



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

## Q2FY21 Result Update @ Dalal & Broacha

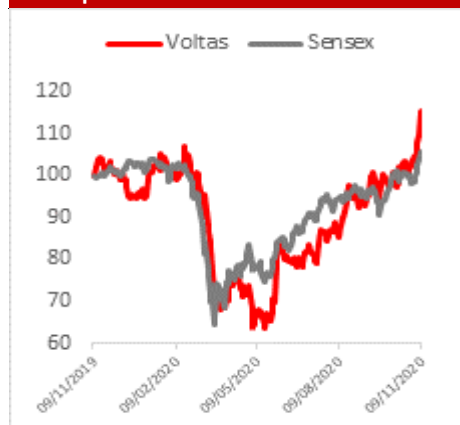
### ACCUMULATE

Current Price	764
52 Week Range	803/428
Target Price	797
Upside	4%

### Key Share Data

Market Cap (Rs.bn)	253
Market Cap (US\$ bn)	3405
No of o/s shares (mn)	331
Face Value	1
Monthly Avg. vol(BSE+NSE) Nos'000	2890
BSE Code	500575
NSE Code	VOLTAS
Bloomberg	VOLT IN

### Price performance



% Shareholding	Sep-20	Jun-20
Promoters	30.30	30.30
Public	69.70	69.70
Others	0.00	0.00
<b>Total</b>	<b>100</b>	<b>100</b>

### FINANCIALS

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY18	64,279	6.5	6,626	10.3%	5,735	18.3	17.5	36.9	14.7	19.9
FY19	71,241	10.8	6,054.2	8%	5,712	(0.4)	13.9	46.2	13.9	17.2
FY20	76,581	7.5	6,866.6	9%	6,409	12.2	17.5	36.9	15.0	19.5
FY21E	66,230	(13.5)	5,030	8%	4,950	(22.8)	14.7	53.7	10.6	13.7
FY22E	88,102	33.0	8,734	10%	7,685	55.2	23.6	33.5	14.5	19.2

**Result above expectations. UCP segment posted positive sales growth improving market share to 26.8%.**

- Revenue was up by 12% yoy at Rs. 15.8 Billion vs expectation of Rs. 12 Billion.
- Gross Margin declined from 28.4% to 24.9% yoy.
- Employee cost was up by 9.4% yoy whereas Other expenses was up by 27% yoy.
- Other expenses as a % of sales was up from 9.9% to 11.3% yoy.
- EBIDTA was down by 31% yoy at Rs. 730 Million as against the Expectation of Rs. 550 Million.
- EBIDTA margin stood at 4.6% vs 7.4% yoy as against the expectation of 4%.
- Other income grew by 13% yoy at Rs. 633 Million.
- Loss from associates/JVs stood at Rs. 71 Million vs Rs. 92 Million yoy. Volt Beko loss reduced due to improved sales and deduction in A&P spend.
- Tax rate stood at 30.7% vs 26% yoy.
- PAT declined by 35% yoy at Rs. 797 Million.
- EPS stood at Rs. 2.4 per share vs Rs 3.2 per share.

#### Segmental Performance

- 1. UCP (36% of revenue):** Revenue up 9% yoy at Rs57.15bn. The company gained market share improving it to 26.8% vs 26.2% qoq. Achieved overall volume growth of 14% contributed by growth of 11% RAC, 20% in Commercial Refrigeration Products and 28% in Air Coolers. Segment margin at 11% vs 8.8% yoy.
- 2. EMP (58% of rev):** Rev up 15% yoy at Rs9.28bn. EBIT margin reduced from 6.9% to 2.5% yoy. Margin reduced due to conservative time based provisions, amidst liquidity constraints on some of the old legacy projects.
- 3. Engineering Services (6% of rev):** Revenue up 16% yoy at Rs9.3bn. EBIT % at 30.9% vs 31.5%.

#### Other Key Business Highlights

##### **1) UCP (36% of sales, 55% of EBIT)**

- **Gained market share in H1FY21:** AC industry declined 59% in H1FY21 while Voltas sales declined 43% in H1FY21. During Q2FY21 UCP reported 14% volume growth driven by 11% increase in RAC, 20% in commercial refrigeration and 28% in coolers. Volume of RAC was driven by 36% yoy growth in inverter AC. Voltas market share stood at 26.8% in August 2020 and 26.4% in H1FY21. In air coolers Voltas is second largest player with 10.8% market share.
- **Impact of import ban on ACs with refrigerant (CBUs):** Voltas has been increasing indigenization since few years. Currently, 100% ODUs are made in-house, 100% window ACs are outsourced to local vendor while part of IDUs are getting imported. It has minimal CBU imports. Being largest volume contributor in the country Voltas will have better bargaining power with OEM suppliers.



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- The company is investing also in moulds and balancing equipment to improve the throughput of its existing manufacturing unit in Pant Nagar which will reduce import dependency further. Also efforts to set up a South India based AC factory are being fast tracked. Overall investment in Phase-I of the facility is likely to be Rs. 2.5 bn.
- Import ban will reduce competition from fringe players who were just importing and selling into the markets. This will rationalize overall pricing in the industry. Industry will see some kind of consolidation as these restrictions will not allow them to trade just by importing.
- High inventory to cater to festive sales: Capital employed in UCP increased during the quarter due to increase in inventory. Company is holding Rs. 10 bn inventory in UCP segment i.e. 110 days inventory to cater to festive demand. As demand improves during festive season the inventory will get liquidated.
- E-commerce sales: AC is not very apt product for e-commerce sale due to installations involved. E-commerce contributed 5% of sales in H1FY21.

#### **2) EMP (58% of sales, 20% of EBIT)**

- 16% yoy growth in EMP topline is driven largely by international operations.
- Order inflows -90% yoy at Rs2.73bn during the quarter. Enquiries for infrastructure projects including Metros, Electricals, Water treatment, etc. have picked up. So inflows likely to improve in H2FY21.
- Voltas currently has a carry forward order book of Rs. 68.52bn (Rs. 45.29bn for Domestic and Rs. 23.23bn for International).
- Provisioning impacted margin: Margin for the segment has been impacted due to increased provisioning on the back of delays in execution, certification or payment delays. Management expects margin for the segment to remain under pressure issues in Middle East. On a sustainable basis it expect EMP to command 6% margin.
- Transfer of MEP division to 100% subsidiary: EMP division has been transferred to 100% subsidiary Rohini Industrial Electricals Ltd. (RIEL). Management said there is no plan to hive off this subsidiary. Aim of putting a B2B business into one company is to focus on B2B segment. It will get additional management attention. Project business will get financing and focus rather than getting submerged into UCP division.

#### **3) Voltas Beko**

- Production ramp-up: Production from the new Sanand facility has now been stepped up to a rate of over 35,000 refrigerators per month covering 27 SKUs. Production of Frost Free refrigerators and Automatic Top / Front load Washing machines and Dishwashers will also be commenced in a phased manner. Has 50 SKUs in Washing Machines, 30 in Frost Free refrigerators, 6 each in Dish Washers & Microwaves, etc.
- The company faced supply chain issues to ramp up production due to lockdown. Direct cool refri demand is encouraging. Brands have been launched with no extended credit. Volt-Beko has garnered 1.7% market share in washing machine and 1.8% share in refrigerator. Expect to reach 100000 refrigerators by the middle of next year. Confident of achieving the target of 10% market share by FY25.
- Distribution Strength: Voltas Beko currently has ~ 900 billing points and ~ 6,000 touch points which can be easily scaled up. Consumer durables universe is 35000 shops. Volt-Beko can go to 20000-25000 touch points.
- Ad Spend to increase: Losses for Volt-Beko are better than projections due to lower expenses on advertising in H1FY21. Going forward management expects marketing expenses will increase.

#### **Valuation and Outlook**

We feel Voltas is well placed to improve market share in RAC segment. Cash Flow from operations has deteriorated during H1FY21 as Q1 season was wash out for RAC segment due to pandemic. As sales improve ahead of festive season and in Q4 we expect inventory to get normalized. Import restriction on CBUs with refrigerant will bring pricing discipline in industry benefitting players like Voltas. **We expect Voltas to post EPS of Rs14.7 and Rs23.6 over FY21E and FY22E respectively. Recent rally in stock discounts major positives. We recommend 'Accumulate'.**



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**Quarterly Result Snapshot**

<b>Voltas (in INR Million)</b>	<b>Q2FY21</b>	<b>Q1FY21</b>	<b>Q2FY20</b>	<b>% YoY</b>	<b>% QoQ</b>
Net Revenue	15875.5	12969.4	14219.4	12%	22%
Raw Material	-11925.8	-9082.3	-10180.5	17%	31%
<b>Gross Profit</b>	<b>3949.7</b>	<b>3887.1</b>	<b>4038.9</b>	-2%	2%
<b>% Margin</b>	<b>25%</b>	<b>30%</b>	<b>28%</b>	-12%	-17%
Employee Costs	1432.2	1574.2	1576	-9%	-9%
<i>% of Sales</i>	<i>9%</i>	<i>12%</i>	<i>11%</i>		
Other Expenses	1787.3	1645.5	1404.1	27%	9%
<i>% of Sales</i>	<i>11%</i>	<i>13%</i>	<i>10%</i>		
<b>EBITDA</b>	<b>730.2</b>	<b>667.4</b>	<b>1058.8</b>	-31%	9%
<b>EBITDA Margins%</b>	<b>5%</b>	<b>5%</b>	<b>7%</b>		
Depreciation	83.9	82.2	80.2	5%	2%
Finance Costs	58.1	67.2	49.4	18%	-14%
Other Income	632.5	674	726.2	-13%	-6%
<b>Profit Before Tax</b>	<b>1220.7</b>	<b>1192</b>	<b>1655.4</b>	-26%	2%
<b>PBT Margins %</b>	<b>8%</b>	<b>9%</b>	<b>12%</b>		
Tax Paid	353.3	257.6	429.7	-18%	37%
Tax Rate	29%	22%	26%		
<b>Reported PAT</b>	<b>796.8</b>	<b>817.6</b>	<b>1164.3</b>	-32%	-3%
<b>PAT Margins %</b>	<b>5%</b>	<b>6%</b>	<b>8%</b>		
Exceptional Item	0	0	-61.4		
Share of Profit from JV	-70.6	-116.8	-91.5	-23%	-40%
<b>Adjusted PAT</b>	<b>796.8</b>	<b>817.6</b>	<b>1225.7</b>	-35%	-3%
<b>PAT Margins %</b>	<b>5%</b>	<b>6%</b>	<b>9%</b>		



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Profit and Loss	FY18	FY19	FY20	FY21E	FY22E	Cash Flow State	FY18	FY19	FY20	FY21E	FY22E
Net Sales	64,279	71,241	76,581	66,230	88,102	Pre tax Profit	8049	6711	7443	6491	10423
						Add: Dep. & Amoi	244	240	320	292	342
Raw Materials	(45,675)	(52,622)	(55,549)	(48,923)	(63,038)	Total tax paid	2492	1635	2010	1623	2606
Employee Cost	(5,867)	(6,482)	(6,717)	(5,961)	(7,929)	Other Adjustments	(6037)	(8769)	(7736)	(5080)	(7111)
Other Expenses	(6,110)	(6,083)	(7,448)	(6,315)	(8,401)	<b>Cash Profit</b>	<b>4748</b>	<b>(183)</b>	<b>2037</b>	<b>3325</b>	<b>6260</b>
Cost of Sales	(57,652)	(65,187)	(69,714)	(61,199)	(79,369)	(Inc) / Dec in					
						Sundry Debtors	(1162)	(2627)	(6)	191	(3579)
<b>Operating Profit</b>	<b>6,626</b>	<b>6,054</b>	<b>6,867</b>	<b>5,030</b>	<b>8,734</b>	Inventories	940	(375)	128	(734)	(5094)
Depreciation	(244)	(240)	(320)	(292)	(342)	Loans & Advanc	(3819)	9283	(1812)	(1751)	(882)
PBIT	6,383	5,814	6,547	4,738	8,391	Current liabilities	2545	(7849)	(1144)	169	10888
Other Income	1,741	1,863	2,306	2,009	2,029	<b>Change in Worki</b>	<b>(1495)</b>	<b>(1569)</b>	<b>(2834)</b>	<b>(2124)</b>	<b>1333</b>
Interest	(119)	(330)	(211)	(174)	(129)	<b>CF from Operati</b>	<b>3253</b>	<b>(1752)</b>	<b>(797)</b>	<b>1201</b>	<b>7593</b>
Profit Before Tax	8,005	7,347	8,642	6,573	10,291	<b>CF from Investin</b>	<b>(1992)</b>	<b>4989</b>	<b>2380</b>	<b>361</b>	<b>1029</b>
Provision for Tax	(2,270)	(1,635)	(2,233)	(1,623)	(2,606)	<b>CF from Financii</b>	<b>(1738)</b>	<b>157</b>	<b>(2449)</b>	<b>(1151)</b>	<b>(2822)</b>
<b>PAT</b>	<b>5,735</b>	<b>5,712</b>	<b>6,409</b>	<b>4,950</b>	<b>7,685</b>						
Extra ordinary Items	6	(636)	0	1	2	<b>Net changes in c</b>	(477)	3394	(867)	411	5800
Minority interest & Ass. Profits	38	47	51	0	0	Cash at the start o	3314	2837	3212	3084	496
<b>Share of Profits</b>	<b>0</b>	<b>(518)</b>	<b>(687)</b>	<b>(82)</b>	<b>132</b>	Cash at the end o	2837	3212	3084	496	6298
<b>Adj. PAT</b>	<b>5,779</b>	<b>4,605</b>	<b>5,774</b>	<b>4,869</b>	<b>7,819</b>						
Balance Sheet (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E	Ratios	FY18	FY19	FY20	FY21E	FY22E
Equity Capital	331	331	331	331	331	OPM	10.3	8.5	9.0	7.6	9.9
Reserves	38,721	40,769	42,471	46,364	52,614	NPM	8.9	8.0	8.4	7.5	8.7
<b>Net Worth</b>	<b>39,052</b>	<b>41,100</b>	<b>42,802</b>	<b>46,694</b>	<b>52,945</b>	Tax Rate %	(28.4)	(22.3)	(25.8)	(24.7)	(25.3)
Minority Interest	317	348	365	365	365						
Long term borrowings	1,423	3,147	2,124	2,124	1,000	<b>Growth Ratio (%)</b>					
Short term borrowings	0	0	54	54	54	Net Sales	6.5	10.8	7.5	(13.5)	33.0
Total Debt	1,423	3,147	2,179	2,179	1,055	Operating Profit	14.4	(8.6)	13.4	(26.7)	73.6
<b>Capital Employed</b>	<b>40,792</b>	<b>44,594</b>	<b>45,346</b>	<b>49,238</b>	<b>54,365</b>	PAT	18.3	(20.3)	25.4	(15.7)	60.6
Gross Block	4,076	4,533	5,099	5,599	6,599	<b>Per Share</b>					
Accumulated Depreciation	(2,371)	(2,377)	(2,697)	(2,988)	(3,331)	Earning Per Share	17.5	13.9	17.5	14.7	23.6
Net Block	1,705	2,155	2,402	2,611	3,268	Cash Earnings (C)	18.1	18.0	20.3	15.9	24.3
Capital WIP	41	157	263	263	263	Dividend	3.5	3.1	3.2	3.0	4.7
<b>Total Fixed Assets</b>	<b>1,746</b>	<b>2,312</b>	<b>2,665</b>	<b>2,873</b>	<b>3,531</b>	Book Value	118.1	124.3	129.4	141.2	160.1
Contract Assets	0	7,849	8,993	8,993	8,993	Free Cash flow	8.8	(0.4)	(4.4)	2.1	19.9
Investments	28,803	25,134	24,404	25,552	25,552	<b>Valuation Ratios</b>					
Inventories	8,130	10,907	14,689	15,423	20,517	P/E (x)	36.9	46.2	36.9	53.7	33.5
Sundry debtors	15,703	18,330	18,336	18,145	21,724	P/B (x)	5.5	5.2	5.0	4.6	4.0
Cash & bank	2,837	3,212	3,084	496	6,298	EV / Sales	3.3	3.0	2.8	3.2	0.0
Loans & advances and Other CA	15,700	6,418	8,229	9,980	10,862	EV / EBIDTA	31.9	35.2	31.0	42.2	24.6
Current Liabilities	(29,443)	(28,415)	(30,455)	(30,612)	(40,722)	FCF Yield (%)	1.5	1.5	(0.8)	0.4	3.4
Provisions	(2,729)	(2,146)	(2,343)	(2,355)	(3,133)	Div. Yield (%)	0.5	0.5	0.5	0.5	0.7
Working Capital	10,198	8,306	11,541	11,076	15,545	<b>Return Ratios (%)</b>					
Deffered Tax Liabilities	46	993	743	743	743	ROE	14.7	13.9	15.0	10.6	14.5
<b>Capital Deployed</b>	<b>40,792</b>	<b>44,595</b>	<b>48,347</b>	<b>49,239</b>	<b>54,366</b>	ROCE	19.9	17.2	19.5	13.7	19.2



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