

June 1, 2020

Q4FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	564		553	
Sales (Rs. m)	74,278	88,195	74,356	88,562
% Chng.	(0.1)	(0.4)		
EBITDA (Rs. m)	6,536	8,819	6,804	8,768
% Chng.	(3.9)	0.6		
EPS (Rs.)	15.2	21.5	15.3	20.9
% Chng.	(1.0)	3.1		

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	71,241	76,581	74,278	88,195
EBITDA (Rs. m)	6,117	6,867	6,536	8,819
Margin (%)	8.6	9.0	8.8	10.0
PAT (Rs. m)	5,197	5,684	5,025	7,119
EPS (Rs.)	15.7	17.2	15.2	21.5
Gr. (%)	(9.1)	9.4	(11.6)	41.7
DPS (Rs.)	4.0	4.0	4.0	4.3
Yield (%)	0.7	0.7	0.7	0.8
RoE (%)	13.0	13.5	11.3	14.5
RoCE (%)	18.3	19.8	17.2	20.5
EV/Sales (x)	2.3	2.2	2.3	1.9
EV/EBITDA (x)	27.1	25.1	26.0	19.0
PE (x)	34.3	31.4	35.5	25.0
P/BV (x)	4.3	4.2	3.9	3.4

Key Data

VOLT.BO | VOLT IN

52-W High / Low	Rs.741 / Rs.427
Sensex / Nifty	33,304 / 9,826
Market Cap	Rs.178bn / \$ 2,360m
Shares Outstanding	331m
3M Avg. Daily Value	Rs.2491.91m

Shareholding Pattern (%)

Promoter's	30.30
Foreign	9.87
Domestic Institution	39.62
Public & Others	20.21
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	6.6	(23.1)	(7.1)
Relative	8.0	(5.8)	10.8

Amnish Aggarwal

amnishaggarwal@plindia.com | 91-22-66322233

Paarth Gala

paarthgala@plindia.com | 91-22-66322242

Long term outlook remains strong

Quick Pointers:

- RAC volume up by 50% in 11MFY20 (Industry up 30%), market share up 50bps
- EMPS order book up 56.5% since beginning of the year.

VOLT gave a cautiously optimistic outlook given 1) outperformance in the UCP segment (50% growth vs 30% of industry in 11MFY20) and 50bps market share gain across RAC segments 2) encouraging response to VOLTBEK portfolio with 2% market share in key segments and 3) improved order book in MEP led by domestic operations. Although the industry is witnessing reasonable demand post lifting of lockdown in May, 1Q21 sales & profitability are likely to be impacted due to 1) washout summer season sales and 2) high channel inventory (60 days) limiting primary sales. Also, with migrants returning to their hometowns, the pace of execution in MEP segment is likely to slow down in the near term. Although Voltbek JV launched mass market products in refrigerators and washing machine post commissioning of Sanand facility, lockdown might result in near term pressure on sales. We expect JV to report a loss of Rs1.5bn/Rs1bn in FY21/22.

Although the near term looks hazy, we continue to maintain our positive stance on VOLT given 1) leadership position in high potential RAC segment 2) balance sheet comfort (Rs11bn net cash) and 3) sustained order wins in MEP segment. Maintain Accumulate with SOTP based target price of Rs564/- (valuing UCP business at 32x FY22 EPS).

Sales grew by 1.3% to Rs20.9bn; Adj PAT up by 15.1%: Revenues grew by 1.3% YoY to Rs20.9bn led by strong UCP segment performance. Gross margins expanded by 510bps to 28.6%. EBITDA grew by 33.1% to Rs1.9bn. Unabsorbed costs due to lockdown limited margin to expand by 220bps to 9.2%. Aided by 6% increase in other income to Rs605mn and 43% decrease in interest cost, PBT grew by 28.8% to 2.4bn. Higher tax outlay (24% vs 12.9%) and Rs195mn as share of loss from JV/Associates, limited adj PAT growth to 15.1% YoY to Rs1.6bn.

UCP segment EBIT grew by 69.1%; EMPS EBIT down by 74.4%: UCP segment revenues grew by 20.2% YoY to Rs12bn. EBIT grew by 69.1% YoY to Rs1.8bn, while margins expanded by 420bps YoY to 14.6%. EMPS segment revenues/EBIT declined by 17.6%/74.4% YoY to Rs8bn/Rs113mn while margins contracted by 310bps YoY to 1.4%. Products & services segment revenues grew by 20.8% to Rs948mn. EBIT fell by 1.7% to Rs269mn. EBIT margins fell by 650bps to 28.4%.

Concall Takeaways: 1) RAC industry (secondary) grew by 30% in 11MFY20 & 24-25% in FY20. 2) Voltas reported 50% volume growth in 11MFY20. Market share at 24.2%, up 50bps 3) Air Coolers grew by 60%. Voltas now #2 player. 4) Inventory in the channel stands at 60 days (above normal) 5) Electro-mechanical Projects (EMPS) order book at Rs78bn – up 56.5% YoY (Domestic – Rs48bn, International –Rs30bn). 6) Pace of execution in EMPS segment likely to be impacted due to labor shortage and delayed collection of receivables. 7) Voltbek's market share in frost free refrigerators and washing machine at 2%. Refrigerator product portfolio complete with Direct Cool refrigerators

Exhibit 1: Q4FY20 Result Overview (Rs m): Sales grew by 1.3% to Rs20.9bn; Adj. PAT grew by 15.1% to 1.6bn

Y/e March	Q4FY20	Q4FY19	YoY gr.	Q3FY20	FY20	FY19	YoY gr.
Net Sales	20,896	20,628	1.3%	14,925	76,581	71,241	7.5%
Expenditure							
Operating & Manufacturing Expenses	14,912	15,790	-5.6%	10,655	55,549	52,622	5.6%
<i>% of Net Sales</i>	<i>71.4%</i>	<i>76.5%</i>		<i>71.4%</i>	<i>72.5%</i>	<i>73.9%</i>	
Gross Profit	5,984	4,838	23.7%	4,270	21,031	18,618	13.0%
<i>% of Net Sales</i>	<i>28.6%</i>	<i>23.5%</i>		<i>28.6%</i>	<i>27.5%</i>	<i>26.1%</i>	
Personnel Cost	1,776	1,664	6.7%	1,734	6,717	6,419	4.7%
<i>% of Net Sales</i>	<i>8.5%</i>	<i>8.1%</i>		<i>11.6%</i>	<i>8.8%</i>	<i>9.0%</i>	
Other Expenses	2,288	1,732	32.1%	1,561	7,448	6,083	22.4%
<i>% of Net Sales</i>	<i>10.9%</i>	<i>8.4%</i>		<i>10.5%</i>	<i>9.7%</i>	<i>8.5%</i>	
Total Expenditure	18,976	19,185	-1.1%	13,950	69,714	65,124	7.0%
EBITDA	1,920	1,443	33.1%	975	6,867	6,117	12.3%
<i>Margin (%)</i>	<i>9.2%</i>	<i>7.0%</i>		<i>6.5%</i>	<i>9.0%</i>	<i>8.6%</i>	
Other income	605	572	5.7%	543	2,306	1,863	23.8%
Depreciation	82	59	38.3%	80	320	240	33.3%
EBIT	2,443	1,956	24.9%	1,438	8,853	7,740	14.4%
Interest	61	106	-43.1%	57	211	330	-36.0%
PBT	2,382	1,849	28.8%	1,381	8,642	7,410	16.6%
Total Taxes	572	239	139.9%	314	2,233	1,635	36.5%
<i>ETR (%)</i>	<i>24.0%</i>	<i>12.9%</i>		<i>22.7%</i>	<i>25.8%</i>	<i>22.1%</i>	
Share of JV/Associates	-195	-193		-187	-687	-518	
Minority Interest	8	21	-60.6%	10	39	60	-35.2%
Adj. PAT	1,607	1,396	15.1%	869	5,684	5,197	9.4%
Exceptional Items	-20	0		0	-512	-118	
Reported PAT	1,587	1,396	13.6%	869	5,172	5,079	1.8%

Source: Company, PL

Exhibit 2: Segmental breakup (Rs m): UCP EBIT up by 69.1%; EMPS EBIT down by 74.4%

Y/e March	Q4FY20	Q4FY19	YoY gr.	Q3FY20	FY20	FY19	YoY gr.
Revenues							
Electro-Mechanical Projects & Services	8,046	9,760	-17.6%	8,081	32,461	36,191	-10.3%
Engineering Products & Services	948	785	20.8%	826	3,317	3,117	6.4%
Unitary Cooling Products	11,989	9,976	20.2%	6,005	40,737	31,556	29.1%
EBIT							
Electro-Mechanical Projects & Services	113	441	-74.4%	374	1,704	2,773	-38.5%
<i>EBIT margin (%)</i>	<i>1.4%</i>	<i>4.5%</i>		<i>4.6%</i>	<i>5.2%</i>	<i>7.7%</i>	
Engineering Products & Services	269	274	-1.7%	231	993	1,051	-5.5%
<i>EBIT margin (%)</i>	<i>28.4%</i>	<i>34.9%</i>		<i>28.0%</i>	<i>29.9%</i>	<i>33.7%</i>	
Unitary Cooling Products	1,754	1,037	69.1%	607	5,121	3,254	57.4%
<i>EBIT margin (%)</i>	<i>14.6%</i>	<i>10.4%</i>		<i>10.1%</i>	<i>12.6%</i>	<i>10.3%</i>	

Source: Company, PL

Exhibit 3: SOTP

FY22	Basis	Multiple	EPS	Value (Rs)	Value %
EMPS	P/E	10	6.9	69	12%
EPS	P/E	10	2.3	23	4%
UCP	P/E	32	12.9	412	73%
Voltbek-JV	Investment	2	9	19	3%
Cash & Investment	Per share		41	41	7%
TP				564	100%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	71,241	76,581	74,278	88,195
YoY gr. (%)	11.2	7.5	(3.0)	18.7
Cost of Goods Sold	52,622	55,549	53,480	63,412
Gross Profit	18,618	21,031	20,798	24,783
Margin (%)	26.1	27.5	28.0	28.1
Employee Cost	6,419	6,717	7,019	7,673
Other Expenses	4,971	7,448	6,165	6,923
EBITDA	6,117	6,867	6,536	8,819
YoY gr. (%)	(7.7)	12.3	(4.8)	34.9
Margin (%)	8.6	9.0	8.8	10.0
Depreciation and Amortization	240	320	347	426
EBIT	5,877	6,547	6,189	8,394
Margin (%)	8.2	8.5	8.3	9.5
Net Interest	330	211	191	210
Other Income	1,863	2,306	1,873	2,193
Profit Before Tax	7,410	8,642	7,871	10,377
Margin (%)	10.4	11.3	10.6	11.8
Total Tax	1,635	2,233	2,047	2,698
Effective tax rate (%)	22.1	25.8	26.0	26.0
Profit after tax	5,775	6,409	5,825	7,679
Minority interest	60	39	50	60
Share Profit from Associate	(518)	(687)	(750)	(500)
Adjusted PAT	5,197	5,684	5,025	7,119
YoY gr. (%)	(9.1)	9.4	(11.6)	41.7
Margin (%)	7.3	7.4	6.8	8.1
Extra Ord. Income / (Exp)	(118)	(512)	-	-
Reported PAT	5,079	5,172	5,025	7,119
YoY gr. (%)	(11.3)	1.8	(2.8)	41.7
Margin (%)	7.1	6.8	6.8	8.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,079	5,172	5,025	7,119
Equity Shares O/s (m)	331	331	331	331
EPS (Rs)	15.7	17.2	15.2	21.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	5,766	6,459	7,767	9,580
Tangibles	5,120	5,757	7,019	8,782
Intangibles	646	703	748	798
Acc: Dep / Amortization	3,059	3,379	3,726	4,151
Tangibles	2,502	2,771	3,071	3,446
Intangibles	557	608	655	705
Net fixed assets	2,707	3,081	4,042	5,429
Tangibles	2,618	2,986	3,949	5,336
Intangibles	89	95	93	92
Capital Work In Progress	157	263	263	263
Goodwill	723	723	723	723
Non-Current Investments	12,544	19,206	19,358	21,606
Net Deferred tax assets	993	715	777	860
Other Non-Current Assets	1,558	1,775	1,791	1,860
Current Assets				
Investments	12,357	5,204	7,428	10,583
Inventories	10,907	14,689	11,193	12,081
Trade receivables	18,032	18,273	18,315	21,022
Cash & Bank Balance	3,211	3,084	3,678	2,911
Other Current Assets	10,994	13,159	12,345	14,069
Total Assets	75,220	81,561	81,209	92,765
Equity				
Equity Share Capital	331	331	331	331
Other Equity	40,769	42,471	45,901	51,614
Total Networkth	41,100	42,802	46,232	51,945
Non-Current Liabilities				
Long Term borrowings	-	54	-	-
Provisions	847	934	854	926
Other non current liabilities	7	73	73	73
Current Liabilities				
ST Debt / Current of LT Debt	3,147	2,124	2,600	2,646
Trade payables	23,745	26,889	23,443	27,797
Other current liabilities	5,962	8,304	7,578	8,889
Total Equity & Liabilities	75,220	81,561	81,209	92,765

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	7,410	8,642	7,871	10,377
Add. Depreciation	240	320	347	426
Add. Interest	330	211	191	210
Less Financial Other Income	1,863	2,306	1,873	2,193
Add. Other	(2,030)	(1,577)	(918)	(659)
Op. profit before WC changes	5,950	7,596	7,491	10,354
Net Changes-WC	(6,456)	(911)	664	332
Direct tax	(2,708)	(2,061)	(2,047)	(2,698)
Net cash from Op. activities	(3,214)	4,625	6,108	7,987
Capital expenditures	(804)	(832)	(1,308)	(1,813)
Interest / Dividend Income	411	443	-	-
Others	4,320	(1,716)	(2,366)	(5,326)
Net Cash from Inv. activities	3,927	(2,105)	(3,674)	(7,138)
Issue of share cap. / premium	-	-	-	-
Debt changes	1,724	(1,057)	(54)	-
Dividend paid	(1,577)	(1,627)	(1,592)	(1,406)
Interest paid	(329)	(253)	(191)	(210)
Others	-	-	-	-
Net cash from Fin. activities	(182)	(2,937)	(1,838)	(1,616)
Net change in cash	531	(417)	597	(767)
Free Cash Flow	(4,019)	3,792	4,800	6,175

Source: Company Data, PL Research

Key Financial Metrics

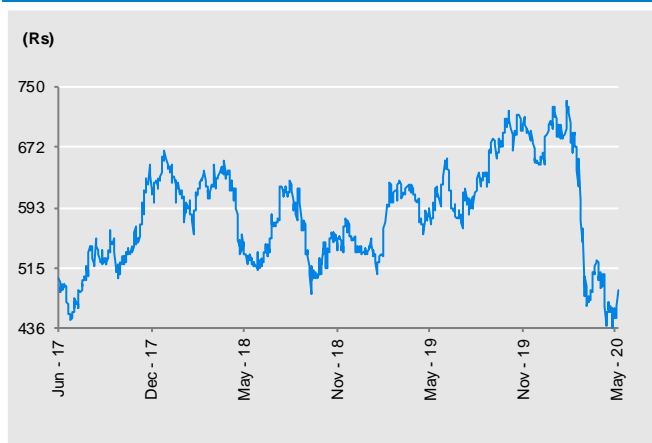
Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	15.7	17.2	15.2	21.5
CEPS	16.4	18.2	16.2	22.8
BVPS	124.3	129.4	139.8	157.0
FCF	(12.1)	11.5	14.5	18.7
DPS	4.0	4.0	4.0	4.3
Return Ratio(%)				
RoCE	18.3	19.8	17.2	20.5
ROIC	17.1	13.4	12.8	16.3
RoE	13.0	13.5	11.3	14.5
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	27	29	30	22
Valuation(x)				
PER	34.3	31.4	35.5	25.0
P/B	4.3	4.2	3.9	3.4
P/CEPS	32.8	29.7	33.2	23.6
EV/EBITDA	27.1	25.1	26.0	19.0
EV/Sales	2.3	2.2	2.3	1.9
Dividend Yield (%)	0.7	0.7	0.7	0.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	26,540	14,219	14,925	20,896
YoY gr. (%)	23.6	-	-	1.3
Raw Material Expenses	19,802	10,181	10,655	14,912
Gross Profit	6,738	4,039	4,270	5,984
Margin (%)	25.4	28.4	28.6	28.6
EBITDA	2,912	1,059	975	1,920
YoY gr. (%)	19.7	(2.5)	(15.7)	33.1
Margin (%)	11.0	7.4	6.5	9.2
Depreciation / Depletion	77	80	80	82
EBIT	2,835	979	895	1,838
Margin (%)	10.7	6.9	6.0	8.8
Net Interest	44	49	57	61
Other Income	433	726	543	605
Profit before Tax	3,224	1,655	1,381	2,382
Margin (%)	12.1	11.6	9.2	11.4
Total Tax	917	430	314	572
Effective tax rate (%)	28.4	26.0	22.7	24.0
Profit after Tax	2,307	1,226	1,067	1,810
Minority interest	11	9	10	8
Share Profit from Associates	(214)	(92)	(187)	(195)
Adjusted PAT	2,082	1,126	869	1,607
YoY gr. (%)	13.2	8.8	(6.2)	15.1
Margin (%)	7.8	7.9	5.8	7.7
Extra Ord. Income / (Exp)	(430)	(61)	-	(20)
Reported PAT	1,652	1,064	869	1,587
YoY gr. (%)	(10.2)	2.9	7.4	13.6
Margin (%)	6.2	7.5	5.8	7.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,652	1,064	869	1,587
Avg. Shares O/s (m)	331	331	331	331
EPS (Rs)	6.3	3.4	2.6	4.9

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	16-Apr-20	BUY	1,244	888
2	13-Apr-20	Accumulate	553	509
3	10-Feb-20	Hold	694	682
4	03-Jan-20	Hold	662	664
5	13-Dec-19	Hold	662	695
6	07-Nov-19	Hold	662	667
7	03-Oct-19	Hold	626	674
8	19-Sep-19	Hold	609	631
9	08-Aug-19	Hold	609	601
10	04-Jul-19	Accumulate	584	635

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,687	1,651
2	Avenue Supermarts	Reduce	1,658	2,398
3	Britannia Industries	BUY	3,744	2,837
4	Colgate Palmolive	Reduce	1,224	1,313
5	Crompton Greaves Consumer Electricals	BUY	267	199
6	Dabur India	Hold	422	431
7	Emami	Hold	285	227
8	Future Retail	Under Review	-	332
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Reduce	485	511
11	Hindustan Unilever	Hold	2,017	2,195
12	ITC	BUY	250	189
13	Jubilant FoodWorks	Hold	1,392	1,530
14	Kansai Nerolac Paints	BUY	486	360
15	Marico	Hold	318	284
16	Nestle India	Reduce	13,127	17,462
17	Pidilite Industries	Hold	1,327	1,349
18	Titan Company	Hold	844	892
19	Voltas	BUY	1,244	888

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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