

Voltas

13 May 2019

Reuters: VOLT.BO; Bloomberg: VOLT IN

EMPS Stays Healthy; Delayed Summer Dents UCP Margins

Voltas posted a weak performance in 4QFY19 with its consolidated revenues flat at Rs20.6bn, 5%/7% below our/consensus estimate, respectively. While EMPS segment's revenues grew 11.7% YoY to Rs9.8bn owing to a healthy order book, unitary cooling product (UCP) segment's performance was weak owing to delayed onset of the summer season and higher inventory in the trade channel. UCP segment's sales fell 6% YoY to Rs10bn in 4QFY19 and 2% YoY at Rs31.5bn in FY19, while the industry declined 3% YoY. The profitability was impacted as EBIT margin of EMPS segment fell 310bps YoY to 4.5% while UCP segment's margin declined sharply by 680bps YoY to 10.4%. Consolidated EBITDA fell 43% YoY to Rs1.4bn, translating to an operating margin of 7%, down 540bps YoY and below our/consensus estimate of 10.4%/10.6%, respectively. Higher interest costs (Rs106mn versus Rs43mn YoY), and a Rs193mn loss from associates (majority of it likely from Voltas-Beko) led to a lower bottom-line. PAT fell 28% YoY to Rs1.4bn, 14%/20% below our/consensus estimate, respectively. We have cut our earnings estimates for FY20/FY21 by 9%/3%, respectively. We have retained Accumulate rating on Voltas with a revised SOTP-based target price of Rs615 (from Rs632 earlier). On FY21E earnings, we have assigned a P/E of 38x to UCP segment and 15x to project business. We note that air-conditioner (AC) is seasonal business (sales driven by summer heat) and the weakness witnessed in FY19 is not structural in nature.

UCP segment remains muted: FY19 was a difficult period for the AC industry as a weak summer season (unseasonal rains and floods) impacted sales while the rise in input costs, INR depreciation, hike in customs duty and intense competition to clear out inventory affected margins. UCP segment's sales fell 6% YoY to Rs10bn in 4QFY19 and 2% YoY to Rs31.5bn in FY19. However, the overall AC industry declined 3% YoY in FY19, leading to the market share of Voltas rising to 23.9% versus 22.1% YoY. Higher inventory in the trade channel and delayed onset of the summer season led to a partial shift in primary sales for Voltas from 4QFY19 to 1QFY20. This led to a higher capital employed at Rs5.5bn in 4QFY19 versus Rs2.5bn YoY, although it was down by Rs2.2bn QoQ. EBIT margin was down 680bps YoY at 10.4% in 4QFY19 and 440bps YoY at 10.3% in FY19. The management believes that the long-term sustainable margin is ~11%. Voltas plans to set up a new AC assembly factory at Tirupati in Andhra Pradesh (capacity of 1mn units with a capex of Rs5bn) and it is likely to be operational by CY20-end.

Voltas-Beko joint venture: The refrigerator and washing machines launched by the JV continues to receive positive feedback from dealers and consumers. The products are sourced from China and Thailand till the JV's manufacturing plant at Sanand is ready. The JV will remain in an investment phase for at least three years and plans to expand distribution network (target of 400-500 brand shops) and widen the product range. Voltas posted a Rs518mn loss from its associates in FY19, most of which is likely to be from the JV.

Healthy growth in EMPS segment: EMPS segment's revenues grew 11.7% YoY to Rs9.8bn in 4QFY19 and 27.2% YoY to Rs36.2bn in FY19 (51% of total sales). EBIT margin was lower at 4.5% in 4QFY19 (down 310bps YoY) as it is lumpy on a quarterly basis. Better quality orders and effective execution led to a 120bps YoY rise in EBIT margin to 7.7% in FY19, while the management expects sustainable margin in the 7%-7.5% range. Order inflow in 4QFY19 stood at Rs10.2bn (Rs3.9bn domestic and Rs6.2bn international) while FY19 inflow was up 4% YoY at Rs36bn, leading to a healthy order book of Rs50bn, flat YoY.

Outlook: 18.5% earnings CAGR over FY19-FY21E, strong cash flow, lean working capital cycle and strong long-term growth prospects of the AC and white goods sector will support the valuation of Voltas.

ACCUMULATE

Sector: Consumer Durables

CMP: Rs574

Target Price: Rs615

Upside: 7%

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Key Data

Current Shares O/S (mn)	330.9
Mkt Cap (Rsbn/US\$bn)	191.9/2.7
52 Wk H / L (Rs)	642/471
Daily Vol. (3M NSE Avg.)	1,745,420

Price Performance (%)

	1 M	6 M	1 Yr
Voltas	(6.5)	6.7	(6.1)
Nifty Index	(3.1)	6.6	4.4

Source: Bloomberg

Y/E March (Rsmn)	4QFY18	3QFY19	4QFY19	YoY (%)	QoQ (%)	FY18	FY19	YoY (%)
Net revenues	20,484	14,918	20,628	0.7	38.3	64,044	71,241	11.2
Raw material costs	15,011	10,906	15,790	5.2	44.8	45,675	52,622	15.2
Staff costs	1,434	1,601	1,664	16.0	3.9	5,867	6,419	9.4
Other expenses	1,507	1,254	1,732	14.9	38.1	5,875	6,083	3.5
Total expenditure	17,952	13,761	19,185	6.9	39.4	57,417	65,124	13.4
EBITDA	2,532	1,157	1,443	(43.0)	24.8	6,626	6,117	(7.7)
EBITDA margin (%)	12.4	7.8	7.0	-	-	10.3	8.6	-
Interest costs	43	132	106	144.9	(19.7)	119	330	176.7
Depreciation	61	62	59	(2.3)	(3.7)	244	240	(1.5)
Other income	438	548	572	30.6	4.4	1,741	1,863	7.0
PBT	2,865	1,511	1,849	(35.5)	22.4	8,005	7,410	(7.4)
Tax	900	304	239	(73.5)	(21.6)	2,270	1,635	(28.0)
Extraordinary items	(14)	(118)	-	-	-	6	(118)	-
Minority interest	15	(28)	21	-	-	55	60	-
Profit from associates	(10)	(308)	(193)	-	-	38	(518)	-
PAT	1,927	809	1,396	(27.5)	72.5	5,724	5,079	(11.3)
PAT margin (%)	9.4	5.4	6.8	-	-	8.9	7.1	-
EPS (Rs)	5.8	2.4	4.2	(27.5)	72.5	17.3	15.4	(11.3)

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Financial summary (consolidated)

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	60,328	64,044	71,241	80,156	89,740
EBITDA	5,669	6,626	6,117	7,235	8,828
Adjusted net profit	5,163	5,718	5,197	5,920	7,293
Adjusted EPS (Rs)	15.6	17.3	15.7	17.9	22.0
EPS growth (%)	44.2	10.7	(9.1)	13.9	23.2
EBITDA margin (%)	9.4	10.3	8.6	9.0	9.8
P/E (x)	36.8	33.2	36.5	32.1	26.0
P/BV (x)	5.7	4.9	4.6	4.1	3.7
EV/EBITDA (x)	33.2	28.4	31.0	25.8	21.0
Dividend yield (%)	0.6	0.7	0.7	0.9	1.1
RoCE (%)	16.4	16.8	13.8	14.9	16.7
RoIC (%)	60.0	68.7	43.5	40.3	45.8

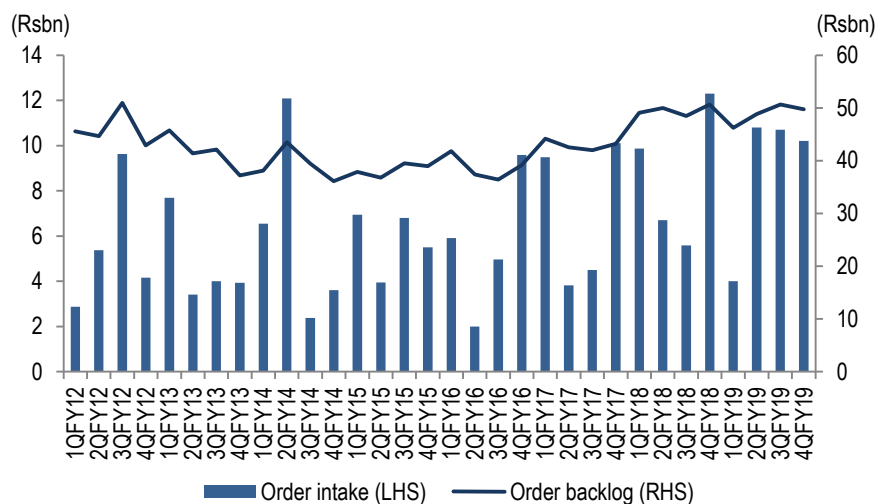
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment-wise snapshot (consolidated)

Y/E March	4QFY18	3QFY19	4QFY19	YoY (%)	QoQ (%)	FY18	FY19	YoY (%)
Revenues (Rsmn)								
Electro-mechanical projects	8,735	8,752	9,760	11.7	11.5	28,452	36,191	27.2
Engineering products	834	832	785	(6.0)	(5.6)	3,099	3,117	0.6
Unitary cooling products	10,645	5,259	9,976	(6.3)	89.7	32,261	31,556	(2.2)
Revenue mix (%)								
Electro-mechanical projects	43.2	59.0	47.6	-	-	44.6	51.1	-
Engineering products	4.1	5.6	3.8	-	-	4.9	4.4	-
Unitary cooling products	52.7	35.4	48.6	-	-	50.6	44.5	-
EBIT (Rsmn)								
Electro-mechanical projects	665	692	441	(33.7)	(36.3)	1,854	2,773	49.6
Engineering products	249	219	274	10.1	25.0	992	1,051	5.9
Unitary cooling products	1,830	447	1,037	(43.4)	132.1	4,749	3,254	(31.5)
EBIT margin (%)								
Electro-mechanical projects	7.6	7.9	4.5	-	-	6.5	7.7	-
Engineering products	29.8	26.4	34.9	-	-	32.0	33.7	-
Unitary cooling products	17.2	8.5	10.4	-	-	14.7	10.3	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: EMPS – trend in order inflow and backlog



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Actual performance versus our estimates, Bloomberg consensus estimates

4QFY19 (Rsmn)	Actual	Our estimate	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenues	20,628	21,699	(4.9)	22,188	(7.0)
EBITDA	1,443	2,257	(36.1)	2,347	(38.5)
PAT	1,396	1,616	(13.6)	1,739	(19.7)

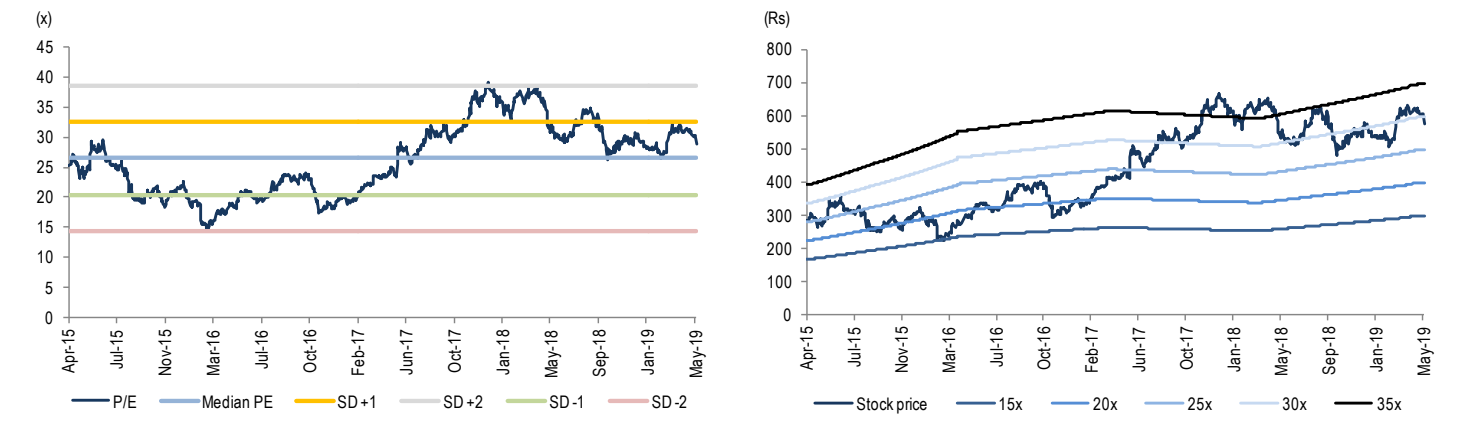
Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 5: Change in our estimates

(Rsmn)	Old		New		Deviation (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenues	79,527	88,169	80,156	89,740	0.8	1.8
EBITDA	8,122	9,264	7,235	8,828	(10.9)	(4.7)
PAT	6,507	7,533	5,920	7,293	(9.0)	(3.2)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: P/E charts



Source: Bombay Stock Exchange, Nirmal Bang Institutional Equities Research

Financial statements (consolidated)
Exhibit 7: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	60,328	64,044	71,241	80,156	89,740
% growth	5.5	6.2	11.2	12.5	12.0
Raw material costs	42,359	45,675	52,622	58,514	65,241
Staff costs	6,184	5,867	6,419	7,214	7,987
Other overheads	6,116	5,875	6,083	7,193	7,684
Total expenditure	54,659	57,417	65,124	72,921	80,911
EBITDA	5,669	6,626	6,117	7,235	8,828
% growth	30.9	16.9	(7.7)	18.3	22.0
EBITDA margin (%)	9.4	10.3	8.6	9.0	9.8
Other income	2,120	1,741	1,863	1,975	2,100
Interest costs	160	119	330	290	234
Depreciation	245	244	240	263	287
Profit before tax	7,384	8,005	7,410	8,658	10,407
Tax	2,004	2,270	1,635	2,338	2,914
Minority interest	24	55	60	-	-
Profit from associates	(193)	38	(518)	(400)	(200)
Extra-ordinary items	11	6	(118)	-	-
Reported net profit	5,174	5,724	5,079	5,920	7,293
Adjusted net profit	5,163	5,718	5,197	5,920	7,293
Adjusted PAT margin (%)	8.6	8.9	7.3	7.4	8.1
Adjusted EPS (Rs)	15.6	17.3	15.7	17.9	22.0
% growth	44.2	10.7	(9.1)	13.9	23.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	331	331	331	331	331
Reserves	32,735	38,721	40,769	45,850	50,348
Net worth	33,066	39,052	41,100	46,181	50,679
Minority interest	285	317	348	348	348
Total loans	1,709	1,423	3,147	2,647	1,947
Total liabilities	35,061	40,792	44,594	49,175	52,973
Net block	1,728	1,705	2,155	2,549	2,762
Capital work-in-progress	6	41	157	-	-
Goodwill	815	820	812	812	812
Investments	23,135	27,983	24,321	25,721	27,121
Inventories	9,070	8,130	10,907	10,961	12,036
Debtors	14,541	15,703	18,330	18,665	20,481
Cash	3,314	2,837	3,211	5,936	6,112
Other current assets	11,882	15,700	14,268	16,199	18,434
Total current assets	38,808	42,370	46,715	51,762	57,063
Creditors	19,946	21,764	23,745	23,597	25,768
Other current liabilities & provisions	9,682	10,408	6,815	9,066	10,011
Total current liabilities	29,628	32,172	30,560	32,663	35,779
Net current assets	9,180	10,198	16,155	19,099	21,284
Deferred tax assets (net)	198	46	993	993	993
Total assets	35,061	40,792	44,594	49,175	52,973

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
EBIT	5,424	6,383	5,877	6,973	8,541
(Inc.)/dec. in working capital	533	(1,496)	(5,583)	(219)	(2,009)
Cash flow from operations	5,957	4,887	294	6,754	6,532
Other income	2,120	1,741	1,863	1,975	2,100
Depreciation	245	244	240	263	287
Tax paid (-)	(2,004)	(2,270)	(1,635)	(2,338)	(2,914)
Profit from associates	(217)	(17)	(578)	(400)	(200)
Net cash from operations	6,101	4,585	183	6,254	5,806
Capital expenditure (-)	(13)	(256)	(806)	(500)	(500)
Net cash after capex	6,088	4,329	(623)	5,754	5,306
Interest paid (-)	(160)	(119)	(330)	(290)	(234)
Dividends paid (-)	(1,505)	(1,720)	(1,720)	(2,150)	(2,795)
Inc./(dec.) in total borrowings	(998)	(287)	1,724	(500)	(700)
(Inc.)/dec. in investments	(3,388)	(4,848)	3,662	(1,400)	(1,400)
Minority interest	18	32	30	-	-
Cash from financial activities	(6,033)	(6,941)	3,365	(4,340)	(5,130)
Others	1,404	2,135	(2,369)	1,311	-
Opening cash balance	1,855	3,314	2,837	3,211	5,936
Closing cash balance	3,314	2,837	3,211	5,936	6,112
Change in cash balance	1,460	(477)	374	2,725	176

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

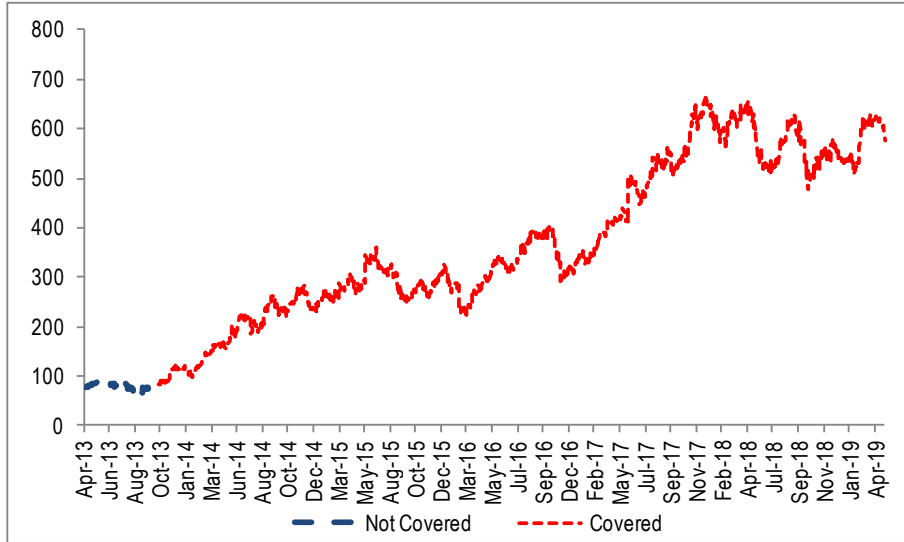
Y/E March	FY17	FY18	FY19	FY20E	FY21E
Per share (Rs)					
Adjusted EPS	15.6	17.3	15.7	17.9	22.0
Book value	100.0	118.1	124.2	139.6	153.2
Valuation (x)					
P/E	36.8	33.2	36.5	32.1	26.0
P/BV	5.7	4.9	4.6	4.1	3.7
EV/EBITDA	33.2	28.4	31.0	25.8	21.0
EV/sales	3.1	2.9	2.7	2.3	2.1
Return ratios (%)					
RoCE	16.4	16.8	13.8	14.9	16.7
RoE	16.9	15.9	12.7	13.6	15.1
RoIC	60.0	68.7	43.5	40.3	45.8
Profitability ratios (%)					
EBITDA margin	9.4	10.3	8.6	9.0	9.8
EBIT margin	9.0	10.0	8.2	8.7	9.5
PAT margin	8.6	8.9	7.3	7.4	8.1
Turnover ratios					
Total asset turnover ratio (x)	1.8	1.7	1.7	1.7	1.8
Debtor days	85	86	87	90	88
Inventory days	70	69	66	72	71
Creditor days	161	167	158	155	152
Solvency ratios (x)					
Debt-equity	0.05	0.04	0.08	0.06	0.04

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
23 October 2013	Buy	85	108
7 November 2013	Buy	91	108
13 November 2013	Buy	88	108
26 November 2013	Buy	93	108
5 February 2014	Buy	108	140
5 June 2014	Hold	205	223
10 July 2014	Accumulate	200	223
18 August 2014	Accumulate	221	253
9 October 2014	Accumulate	238	253
18 November 2014	Buy	279	326
9 January 2015	Buy	244	326
16 February 2015	Buy	256	322
15 April 2015	Buy	303	322
26 May 2015	Accumulate	325	343
8 July 2015	Accumulate	319	343
17 August 2015	Accumulate	315	320
12 October 2015	Accumulate	277	320
10 November 2015	Accumulate	276	309
8 January 2016	Accumulate	297	309
16 February 2016	Buy	238	301
12 April 2016	Buy	278	301
20 May 2016	Accumulate	323	322
16 June 2016	Accumulate	325	322
12 July 2016	Accumulate	318	322
4 August 2016	Accumulate	344	354
13 October 2016	Accumulate	380	354
21 November 2016	Accumulate	293	325
23 December 2016	Accumulate	309	325
10 January 2017	Accumulate	344	325
14 February 2017	Accumulate	338	361
17 February 2017	Accumulate	345	365
7 April 2017	Accumulate	410	365
26 May 2017	Accumulate	475	495
6 July 2017	Accumulate	470	495
7 August 2017	Accumulate	540	525
9 October 2017	Accumulate	520	525
9 January 2018	Accumulate	648	610
12 February 2018	Accumulate	593	635
6 April 2018	Accumulate	631	635
18 May 2018	Accumulate	583	600
10 July 2018	Accumulate	534	600
13 August 2018	Accumulate	620	650
9 October 2018	Accumulate	484	650
9 November 2018	Buy	515	620
9 January 2019	Buy	536	620
18 February 2019	Buy	521	625
9 April 2019	Accumulate	609	632
13 May 2019	Accumulate	574	615

Rating chart



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