

August 24, 2022

Voltas Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term Fund/Non-fund Based Limits	3,207.0	2,297.05	[ICRA]AA+(Stable)/ [ICRA]A1+; reaffirmed
Long-term/ Short-term Unallocated	793.0	102.95	[ICRA]AA+(Stable)/ [ICRA]A1+; reaffirmed
Total	4,000.0	2,400.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings considers Voltas Limited's (Voltas) strong business risk profile with diversified presence across its consumer and project businesses (both domestic and international projects). Being part of the Tata Group, Voltas continues to enjoy strong financial flexibility and is complemented by professional management and strong financial policies. The ratings remain underpinned by Voltas' leadership position in the unitary cooling products business, strong execution track record in the projects business, robust financial profile marked by large scale of operations, strong return and debt protection metrics, and a superior liquidity position.

The ratings also consider the company's exposure to challenges in the project business, primarily in the international market, wherein it has witnessed challenges in terms of delay in project execution and moderation in fresh order inflow driven partly by selective bidding for new projects. The domestic business also remains exposed to vagaries of project management risks in terms of site hand-over and fresh order inflow, which typically follows the capex cycle of end-user industries. The company remains watchful in terms of bagging fresh projects, especially international projects due to global macro-economic conditions, liquidity concerns and stretch in receivables. Also, weakened sentiments of delay in announcement of capex plans by potential clients across operational geographies resulted in lower consolidated order book as on March 31, 2022 over that of March 31, 2021.

The ratings also consider the seasonality and reliance of the unitary products business group (UPBG) to weather conditions, primarily the intensity of summers along with stiff competition from several other established players in the field. Voltas, however, continues to maintain its market leadership position in Air Conditioners (AC) with a market share of 24.1% as on June 2022 driven by its better product mix and reaffirmed consumer trust in its brand.

In FY2022, Voltas reported 5% revenue growth aided by the opening up of the economy after the pandemic. The unitary segment witnessed 16% YoY growth in FY2022 while the Electro Mechanical Projects and Services (EMPS) segment de-grew by 14% amid a low carry forward order book, completion stage of major projects and the company's cautionary approach towards fresh orders. In Q1 FY2023, the company has reported healthy revenue growth (55% YoY and 4% QoQ), driven by healthy sales from its unitary segment as well as a low base.

The operating margins were flat at 8.6% in FY2022, affected by unabated increase in commodity prices along with supply chain disruptions that posed a challenge in availability of key inputs overriding demand over supply, resulting in high inflation. The operating margins contracted in Q1 FY2023 to 6.4% (against 7.6% in Q1 FY2022) due to high prices of raw materials, upfronting of advertisement costs, and provisions in the domestic segment. The margin in the near-term shall remain exposed to the input cost inflation in the company's unitary cooling business as well as to challenges faced in its project business in terms of a lower opening order book and execution delays faced in select projects and consequent cost provisions.

Given the inflationary scenario and uncertain global macro-economic environment, Voltas has been recently watchful in bidding for fresh projects, especially in the international arena; bidding only for projects with a minimum threshold margin

and proper risk mitigation framework with a sound counterparty. This strategy has led to a subdued, albeit strong order book, with the project division's total order book of Rs. 5,811 crore as of June 2022 providing visibility to revenues.

The Stable outlook reflects the company's leadership position in the AC segment along with consistent cash accruals and superior liquidity levels, which will continue to support its robust credit profile in the medium to long-term.

Key rating drivers and their description

Credit strengths

Part of the Tata Group, resulting in financial flexibility – Voltas is a part of the Tata Group, which holds a 30.30% stake in the company. Being part of the Tata Group provides it considerable financial flexibility in accessing financial markets and the banking system, in case of any funding requirements.

Diversified revenue streams with significant contribution from EMPS and UPBG segments – Voltas is present in the mechanical, electrical and plumbing (MEP), as well as in heating, ventilation and air conditioning (HVAC) segments in the domestic and overseas (mainly West Asian) markets, in addition to the AC business in the domestic market. These two businesses account for ~94% of Voltas' revenues. However, its revenues are fairly diversified in each of these segments in terms of geographies served and products/ services offered. Through its Engineering Products Business Group (EPBG) segment, Voltas operates as an authorised distributor in the textile machinery (domestic) market as well as in the mining and construction equipment (domestic and Mozambique) markets. The EPBG segment accounted for ~6% of its revenues in FY2022.

Voltas has a JV with Arçelik (European consumer brand), namely 'Voltbek Home Appliances Private Limited', for manufacturing appliances like refrigerators, washing machines, dishwashers, etc. While the JV has synergy across all functions with JV partners, it is yet to achieve breakeven (at net level), given the intense competitive intensity in the consumer durables industry. Also, the ability of the company to turn around the business, along with profitably scaling up the segment, remains critical from a product and earnings diversification angle. Voltas is also looking at entering into a JV with Highly International (Hong Kong) Limited, a wholly-owned subsidiary of Shanghai Highly (Group) Company Limited, to engage in the business of design, development, manufacturing, marketing, sales and service of inverter compressors for room ACs, motors for inverter compressors, and their associated parts. This shall reduce its dependence on imports and aid its move towards in-house manufacturing. The incorporation of the JV is subject to the fulfilment of certain conditions and to obtaining necessary approvals, since it falls under the Government's Performance Linked Incentive (PLI) scheme. On a consolidated basis, Voltas has a planned capex of Rs. 400–450 crore over the next 18-24 months, which is expected to be funded by internal accruals. ICRA also notes that the business transfer of the domestic projects and EPBS segment to the wholly-owned subsidiary, Universal MEP Projects & Engineering Services Limited (erstwhile Rohini Industrial Electricals Limited), is aimed at bringing greater focus to the projects business. The same has already been approved and became effective from August 1, 2022.

Strong market presence in domestic and commercial AC business – Dominant market position across the country in room ACs, with presence in both window and split ACs. This has aided the UPBG division and increased its market share over the years. Although the company had witnessed a bump in its market share towards the end of FY2022, resulting in decline in market share to 23.4% as on March 31, 2022 from 25.2% as on March 31, 2021, it regained its market share of 24.1% towards the end of June 2022.

Extensive presence and strong market position in West Asian markets – Voltas has a well-established market position in the project business and is well poised to benefit from any growth in fresh order flow in its target markets in the long-term. While domestic order booking is relatively stronger, driven by healthy orders from water management projects, rural electrification and urban infrastructure sectors, order bookings in overseas markets (mainly in the UAE and Qatar) remain subdued due to deferment of projects owing to the economic slowdown and a cautious approach in order picking.

Strong financial risk profile as reflected by low gearing levels, comfortable profitability and superior liquidity – Voltas had a strong capital structure as reflected by gearing of 0.1 time and Total Debt/OPBDITA of 0.5 time as on March 31, 2022. It also

had a superior liquidity position as reflected by cash and bank balances as well as liquid investments (including non-current MF investments) worth Rs. 2,835 crore as on March 31, 2022.

Credit challenges

Project business exposed to time and cost overruns along with stiff competition from established players; margin pressure in project business as reflected by losses in the recent quarter – The company's EMPS business remains exposed to time and cost overruns with a longer gestation period for most of its orders in the project business. The tenure for international and domestic projects generally range from two to three years. The company continues to face competition from established players in the project business. The segment has witnessed headwinds in the past, in terms of delay in project execution and moderation in fresh order inflow, driven partly by selective bidding for new projects. The company remains cautious in picking up the right international projects due to liquidity concerns and stretch in receivables. Despite inflationary regime of commodities, the margins improved to 5.1% in FY2022 from 1.0% in FY2021, owing to the company's ability to negotiate with its customers and suppliers. However, the margin in the segment remains under pressure in the current fiscal, with PBIT losses in Q1 FY2023, owing to cost overrun and conservative provisions.

Ability to turn around and profitably scale up newer appliances business under the VoltBek JV remain critical from product as well as earnings diversification angle – ICRA notes that Voltas created a joint venture with Arçelik to enter the consumer durables market for manufacturing appliances like refrigerators, washing machines, dishwashers etc, from its Sanand factory (Gujarat), which has a production capacity of 50,000 units per month. The JV is currently loss making, and the losses increased to Rs. 222.3 crore in FY2022 over Rs. 131.12 crore in FY2021. Though the JV has strong synergy across functions with the JV partners, given the intense competitive intensity in the consumer durables industry, the company's ability to turn around the business, along with profitably scaling up the segment, for a notable improvement in its brand presence remains critical from a product and earnings diversification strategy.

UPBG segment susceptible to climatic vagaries, changing technologies and intense competition from Korean and Japanese players – While Voltas continues its leadership position in the ACs (window and split ACs) segment, the same remains susceptible to climatic vagaries. With leading Korean and Japanese entities, the segment is also characterised by stiff competition, especially in the inverter AC segment. The unitary segment has witnessed a healthy growth in FY2022 and Q1 FY2023 on the back of healthy demand for cooling products. With rising input costs, the segment remains susceptible to pricing pressures in the near term, as reflected by dip in margins to 10.5% in FY2022 and 7.6% in Q1 FY2023 over 13.8% in FY2021. The ability of the company to timely pass on such rises to the end customer at acceptable margin levels, while maintaining its leadership position, remain key monitorables for this division.

Liquidity position: Superior

The company's liquidity position remains superior, given the positive free cash flow generation since FY2013, supported by the performance of the UPBG division and judicious capital expenditure (capex) requirement. Lower borrowings resulted in low interest expenses, which in turn supported its cash flows. The company had sizeable cash balances and liquid investments (including non-current MF investment) of Rs. 2,835 crore as on March 31, 2022 over a consolidated total debt of Rs. 360.8 crore (including lease liabilities of Rs. 17.6 crore), indicating a superior liquidity. In addition, the company has sizeable fund-based facilities, which are sparingly utilised.

Rating sensitivities

Positive factors – ICRA could upgrade Voltas' ratings if the company demonstrates sustained improvement in its revenues and profitability, coupled with its ability to achieve business diversity while maintaining its leading position in the UPBG segment and improving its new appliances business. The ability to improve its margins in the EMPS segment on a sustained basis while maintaining a favourable working capital cycle along with superior liquidity will qualify for a rating upgrade.

Negative factors – Negative pressure on Voltas’ rating can arise with sharp contraction in earnings and liquidity on a sustained basis. Any large debt funded capex or inorganic acquisitions leading to material impact on the debt indicators can also be a trigger for a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Voltas. As on March 31, 2022, the company had eight subsidiaries, five joint ventures and one associate company, which are all listed in Annexure-2.

About the company

Voltas Limited is a part of the Tata Group, which holds a 30.30% stake in the company. Voltas operates in three main business segments—EMPS, EPBG and UPBG. The EMPS business provides engineering solutions for centralised air-conditioning and refrigeration, MEP projects, HVAC applications, and water management services in domestic and overseas markets. The EPBG business markets and trades in mining and construction equipment as well as textile machinery, besides providing after-sales services. The UPBG business markets ACs, air coolers, water coolers and other commercial refrigeration products.

In Q1 FY2023, on a consolidated basis, Voltas had an adjusted PAT of Rs. 140.5 crore on an OI of Rs. 2,768.0 crore, against an adjusted PAT of Rs. 153.01 crore on an OI of Rs. 1,785.2 crore in Q1 FY2022.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	7,555.8	7,934.5
PAT #	589.8	616.3
OPBDIT/OI	8.7%	8.6%
PAT/OI	7.8%	7.8%
Total outside liabilities/Tangible net worth (times)	0.7	0.8
Total debt/OPBDIT (times)	0.4	0.5
Interest coverage (times)	25.1	26.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; All ratios as per ICRA’s calculations, Amount in Rs crore, NM-Not meaningful, # excluding share of profits from associates and joint ventures

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Aug 24, 2022	Aug 26, 2021	May 11, 2020	-
1 Fund/Non Fund-based Limits	Long-term and short term	2297.05	--	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	-
2 Unallocated	Long-term and short term	102.95	--	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short-term Fund/Non Fund-based Limits	Simple/Very simple
Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund/Non Fund-based Limits	-	-	-	2297.05	[ICRA]AA+(Stable)/[ICRA]A1+
NA	Unallocated	-	-	-	102.95	[ICRA]AA+(Stable)/[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis (as on March 31, 2022)

Company Name	Ownership (%)	Consolidation Approach
Hi-Volt Enterprises Private Limited	100.00%	Full Consolidation
Universal MEP Projects & Engineering Services Limited (formerly known as Rohini Industrial Electricals Limited)	100.00%	Full Consolidation
Universal MEP Projects Pte Limited	100.00%	Full Consolidation
Weathermaker Limited	100.00%	Full Consolidation
Saudi Ensas Company for Engineering Services W.L.L.	100.00%	Full Consolidation
Voltas Oman SPC	100.00%	Full Consolidation
Lalbuksh Voltas Engineering Services & Trading L.L.C.	60.00%	Full Consolidation
Voltas Qatar W.L.L.	49.00%	Full Consolidation
Voltas Netherlands B.V.	100.00%	Full Consolidation
Voltbek Home Appliances Private Limited	49.00%	Equity Method
Voltas Water Solutions Private Limited *	50.00%	Equity Method
Universal Voltas LLC	49.00%	Equity Method
Olayan Voltas Contracting Company LLC	50.00%	Equity Method
Naba Diganta Water Management Limited	26.00%	Equity Method

Source: Annual report FY2022, *Struck off effective from July 26, 2022

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