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STOCK BROKING PVT. LTD.

Associate: Tanush Mehta – 022 67141438

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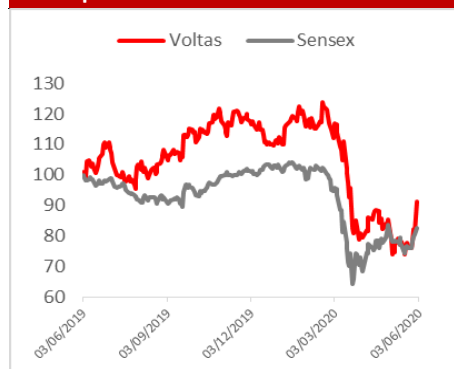
ACCUMULATE

Current Price	540
52 Week Range	428/740
Target Price	560
Upside	4%

Key Share Data

Market Cap (Rs.bn)	178.60
Market Cap (US\$ bn)	2.364
No of o/s shares (mn)	331
Face Value	1
Monthly Avg. vol(BSE+NSE) Nos'000	3555
BSE Code	500575
NSE Code	VOLTAS
Bloomberg	VOLTAS:IN

Price performance



% Shareholding	Mar-20	Dec-19
Promoters	30.30	30.30
Public	69.70	69.70
Others	-	-
Total	100	100

Voltas reported strong set of numbers aided by strong performance from UCP segment, reporting a 8 quarter high margins of 14.6%

The financial highlights of the Q4FY20 result is as follows -

- ❖ Revenue came in INR 20,896mn, growth of 1.3%YoY and 40% QoQ, as against estimate of INR 21,398 mn (-2%)
- ❖ GM% - 28.64% v/s 23.45% in Q4FY19 v/s 28.62% in Q3FY20
- ❖ **Employee Expenses** (8.5% of sales) stands at INR 1775.7 mn, up by 6.3% YoY and 2.4% QoQ
- ❖ Other expenses (11% of Sales) came in at INR 2288.1 higher by 32% YoY and 46.5% QoQ
- ❖ EBITDA came in at INR 1,920 mn, up by 33%YoY and 97%QoQ, respectively, as against estimate of INR 1,132 mn
- ❖ **EBITDA Margin** stood at 9.2% (+220 bps YoY/+265 bps QoQ), as against expected of 6%
- ❖ Other Income earned came in at INR 604.6 mn, growth of 5%YoY and 11%QoQ, respectively.
- ❖ PBT came in at INR 2,382.5 mn, growth of 29%YoY and 73%QoQ, respectively, as against estimate of INR 1,751 mn (without JV loss)
- ❖ **Tax Rate:- 24.2%** v/s 12.9% in Q4FY19 v/s 22.7% in Q3FY20
- ❖ PAT (without JV loss):- INR 1,810.1 mn, growth of 12%YoY/+68%QoQ, as against estimate of INR 1,173 mn
- ❖ JV Loss:- Loss from Beko Jv stood at INR 194.7 v/s 193.3 in Q4FY19 and 187.3 in Q3FY19
- ❖ **PAT (with JV loss)** stood at INR 1595.2 mn , growth of +12.5%YoY/+79%QoQ

A. UCP PERFORMANCE -

- ❖ Revenue stands at INR 1198.86 mn, up by 20% YoY and 99% QoQ.
- ❖ **Margins at 14.6% v/s 10.3% in Q4FY19 v/s 10.10% in Q3FY20**
- ❖ **Market Share - 24.2%**
- ❖ Other Highlights - Air coolers and other consumer products witnessed good traction. Voltas achieved leadership position in Inverter AC segment in Jan and Feb 2020. Sales grew 50% yoy in first 11 months as against industry growth of 30%.

B. EMP Business

- ❖ Revenue at INR 8045.6 mn, -18% YoY/-0.44% QoQ.
- ❖ Margins at 1.4% v/s 4.5% in Q4FY19 v/s 4.63% in Q3FY20
- ❖ Order Book - The order book stands at INR 77,880 mn as against INR 49,760 mn in Q4FY19 and INR 70240 mn. The order book was higher on account of major order booked in the water project.

FINANCIALS (In INR mn)

Year	Op Income	% 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	31x	14.7%	19.9%
FY19	71,241	10.8%	6,054	8.5%	5,712	-20.3%	13.9	39x	13.9%	17.2%
FY20	76,581	7.5%	6,866	9%	6,409	24.5%	17.5	31x	14%	18.3%
FY21E	61,001	-20.3%	4,541	7.4%	4,049	-33.9%	11.5	47x	8.3%	10.7%
FY22E	79,845	30.9%	7,353	9.2%	6,034	61.3%	18.6	29x	11.2%	14.7%



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B. Engineering Business

- ❖ Revenue at INR 948 mn, +21% YoY/+15% QoQ.
- ❖ Margins at 28.41% v/s 35% in Q4FY19 v/s 28% in Q3FY20

Other Key Business Highlights –

1. UCP Segment

- a. Voltas current market share position speaks out that, 1 out of every 4 A/c sold are Voltas, implying a strong brand image and market position
- b. The company witnessed 50% growth for the first 11 months of FY20 over last year as against industry growth of 30% yoy. However, March month changed things towards the end. Hence owing to the same, for the full year FY20, UCP segment sales grew by 29% YoY as against industry growth of 24-25%
- c. **Inverter Air conditioners** – Voltas has taken over its nearest competitor in inverter AC and is now market leader in inverter AC segment too. Inverter Ac accounts of 64% of Split AC sales and contributes 50% to overall UCP sales
- d. **Inventory Levels** – The Company has inventory of 90 days at company level and 60 days at dealer level. Voltas's is present in Tier 1 and Tier 2 cities as well. The management also mentioned that April month was a washout and company made zero sales during the month. The company also mentioned that, inventory is enough to manage sales going ahead.
- e. **Voltas has not taken any price cut in spite some discounting done by industry players.** Being a market leader any price cut by Voltas will be widely followed by industry players so management is not planning any price cut.
- f. **Raw Material** - The raw material mostly arrives by ships and if ordered by Air would increase significant cost. Average lead time is 40-50 days. However. The company has sufficient inventory. Over a period Voltas will reduce its import dependency and be self-reliant. Management working towards improving integration at Pantnagar factory.
- g. **Air coolers** - The Company has 10% market share in Air cooler segment.
- h. **Online Sales** – A/C sales via online platform has not been a successful model globally. In Voltas's case, it contributes 8% of total UCP sales.
- i. **Receivable days** – The receivables days stand at 20-25 days.
- j. **Capital Employed** - The capital employed stands at INR 4760mn v/s 5560mn, signifying strong working capital
- k. **Margins at the UCP Segment** – Maintained margin guidance for UCP segment at 11-12%.

2. EMP Segment

- a. New orders have been carefully booked; keeping in mind the working capital cycle followed cash flows.
- b. The domestic order book stands at INR 47,890 mn. Order inflows during the quarter stood at Rs11,160 mn.
- c. During the quarter the company booked new international orders worth INR 4000 mn. Total international order book as at 31st March, 2020 stands at ~INR 30000mn (~38-39% of Total order book)
- d. However due to the on-going environment, material prices have come down which would lead to some savings on the cost end.
- e. Margin for EMP segment was weak at 1.4% as company has done some provisions due to delayed execution. Going forward management expects provisioning to continue depending on execution pick-up.
- f. The company also highlighted that order cancellations are not possible as there are legal contracts.
- g. Under the EMP segment, the debtor's days stand at 88 days, which is at normal levels and inventory days are at 90-100 days.



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h. The revenue in the EMP business comes as and when the project starts however, as per the company policy, profit is recognized only when the company completes 20% of work done of that particular project.

3. Engineering Products

- a. Weak exports and weak demand domestically leads to low demand of machines in the textile segment.
- b. Mining Segment witnessed slow down. However, government opening commercial mining could possibility give some traction.

4. Voltas Beko

- a. As of March 2020 market share of Voltas Beko stands at 2% in washing machines and direct cool refrigerators.
 - b. The total investment made by Voltas in the JV stands as at 31st march 2020, stands at INR 3350 mn
 - c. The company started manufacturing of direct cool refrigerators at Sanand facility during the quarter.
 - d. The company has been able to bring out 36 SKU in the Refrigeration segment in the 100-240 litre range.
 - e. Sanand facility has an annual capacity to manufacture 1.5 mn units and could stretch up-to 2.5 mn units as well (for washing machine and refrigerators)
5. The company has 4 manufacturing units in total and the company is finding it difficult to smoothly function them as there are on-going labour issues.
 6. The company can bring in some cost efficiencies through work from home culture and better utilisation of cash in hand etc.

Outlook and Valuation:

Voltas witnessed 50% growth for the first 11 months of FY20 over last year as against industry growth of 30% yoy. However, March month changed things towards the end. Hence owing to the same, for the full year FY20, UCP segment sales grew by 29% YoY as against industry growth of 24-25%. Also, due to nation-wide lockdown there have been no sales in the month of April (Q1 accounts for around 30-35% of total year sales in RAC segment). We expect this to impact Q1FY21E RAC sales for Voltas. Also we expect sales pick-up to be slow in Q2 and Q3 for the year. Therefore, we expect RAC segment to post decline of 25% in FY21E. Further, slower execution in the EMP segment will impact it's topline by 17% in FY21E. Also we expect additional provisioning to impact margin of the segment by 140bps yoy to 3.9%. We expect Voltas to post topline decline of 20% yoy in FY21E and EBTIDA % likely to decline from 9% to 7.7% yoy. We expect Voltas to post EPS of Rs11.5 in FY21E. However, with a recovery in FY22E, we expect Voltas to post topline growth of 30%, margin of 9.4% and EPS at Rs18.6 in FY22E.

At CMP of INR 540, the stock is trading at 48x FY21E and 30x FY22E at earnings of 11.5x FY21E and 18.6x FY22E. We recommend "Accumulate" from a "BUY" rating earlier and arrive at a revised target price if INR 560 (SOTP Valuation).



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Quarterly Result Snapshot

VOLTAS (IN Millions)	Q4FY20	Q4FY19	Q3FY20	% YoY	% QoQ	FY20	FY19	% YoY
Net Revenue	20,896	20,628	14,925	1%	40%	76,581	71,241	7%
Raw Mat Consumed	8,438	9,048	7,746	-7%	9%	32,890	35,568	-8%
Purchases	10,390	7,182	4,541	45%	129%	25,683	19,850	29%
Changes in Inventories	-3,915	-440	-1,632	790%	140%	-3,023	-2,796	8%
Gross Profit	5,984	4,838	4,270	24%	40%	21,031	18,618	13%
% Margins	28.64%	23.45%	28.61%	0.09%	22.09%	27.46%	26.13%	5%
Employee costs	1,776	1,664	1,734	7%	2%	6,717	6,419	5%
% of Sales	8.50%	8.07%	11.62%			8.77%	9.01%	
Other Expenses	2,288	1,732	1,561	32%	47%	7448	6083	22%
% of Sales	10.95%	8.39%	10.46%			9.73%	8.54%	
EBIDTA	1,920	1,443	976	33%	97%	6,867	6,117	12%
EBIDTA Margins (%)	9.19%	7.00%	6.54%	31%	41%	8.97%	8.59%	
Depreciation	82	59	80	38%	2%	3,19.6	2,39.8	33%
Finance Cost	61	106	57	-43%	6%	2,11	3,29.8	-36%
Other income	605	572	543	6%	11%	2,306	1,863	24%
Profit before tax	2,382	1,849	1,381	29%	73%	8,642	7,410	
PBT Margins (%)	11.08%	8.72%	8.93%			10.95%	10.14%	8%
Share of loss from JV	-195	-193	-187	1%	4%	-687	-518.2	33%
Profit before tax after share of profit	2,187	1,656	1,193	32%	83%	7,955	6,892	15%
PBT Margins (%)	10.17%	7.81%	7.71%			10%	9%	
Provision for tax	572	239	314			2,233	1,635	
Tax Rate	26%	14%	26%			28%	24%	
Reported PAT	1,615	1,417	880	14%	84%	5,722	5,256	9%
PAT Margins (%)	7.51%	6.69%	5.69%			7.25%	7.19%	
Execptional Items	-20.20	0.00	0.00			-511.90	-117.70	
Adjusted PAT	1,595	1,417	880	13%	81%	5,211	5,139	1%
PAT Margins (%)	7.42%	6.69%	5.69%			6.61%	7.03%	



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Profit and Loss	FY18	FY19	FY20	FY21E	FY22E	Cash Flow Statement (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	64,279	71,241	76,581	61,001	79,845	Pre tax Profit	8049	6711	7443	5088	8208
						Add: Dep. & Amortization	244	240	320	292	342
Raw Materials	-45,675	-52,622	-55,549	-45,153	-57,693	Total tax paid	2492	1635	2010	1272	2052
Employee Cost	-5,867	-6,482	-6,717	-5,490	-7,186	Other Adjustments	(6037)	(8769)	(7736)	(3616)	(5179)
Other Expenses	-6,110	-6,083	-7,448	-5,817	-7,614	Cash Profit	4748	(183)	2036	3036	5422
Cost of Sales	-57,652	-65,187	-69,714	-56,460	-72,493	(Inc) / Dec in					
						Sundry Debtors	(1162)	(2627)	(6)	(883)	(5937)
Operating Profit	6,626	6,054	6,867	4,541	7,353	Inventories	940	(375)	129	484	(4388)
Depreciation	-244	-240	-320	-292	-342	Loans & Advances	(3819)	9283	(1812)	(963)	(652)
PBIT	6,383	5,814	6,547	4,249	7,011	Current liabilities & Trade payables	2545	(7849)	(1144)	184	10189
Other Income	1,741	1,862	2,306	1,246	1,248	Change in Working Capital	(1495)	(1569)	(2833)	(1179)	(789)
Interest	-119	-330	-211	-174	-172	CF from Operating Activities	3253	(1752)	(797)	1858	4633
Profit Before Tax	8,005	7,347	8,642	5,321	8,086	CF from Investing Activities	(1992)	4989	2380	746	248
Provision for Tax	-2,270	-1,635	-2,233	-1,272	-2,052	CF from Financing Activities	(1738)	157	(2449)	(940)	(1407)
PAT	5,735	5,712	6,409	4,049	6,034						
Extra ordinary Items	6	-636	0	1	2	Net changes in cash	(477)	3394	(867)	1663	3474
Minority interest & Ass. Profits	38	47	51	0	0	Cash at the start of year	3314	2837	3212	3083	4748
Share of Profits	0	-518	-687	-233	122	Cash at the end of year	2837	3212	3083	4748	8223
Adj. PAT	5,779	4,604	5,774	3,817	6,158						
Balance Sheet (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E	Ratios	FY18	FY19	FY20	FY21E	FY22E
Equity Capital	331	331	3,331	3,331	3,331	OPM	10.3	8.5	9.0	7.4	9.2
Reserves	38,721	40,769	42,471	45,523	50,445	NPM	8.9	8.0	8.4	6.6	7.6
Net Worth	39,052	41,100	45,802	48,853	53,776	Tax Rate %	(28.4)	(22.3)	(25.8)	(23.9)	(25.4)
Minority Interest	317	348	365	365	365						
Long term borrowings	1,423	3,147	2,124	2,124	2,124	Growth Ratio (%)					
Short term borrowings	0	0	54	54	54	Net Sales	6.5	10.8	7.5	(20.3)	30.9
Total Debt	1,423	3,147	2,179	2,179	2,179	Operating Profit	14.4	(8.6)	13.4	(33.9)	61.9
Capital Employed	40,792	44,594	48,346	51,397	56,319	PAT	18.3	(20.3)	25.4	(33.9)	61.3
Gross Block	4,076	4,533	5,099	5,599	6,599	Per Share					
Accumulated Depreciation	-2,371	-2,377	-2,697	-2,988	-3,331	Earning Per Share (EPS)	17.5	13.9	17.5	11.5	18.6
Net Block	1,705	2,155	2,402	2,611	3,268	Cash Earnings (CPS)	18.1	18.0	20.3	13.1	19.3
Capital WIP	41	157	263	263	263	Dividend	3.5	3.1	0.3	0.2	0.4
Total Fixed Assets	1,746	2,312	2,665	2,874	3,531	Book Value	118.1	124.3	138.5	147.7	162.6
Contract Assets	0	7,849	8,993	8,993	8,993	Free Cash flow	8.8	(0.4)	(0.4)	0.4	1.1
Investments	28,803	25,134	24,404	24,404	24,404	Valuation Ratios					
Inventories	8,130	10,907	14,689	14,206	18,594	P/E (x)	30.9	38.8	30.9	46.8	29.0
Sundry debtors	15,703	18,330	18,336	19,220	25,157	P/B (x)	4.6	4.3	3.9	3.7	3.3
Cash & bank	2,837	3,212	3,083	4,748	8,223	EV / Sales	2.8	2.5	2.3	2.9	0.0
Loans & advances and Other CA	15,700	6,418	8,229	9,192	9,844	EV / EBITDA	26.7	29.5	26.0	39.1	23.9
Current Liabilities	-29,443	-28,415	-30,455	-30,626	-40,087	FCF Yield (%)	1.5	1.5	(0.1)	0.1	0.2
Provisions	-2,729	-2,146	-2,343	-2,356	-3,084	Div. Yield (%)	0.6	0.6	0.1	0.0	0.1
Working Capital	10,198	8,306	11,540	14,383	18,647	Return Ratios (%)					
Deferred Tax Liabilities	46	993	743	743	743	ROE	14.7	13.9	14.0	8.3	11.2
Capital Deployed	40,792	44,595	48,347	51,398	56,320	ROCE	19.9	17.2	18.3	10.7	14.7



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