



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Abhilasha Satale (022) 67141435

Q3FY20 Result update @ Dalal & Broacha

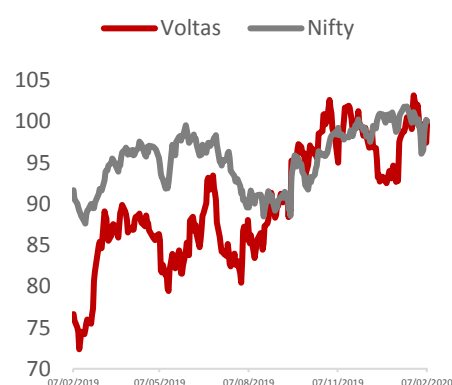
BUY

Current Price	683
Target Price	780
Upside/Downside	14%
52 Week Range	502/731

Key Share Data

Market Cap (Rs.bn)	226
Market Cap (US\$ bn)	3.17
No of o/s shares (mn)	331
Face Value	1
Monthly Avg. vol (BSE+NSE) Nos'000	1247
BSE Code	500575
NSE Code	VOLTAS
Bloomberg	VOLT IN

Price performance



% Shareholding	Dec-19	Sept-19
Promoters	30.30	30.30
DII	25.58	26.13
FII	10.91	10.35
Others	33.21	33.22
Total	100	100

Key Financials

Year	Net sales	%Growth	EBITDA	OPM%	PAT	%Growth	EPS	PE (x)	ROE(%)	ROCE(%)
FY18	64,279	9%	6,626	10.3%	5,735	3%	17.5	38.5	14.7	19.9
FY19	71,241	11%	6,054	8.5%	5,712	0%	13.9	48.3	13.9	17.2
FY20E	81,685	15%	7,663	9.4%	6,331	11%	16.9	39.8	13.9	17.3
FY21E	93,385	14%	9,380	10.0%	7,580	20%	22.0	30.5	14.7	18.6
FY22E	1,05,409	13%	10,835	10.3%	8,559	13%	25.0	26.9	14.7	18.9

Voltas's Q3FY20 results missed Topline and bottom line estimation on account of lower revenue and margins from EMP business and lower Topline growth from UCP business.

On the Topline front, the Revenue was flat yoy at Rs14.9bn as against expected of Rs16.3bn. Segment wise details is as follows -

Unitary Cooling Products (UCP) (40% of Sales/50% of EBIT) – The Revenue was up by 14% YoY to Rs. 6005.1mn (Est: Rs. 6350mn). The EBIT margin stood at 10.10% as compared to 8.50% in Q3FY19. The company has maintained its market share at 24.3% for 9MFY20. **Industry has grown by 35% in 9MFY20 while Voltas has grown by 43% yoy. In South India, the company increase market share by 120 bps.**

Electro-Mechanical Services (EMP) (54% of Sales/31% of EBIT) - The Revenue was down by 8% YoY to Rs 8081.3 mn (Est: Rs.9300 mn) due to delays in some of the government projects. The EBIT margin stood at 4.63% as compared to 7.90% in Q3FY19.

Engineering Products (6% of Sales/19% of EBIT) – The Revenue was down by 1% yoy Rs. 826mn (Est: Rs. 790mn). The EBIT margin stood at 27.97% as compared to 26.36% in Q3FY19.

The EBITDA margin stood at 6.5% vs 7.8% yoy, as against expected of 7.3%. The Interest cost was down 57% yoy to Rs57mn. PBT reported at Rs1.19bn as against Rs1.08bn on yoy basis as against expected of Rs1.69bn). Further, Loss from JV reported at Rs187mn vs Rs308mn on yoy. The PAT stood at Rs879mn vs Rs781mn on yoy basis, as against expected of Rs1.18bn. Voltas generated an EPS of Rs2.7 vs Rs2.4 yoy.

Valuation & Outlook

Voltas has outperformed its peer in UCP sales by posting 43% growth in 9MFY20 and is currently having highest order book under the EMP segment at 2.2x of FY19 sales. We expect Voltas' sales to grow at a CAGR of 14% over FY19-22E and EBITDA to grow at a CAGR of 21% yoy. Commencement of Sanand facility is likely to increase sales for Volt-Beko. Due to weak EMP sales we revise down EPS estimates for the quarter from Rs18 to Rs16.9 for FY20E and from Rs22.8 to Rs22 for FY21E. We expect Voltas to post EPS of Rs25 for FY22E. At CMP the stock is trading at 31x FY21E and 27x FY22E earnings. We recommend a BUY with SOTP based Target Price of INR 780.



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Management Comments & Conference Call Key Takeaways -

Unitary Cooling Products Segment:

- UCP segment sales was up by 33%yoy during 9MFY20 and a growth of 14% in Q3FY20 YoY. The company maintains Margin guidance of 11%+ for the full year FY20. In 9MFY20, Voltas made 11.71% margins.
- Geographic Revenue Breakup – 40% from North, 23-25% from South and West individually and balance by Eastern part of India
- In the 9MFY20, Voltas sold 2,68,000 units, highlighting 35% growth over 9MFY19.
- In the Split Ac segment (~72% of RAC Sales), Voltas sold 43-44% of Inverter Ac as compared to 35.36% in Q3FY19.
- In Budget 2020-21, customs duty on compressor was increased from 10% to 12.5%, increasing prices raw material prices. However, management is confident of passing the price increase to end user.
- Under the water coolers business, Voltas gained market share exited the quarter at 11.9%. The market share gain was due better quality and increase in number of SKU's
- The management mentioned that, execution of EESL contract for 50,00ACs is long term contract and there is very low traction as of now.
- Tirupati Plant - The Plant CAPEX is being kept on hold for the time being. The management expects a CAPEX of Rs. 2000 mn, if the setup is at full swing.
- The company is covered for Q4FY20, as far sourcing from China is concerned. Also management is considering alternative sources for procuring raw material.

Electrical & Mechanical Products Segment:

- The order book stands Rs. 70240 mn, up by 36% YoY. Out of the above, International order book stands at Rs. 27,240 mn and Domestic order stands at Rs. 43,000 mn. The management is cautious of booking new order, owing to liquidity crisis and stretched working capital
- International Orders - Voltas booked orders worth Rs. 1700 mn during the quarter. However, owing to global challenges orders booked by Voltas were selective in nature.
- Domestic Order – Voltas booked orders worth Rs. 10760 mn during the quarter of which majorly were water projects. Voltas also bagged orders from Mumbai Metro during the quarter.
- Capital employed for the segment has gone up to Rs. 12,132 mn, up by 32% YoY, due to delayed payments from government contracts. However, management is confident of improving working capital cycle going ahead.

Volt-Beko Segment:

- The management reiterated guidance to breakeven by 2024-25 and gain 10% Market Share
- Voltas-Beko has touch 4000 touch points
- Voltas-Beko has sold more than 2,20,000 units till date. These included washing machines, refrigerators and microwave.
- Voltas Beko inaugurated its new facility at Sanand (Gujarat) on 30th January 2020, having an annual capacity of 1mn units. Over a period of Voltas can scale up the production to 2.5 mn units.
- Initially, the company will manufacture refrigerators and washing machines only.
- Management expects profitability to improve for the segment once in-house production begins.

General Points –

- Tax Rate going ahead would be ~27%.
- Engineering segment is having some weakness due to textile industry going through a slowdown. Their partner, LMW has a market share of 54% in textile machine segment.


Q3FY20 Result update@ Dalal & Broacha

VOLTAS (IN Millions)	Q3FY20	Q3FY19	Q2FY20	% YoY	% QoQ	9MFY20	9MFY19	% YoY
Net Revenue	14,925	14,918	14,219	0.05%	4.96%	50612	43560	16%
Raw Mat consumed	7,746	8,001	7,848	-3.18%	-1.30%	26520	20832	27%
Purchases	4,541	1,935	3,079	134.74%	47.48%	12668	7864	61%
Changes in Inventories	-1,632	971	-746		118.69%	-2356	1968	-220%
Gross Profit	4,270	4,012	4,039	6%	6%	13,780	12,896	7%
% Margins	28.61%	26.89%	28.40%	6%	1%	27%	30%	-8%
Employee costs	1,737	1,601	1,576	8%	10%	4755	4433	7%
Other Expenses	1,561	1,254	1,404	24%	11%	4351	4368	0%
EDIDTA	973	1,157	1,059	-16%	-8%	4,674	4,095	14%
<i>EDIDTA Margins (%)</i>	<i>6.52%</i>	<i>7.75%</i>	<i>7.45%</i>	-16%	-12%	<i>9.23%</i>	<i>9.40%</i>	
Depreciation	80	62	80	30%	0%	180.5	182.8	-1%
Finance Cost	57	132	49	-57%	16%	223.5	75.8	195%
Other income	543	548	726	-1%	-25%	1,291	1,303	-1%
Profit before tax	1,378	1,511	1,655	-9%	-17%	5,561	5,140	
PBT Margins (%)	8.91%	9.77%	11.08%			10.71%	11.46%	-6%
Exceptional Items	-	-118	-61			-117.7	20	-689%
Profit before tax after share of profit	1,378	1,393	1,594	-1%	-14%	5443	5159.6	5%
PBT Margins (%)	9%	9%	11%			10%	12%	
Provision for tax	314	304	430			1,397	1,370	
Tax Rate(%)	23%	22%	27%			26%	27%	
Reported PAT	1,064	1,089	1,164	-2%	-9%	4,046	3,789	7%
PAT Margins (%)	6.88%	7.04%	7.79%			7.80%	8.45%	
Share of Profit/loss	-187.3	-307.8	-91.5			-324.9	47.9	
Adjusted PAT	877	781	1,073			3,721	3,837	-3%
PAT Margins (%)	5.67%	5.05%	7.18%			7.17%	8.55%	
Equity	33.08	33.08	33.08			33.08	33.08	
EPS	2.63	2.45	3.22			11.13	11.48	



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Segment Revenue	Q3FY20	Q3FY19	Q2FY20	% YoY	% QoQ	9MFY20	9MFY19	% YoY
UCP	6005.1	5259.2	5255.5	14%	14%	28748.4	21579.9	33%
EMP	8081.3	8752.3	8093.3	-8%	0%	24415.8	26430.8	-8%
Engineering Products	826	831.6	803	-1%	3%	2368.6	2331.8	2%
Total	14912	14843.1	14152	0%	5%	55532.8	50342.5	10%

Contribution to the Topline	Q3FY20	Q3FY19	Q2FY20	% YoY	% QoQ	9MFY20	9MFY19	% YoY
UCP	40%	35%	37%	14%	8%	52%	43%	21%
EMP	54%	59%	57%	-8%	-5%	44%	53%	-16%
Engineering Products	6%	6%	6%	-1%	-2%	4%	5%	-8%
Total	100%	100%	100%			100%	100%	0%

EBIT	Q3FY20	Q3FY19	Q2FY20	% YoY	% QoQ	9MFY20	9MFY19	% YoY
UCP	606.8	446.8	462.8	36%	31%	3367.1	2216.8	52%
EMP	374.2	691.8	561.1	-46%	-33%	1590.9	2331.8	-32%
Engineering Products	231	219.2	252.9	5%	-9%	723.3	776.7	-7%
Total	1212	1357.8	1276.8	-11%	-5%	5681.3	5325.3	7%

EBIT %	Q3FY20	Q3FY19	Q2FY20	% YoY	% QoQ	9MFY20	9MFY19	% YoY
UCP	10.10%	8.50%	8.81%	19%	15%	11.71%	10.27%	14%
EMP	4.63%	7.90%	6.93%	-41%	-33%	6.52%	8.82%	-26%
Engineering Products	27.97%	26.36%	31.49%	6%	-11%	30.54%	33.31%	-8%



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	FY18	FY19	FY20E	FY21E	FY22E	Cash Flow Statement (Rs Mn)	FY18	FY19	FY20E	FY21E	FY2E
Net Sales	64,279	71,241	81,685	93,385	1,05,409	Pre tax Profit	8049	6711	7909	9704	11408
						Add: Dep. & Amortization	244	240	349	419	472
Raw Materials	-45,675	-52,622	-58,880	-66,696	-75,035	Total tax paid	2492	1635	1977	2426	2852
Employee Cost	-5,867	-6,482	-7,352	-8,405	-9,487	Other Adjustments	(6037)	(4755)	(12742)	(5895)	(6749)
Other Expenses	-6,110	-6,083	-7,789	-8,905	-10,052	Cash Profit	4748	3830	(2508)	6654	7983
Cost of Sales	-57,652	-65,187	-74,021	-84,006	-94,573	(Inc) / Dec in					
						Sundry Debtors	(1162)	(1701)	(3614)	(3011)	(3094)
Operating Profit	6,626	6,054	7,663	9,380	10,835	Inventories	940	(881)	(3495)	(1791)	(1841)
Depreciation	-244	-240	-349	-419	-472	Loans & Advances	(3819)	(1701)	10043	(1054)	(1083)
PBIT	6,383	5,814	7,315	8,961	10,364	Current liabilities & Trade payables	2545	3751	(687)	5047	5186
Other Income	1,741	1,862	1,196	1,295	1,296	Change in Working Capital	(1495)	(531)	2246	(809)	(831)
Interest	-119	-330	-202	-252	-252	CF from Operating Activities	3253	3299	(261)	5845	7152
Prior period items	0	0	0	2	3						
Profit Before Tax	8,005	7,347	8,309	10,006	11,411	CF from Investing Activities	(1992)	(43)	4785	295	496
Provision for Tax	-2,270	-1,635	-1,977	-2,426	-2,852	CF from Financing Activities	(1738)	(1567)	(1760)	(1712)	(1969)
PAT	5,735	5,712	6,331	7,580	8,559						
Extra ordinary Items	6	-636	-400	1	2	Net changes in cash	(477)	1689	2763	4428	5680
Minority interest & Ass. Profits	38	47	51	0	0	Cash at the start of year	3314	2837	3211	4526	6108
Share of Profits	0	-518	-400	-300	-300	Cash at the end of year	2837	3211	4526	6108	10537
Adj. PAT	5,779	4,604	5,583	7,281	8,261						
Balance Sheet (Rs Mn)						Ratios					
Equity Capital	331	331	331	331	331	OPM	10.3	8.5	9.4	9.4	10.0
Reserves	38,721	40,769	45,307	51,127	57,967	NPM	8.9	8.0	7.8	7.8	8.1
Net Worth	39,052	41,100	45,638	51,458	58,298	Tax Rate %	(28.4)	(22.3)	(23.8)	(23.8)	(24.2)
Minority Interest	317	348	404	404	404						
Long term borrowings	1,423	3,147	3,147	3,147	3,147	Growth Ratio (%)					
Short term borrowings	0	0	0	0	0	Net Sales	6.5	10.8	14.7	14.3	12.9
Total Debt	1,423	3,147	3,147	3,150	3,147	Operating Profit	14.4	(8.6)	26.6	22.4	15.5
Capital Employed	40,792	44,594	49,189	55,011	61,849	PAT	18.3	(20.3)	21.2	30.4	13.5
Gross Block	4,076	4,533	6,033	7,033	7,833	Per Share					
Accumulated Depreciation	-2,371	-2,377	-2,726	-3,145	-3,616	Earning Per Share (EPS)	17.5	13.9	16.9	22.0	25.0
Net Block	1,705	2,155	3,307	3,888	4,216	Cash Earnings (CPS)	18.1	18.0	20.2	24.2	27.3
Capital WIP	41	157	157	157	157	Dividend	3.5	3.1	3.6	4.4	5.2
Total Fixed Assets	1,746	2,312	3,463	4,045	4,373	Book Value	118.1	124.3	138.0	155.6	176.3
Contract Assets	0	7,849	7,845	7,845	7,845	Free Cash flow	8.8	8.2	(5.3)	14.6	19.2
Goodwill & Intangible	0	1	3	4	0						
Investments	28,803	25,134	25,134	25,134	25,134	Valuation Ratios					
Inventories	8,130	10,907	12,505	14,297	16,138	P/E (x)	38.5	48.3	39.8	30.5	26.9
Sundry debtors	15,703	18,330	21,017	24,028	27,121	P/B (x)	5.1	4.8	4.3	3.9	3.4
Cash & bank	2,837	3,211	6,108	10,537	16,219	EV / Sales	3.1	3.1	2.7	2.3	2.0
Loans & advances and Other CA	15,700	6,418	7,358	8,412	9,495	EV / EBITDA	29.7	36.7	28.6	22.9	19.3
Current Liabilities	-29,443	-28,415	-32,762	-37,454	-42,277	FCF Yield (%)	1.5	1.4	(0.9)	2.5	3.3
Provisions	-2,729	-2,146	-2,474	-2,828	-3,192	Div. Yield (%)	0.6	0.5	0.6	0.7	0.9
Working Capital	10,198	8,305	11,754	16,991	23,504	Return Ratios (%)					
Deferred Tax Liabilities	46	993	993	993	993	ROE	14.7	13.9	13.9	14.7	14.7
Capital Deployed	40,792	44,594	49,189	55,011	61,849	ROCE	19.9	17.2	17.3	18.6	18.9



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Mrs.Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Mrs.Abhilasha Satale	Abhilasha.satale@dalal-broacha.com	022 67141438	Mid- cap senior analyst
Mr. Mayank Babla	mayank.babladalal-broacha.com	022 67141412	I.T/Telecom/Media
Mr. Avinash Tanawade	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate
Ms. Nidhi Babaria	nidhi.babaria@dalal-broacha.com	022 67141450	Associate
Mr. Tanush Mehta	tanush.mehta@dalal-broacha.com	022 67141449	Associate

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021

Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092

E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com