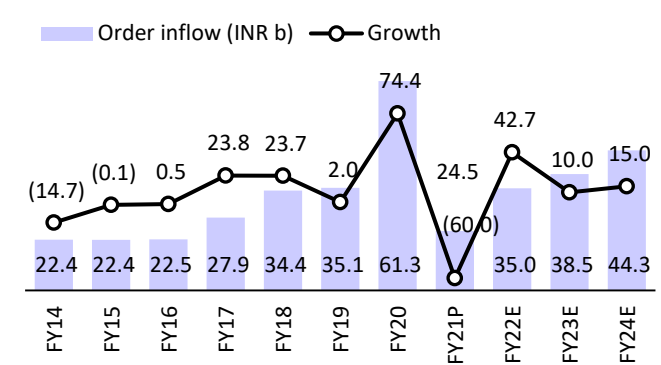
Source: MOFSL, Company

Exhibit 6: Expect ~11% revenue CAGR in EMP over FY21–24E on moderate order book

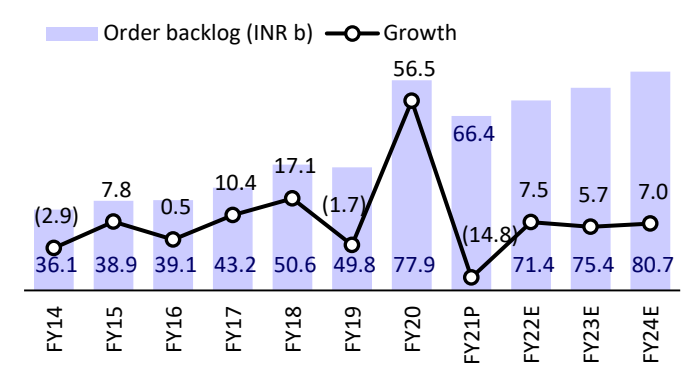
Source: MOFSL, Company

Exhibit 7: Margins to stabilize over FY22–FY24E with execution of recent order wins

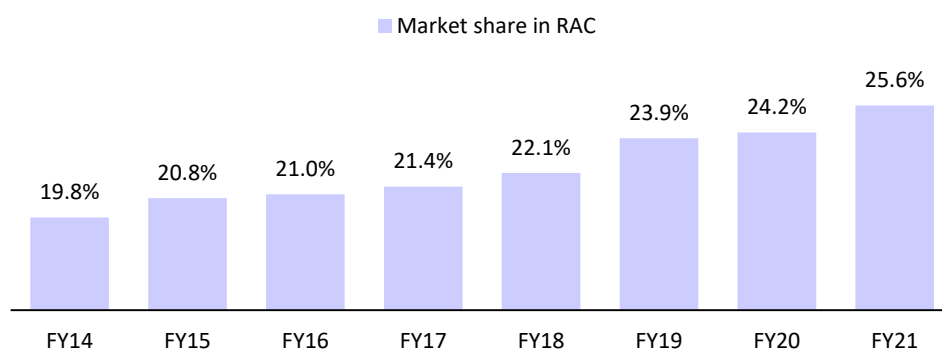
Source: MOFSL, Company

Exhibit 8: Order inflows should scale up to ~INR35b in FY22E since plunging in FY21

Source: MOFSL, Company

Exhibit 9: Order book to grow moderately over FY22–24E as management focuses on execution

Source: MOFSL, Company

Exhibit 10: VOLT steadily increases market share in Room AC segment

Source: MOFSL, Company



Highlights from management commentary

Unitary Cooling Products

- Inverter AC sales growth stood at 18% in 1QFY22. Overall, in RAC, market share stood at 26.7% at June-end.
- **VOLT has restructured the CAC and Customer Care business from EMP to UCP.** With this restructuring, all products sales would now be reported under the UCP segment.
- The company has taken an 8–10% price increase in 1HCY21. The commodity price inflation has not been entirely passed on to the consumer. Higher inventory at the company level may turn out to be a blessing in disguise if commodity prices continue to rise. Depending on the demand situation and competitive intensity, the management would take a call on further price hikes.
- Inventory at the trade level is normal, but moderately higher at the company level. Although, most of the company-level inventory is in the form of raw materials.
- The BEE rating change has been deferred to Jan'22 from the earlier timeline of Jan'21. With the current pandemic situation continuing to be disruptive, manufacturers have requested to postpone the rating change to a later date. The cost increase due to the rating change would be only 3–4% (on the cost base).
- The RAC industry de-grew 30% by volume in FY21. **VOLT expects some growth in FY22 (v/s FY21), but meeting FY20 levels may be challenging.**
- **As per the management, there are concerns in the market over a potential third COVID wave; hence, demand may not be as strong as last year.**
- **Daikin, Hitachi, and Lloyd have gained market share. Samsung was gaining earlier, but has seen marginal moderation lately.**
- **In Jun'21, industry growth has been down 1–2% YoY in volume terms.**

Electromechanical Projects and Services

- Construction activity was allowed in 1QFY22, leading to better execution.
- The order book stood at INR61.5b (Domestic: INR37b, International: INR24.5b).
- Order inflows were moderately subdued as capex plans were delayed. New ordering is also subdued, with VOLT being extra cautious in taking orders.

Voltbek

- The Sanand factory has produced more than 500k units since its inception.
- YTD market share in Refrigerators stood at 3.1%, while that in Washing Machines stood at 2.7%.

Other takeaways

- VOLT aims to continue to focus on strong cash flow management and maintain control over the working capital cycle.

Valuation and view

- **Market leadership in AC segment:** VOLT has consistently maintained its market leadership in the RAC market despite the rising competitive intensity. Over Jan–Feb’20, it emerged as the market leader in inverter ACs as well. With a strong distribution network and lower reliance on imports, we expect the company to continue its leadership position in the RAC market.
- **Voltbek offers a meaningful increase in addressable market size:** VOLT’s decision to form a JV with Beko to cater to a wider audience in the Consumer Durables space (beyond ACs) has come at the right time. We ascribe INR105/share as an attributable valuation to the stock.
- **Maintain Neutral:** We cut our FY22/FY23/FY24 EPS estimate by 8%/3%/4%. Our new TP stands at INR1,065 as we roll forward to Sep’23 EPS (target multiple of 45x to the UCP segment v/s 50x earlier – to account for segmental reclassification, as Voltas has moved INR6.6b sales for CACs as well as sales service to the UCP segment from the EMP segment). At CMP, the UCP business is trading at an FY23E/FY24E PE multiple of 46x/40x. Maintain Neutral.

Exhibit 11: Earnings change summary

Earnings change INR m	Old			New			Change		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	84,749	1,03,006	1,16,784	82,492	1,01,020	1,14,781	-3%	-2%	-2%
EBITDA	7,743	9,316	10,720	7,094	9,104	10,498	-8%	-2%	-2%
EBITDA margin	9.1%	9.0%	9.2%	8.6%	9.0%	9.1%	-0.5%	0.0%	0.0%
Adj. PAT	6,219	7,570	8,951	5,696	7,346	8,552	-8%	-3%	-4%

Source: MOFSL, Company

Financials and valuations

Income Statement							(INR m)
Y/E March	FY18	FY19	FY20	FY21P	FY22E	FY23E	FY24E
Total Revenue	64,044	71,241	76,581	75,558	82,492	1,01,020	1,14,781
Change (%)	6.2	11.2	7.5	-1.3	9.2	22.5	13.6
EBITDA	6,626	6,117	6,867	6,414	7,094	9,104	10,498
% of Total Revenue	10.3	8.6	9.0	8.5	8.6	9.0	9.1
Other income	1,741	1,863	2,306	1,889	2,350	2,200	2,200
Depreciation	244	240	320	339	356	401	446
Interest	119	330	211	262	200	200	200
Exceptional items	6	-118	-364	0	0	0	0
PBT	8,011	7,292	8,278	7,702	8,888	10,703	12,052
Tax	2,270	1,635	2,380	1,804	2,237	2,694	3,034
Rate (%)	28.3	22.4	28.8	23.4	25.2	25.2	25.2
Reported PAT	5,724	5,079	5,172	5,251	5,696	7,346	8,552
Change (%)	10.6	-11.3	1.8	1.5	8.5	29.0	16.4
Adjusted PAT	5,718	5,197	5,536	5,251	5,696	7,346	8,552
Change (%)	10.7	-9.1	6.5	-5.1	8.5	29.0	16.4

Balance Sheet							(INR m)
Y/E March	FY18	FY19	FY20	FY21P	FY22E	FY23E	FY24E
Share Capital	331	331	331	331	331	331	331
Reserves	38,721	40,769	42,471	49,603	53,875	59,384	65,798
Net Worth	39,052	41,100	42,802	49,934	54,205	59,715	66,129
Minority interest	317	348	365	361	398	434	471
Loans	1,423	3,147	2,179	2,606	2,106	1,606	1,106
Deferred Tax Liability	-46	-993	-715	-558	-558	-558	-558
Capital Employed	40,746	43,601	44,631	52,343	56,151	61,197	67,148
Gross Fixed Assets	5,187	5,591	6,201	6,616	7,616	8,616	9,616
Less: Depreciation	3,013	2,959	3,195	3,534	3,890	4,291	4,737
Net Fixed Assets	2,174	2,633	3,006	3,082	3,726	4,325	4,879
Capital WIP	41	157	263	88	88	88	88
Investments	27,536	23,859	23,433	30,464	30,546	30,919	31,489
Goodwill	798	798	798	798	798	798	798
Curr. Assets	42,370	46,715	53,332	51,565	57,737	70,063	81,019
Inventory	8,130	10,907	14,689	12,796	13,970	17,108	19,439
Debtors	15,703	18,330	18,336	18,009	19,662	24,078	27,358
Cash and Bank Balance	2,837	3,211	3,084	4,588	6,448	7,255	9,655
Loans and Advances	1,218	116	23	23	25	31	35
Other Assets	14,482	14,151	17,200	16,149	17,631	21,591	24,532
Current Liab. and Prov.	32,172	30,560	36,201	33,654	36,743	44,995	51,125
Current Liabilities	21,765	23,745	26,889	24,645	26,907	32,951	37,439
Other Liabilities and provisions	10,408	6,815	9,312	9,009	9,836	12,045	13,686
Net Current Assets	10,198	16,155	17,131	17,911	20,994	25,067	29,894
Application of Funds	40,746	43,601	44,631	52,343	56,151	61,197	67,148

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21P	FY22E	FY23E	FY24E
Basic (INR)							
Adj. EPS	17.3	15.7	16.7	15.9	17.2	22.2	25.9
Cash EPS	18.0	16.4	17.7	16.9	18.3	23.4	27.2
Book Value	118.0	124.2	129.4	150.9	163.9	180.5	199.9
DPS	4.0	4.0	4.1	4.1	4.3	5.6	6.5
Payout (incl. Div. Tax.)	26.8	31.0	31.5	25.9	25.0	25.0	25.0
Valuation (x)							
P/E	59.3	65.2	61.2	64.6	59.5	46.1	39.6
Cash P/E	56.9	62.4	57.9	60.6	56.0	43.8	37.7
EV/EBITDA	51.0	55.4	49.2	52.5	47.2	36.6	31.5
EV/Sales	5.3	4.8	4.4	4.5	4.1	3.3	2.9
Price/Book Value	8.7	8.2	7.9	6.8	6.3	5.7	5.1
Dividend Yield (%)	0.4	0.4	0.4	0.4	0.4	0.5	0.6
Profitability Ratios (%)							
RoE	14.6	12.6	12.9	10.5	10.5	12.3	12.9
RoCE	14.3	13.8	14.1	11.6	12.1	13.3	13.7
RoIC	50.0	27.8	25.8	26.9	26.4	28.3	29.0
Turnover Ratios							
Debtors (Days)	89	94	87	87	87	87	87
Inventory (Days)	46	56	70	62	62	62	62
Creditors (Days)	124	122	128	119	119	119	119
Asset Turnover (x)	1.6	1.6	1.7	1.4	1.5	1.7	1.7
Leverage Ratio							
Net Debt/Equity (x)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)

Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21P	FY22E	FY23E	FY24E
PBT before EO Items	8,005	6,774	7,591	7,735	8,888	10,703	12,052
Depreciation	268	240	320	339	356	401	446
Interest and other	0	330	211	262	200	200	200
Direct Taxes Paid	-2,270	-2,708	-2,061	-693	-2,237	-2,694	-3,034
(Inc.)/Dec. in WC	-1,495	-6,456	-911	-1,580	-1,223	-3,267	-2,426
CF from Operations	4,508	-1,807	5,223	6,070	5,984	5,343	7,238
(Inc.)/Dec. in FA	-252	-818	-905	-208	-1,000	-1,000	-1,000
Free Cash Flow	4,257	-2,625	4,318	5,862	4,984	4,343	6,238
(Pur.)/Sale of Investments	-4,857	3,181	-1,549	-3,158	-1,000	-1,000	-1,000
CF from Investments	-5,109	2,364	-2,454	-3,366	-2,000	-2,000	-2,000
(Inc.)/Dec. in Debt	1,666	1,724	-1,057	425	-500	-500	-500
Interest Paid	0	-329	-212	-267	-200	-200	-200
Dividend Paid	-1,534	-1,577	-1,627	-1,358	-1,424	-1,837	-2,138
CF from Fin. Activity	132	-183	-2,896	-1,200	-2,124	-2,537	-2,838
Inc./Dec. in Cash	-469	374	-127	1,504	1,860	806	2,400
Add: Beginning Balance	3,305	2,837	3,211	3,084	4,588	6,449	7,255
Closing Balance	2,837	3,211	3,084	4,588	6,449	7,255	9,656

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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