

Voltas Limited

January 18, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	30.00	0.00	-
Fund-based limits	120.00	0.00	-
Non-fund based limits	1,850.00	0.00	-
Fund-based / Non-fund based Bank Facilities	0.00	3,500.00	[ICRA]AA/ [ICRA]A1+; Reaffirmed ; outlook revised to Positive from Stable
Total	2,000.00	3,500.00	

* Instrument Details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA (pronounced ICRA double A) and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 3,500.00 crore¹ (enhanced from Rs. 2,000.00 crore) long-term / short-term, fund-based / non-fund based bank facilities of Voltas Limited ('Voltas' or 'the company')². The outlook on the long-term rating has been revised to Positive from Stable.

Rationale

The reaffirmation of ratings and the revision in outlook to positive takes into account the improvement in profitability levels in the projects business and the sustained leadership position in the domestic air conditioner (AC) business. While the completion of legacy international projects and Voltas' conservative approach towards bidding for new projects has improved the profitability, an improvement in order book for domestic projects—with shorter execution period—provides better cash flow visibility. The company continues to factor in Voltas' established position in the mechanical, electrical and plumbing (MEP), and the heating, ventilation and air conditioning (HVAC) space in the domestic and West Asian markets. The ratings also factor in the robust financial profile of the company as reflected by strong capital structure, healthy coverage indicators, and favourable liquidity profile characterised by large liquid funds and unutilised bank lines.

ICRA notes that the electro-mechanical projects and services (EMPS) segment, which carries out MEP and HVAC projects, has been facing headwinds in its international division in the form of slowdown in fresh orders, as the company has been selective in bidding for new projects. The segment, which witnessed slowdown in project execution primarily in the international markets during FY2011-FY2015, completed several of these long-pending projects over the past two years. The segment, however, witnessed strong order booking in the domestic projects business over the past six quarters. Timely execution of these newly acquired domestic projects has been driving the EMPS segment revenue growth in the recent quarters (8.5% YoY growth during H1 FY2018). The segment margins, which were impacted due to delays in project execution—primarily because of frequent design changes by the project sponsors in the international markets—and provisions made for doubtful recovery of claims in the wake of delay in project settlements, witnessed some improvement starting FY2016, as many of the legacy projects were completed and the new projects being executed were

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

booked at relatively better margins. Lack of new orders in the international EMPS segment continues to remain an area of concern, as the company remains cautious while acquiring fresh orders overseas. However, strong Government orders in the domestic markets in the field of rural electrification and urban infrastructure have supported the order book of EMPS segment (order book of Rs. 5,000 crore as of September 30, 2017 over Rs. 4,321 crore as of March 31, 2017).

The unitary cooling products business group (UPBG), which markets room ACs in the domestic market, has witnessed 4.5% YoY growth in H1 FY2018, after a robust 20.9% revenue growth in FY2017. Voltas has maintained its market leadership position and the strong profits of the division have helped the company in improving its overall profitability. The performance of UPBG is, however, dependent on climatic conditions.

Overall, Voltas reported operating profit margin (operating PBIT %) of 13.1% during H1 FY2018 as against 12.4% during H1 FY2017 (12.2% during FY2017). The ratings continue to favourably factor in its strong business fundamentals, the management's sound investment and financial policies, and its strong parentage, as part of the Tata Group.

Outlook: Positive

The outlook revision factors in Voltas' sustained leadership position in the domestic AC market and an improvement in order book position of the EMPS segment. While improvement in order book position is largely driven by higher flow of domestic projects (primarily shorter duration projects, lending better revenue visibility over the medium term), ICRA notes that the international projects division—despite a slowdown in the remunerative order inflow—is witnessing improvement in profitability owing to Voltas' selective approach while bidding for projects. ICRA believes that this conservative approach towards bidding for orders will improve Voltas' profitability and cash flows. The ratings will be upgraded if Voltas continues to maintain its leadership position in the AC market, even as the market shifts from fixed-speed ACs to inverter ACs, and maintain its profitability amidst intense competition from a large number of multinational companies in the industry. A meaningful recovery in the profitability levels in the projects business and improvement in inflow of remunerative orders in the West Asian markets will also be a key factor for rating upgrade. The outlook may be revised to Stable if Voltas' competitive position in the AC market deteriorates, leading to drop in profitability, or a deterioration in operating environment of the projects business, leading to stretch in cash flows. Any material impact on liquidity on account of large capital expenditure, leveraged acquisitions or crystallisation of contingent liabilities could also lead to revision in outlook to Stable.

Key rating drivers

Credit strengths

Part of the Tata Group, which holds 30.30% stake in the company

Voltas benefits from its strong parentage, by being a part of the Tata Group, which provides considerable financial flexibility in accessing financial markets and banking system, in case of any funding requirement.

Diversified revenue streams with significant contribution from EMPS and UPBG segments

Voltas is present in the MEP and HVAC projects segment in domestic and international (mainly West Asian) markets, as well as in the AC business in the domestic market. These two businesses account for more than 90% of Voltas' revenues; however, revenues are fairly diversified within each of these segments in terms of geographies and products/services offered. Voltas, through its engineering products business group (EPBG), has a small presence as a dealer in textile machinery (domestic market) and mining and construction equipment (domestic and Mozambique markets). EPBG segment accounts for ~6% of FY2017 revenues.

Strong domestic market presence in retail and commercial air conditioner business

Dominant market position across the country in room ACs, with presence in both window and split ACs, has aided the UPBG division to grow at a compounded annual growth rate (CAGR) of ~9% over the past five years. This was achieved despite facing a few years of short summers or unseasonal rains during this period. The robust operating performance of UPBG division over the past five years, with operating profit margins in the range of 8-15%, has aided the overall performance of the company, while the EMPS division posted subdued performance during the aforementioned period.

Long presence and strong market position in West Asian markets for electro-mechanical projects; significant potential spend on infrastructure in these markets is a long-term positive

Voltas has a well established market position in the projects business in both domestic and international markets, and it is well poised to benefit from any growth in fresh order flow in its target markets. While domestic order booking is relatively stronger driven by healthy orders from rural electrification and urban infrastructure sectors, order booking in the international markets (mainly in UAE and Qatar) are currently slower due to slowdown in economic activities in these crude oil driven economies.

Strong financial risk profile as reflected by low gearing levels, comfortable profitability and superior liquidity as indicated by unutilised bank lines and large sum of cash and liquid investments

Voltas has a strong capital structure as reflected by gearing of 0.05 times and Total Debt/OPBDITA of 0.29 times as of March 31, 2017. It also enjoys superior liquidity as reflected by cash and bank balances and liquid investments of ~Rs. 2,600 crore as of September 30, 2017.

Credit challenges**Subdued new order flow, compared to earlier years, in international projects business of the EMPS division**

Over the past five years, the order booking by the international projects division has been slow on account of absence of value accretive projects in the target geographies. This has constrained the EMPS segment's revenue growth. However, the infrastructure investments in the West Asian region are expected to increase over the medium term due to certain large scheduled events such as Expo 2020 Dubai (UAE) and FIFA World Cup 2022 (Qatar), offering vast opportunities for Voltas to participate in related projects. Voltas has adopted a cautious approach to bid for a project in these geographies, given the past experiences of delays in claim settlement, impacting cash flows and profitability.

Competitive pressures impact margin in projects business, though the same has moderated to some extent in the recent past

The competitive intensity in the West Asian region was high over the past few years, though the same has moderated over the recent few quarters on account of financial stress being faced by several large contractors in the region. This is expected to improve availability of projects at reasonable profit margins.

Unitary cooling products business remains susceptible to climatic vagaries, changing technologies and increasing competition from Korean and Japanese players

While Voltas, at present, has leading market share in fixed-speed ACs (window and split ACs), it is the second largest player in the fast growing inverter AC segment. With the presence of leading Korean and Japanese entities, the inverter AC segment is highly competitive. However, as several of these multinationals have vacated the window AC segment and a few entities have limited their fixed-speed split AC portfolio, which continue to account for bulk of the room AC market, Voltas has been able to consolidate its overall market position and it will continue to benefit from the same over the near term.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

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 international markets. The EPBG business markets and trades products in mining and construction equipment and textile machinery segments, as well as provides after sales services. The UPBG business markets air-conditioners, air coolers, water coolers and other commercial refrigeration products.

As per audited financials for FY2017, Voltas, on a consolidated basis, reported a profit after tax (PAT) of Rs. 519.86 crore on an operating income (OI) of Rs. 6,032.80 crore, as against a PAT of Rs. 393.11 crore on an OI of Rs. 5,719.80 crore during FY2016.

During the six months ended September 30, 2017, Voltas, on a consolidated basis, reported PAT of Rs. 283.27 crore on an OI of Rs. 2,981.33 crore, as against a PAT of Rs. 237.83 crore on an OI of Rs. 2,817.26 crore during the corresponding period last year.

Key financial indicators (audited; consolidated)

	FY2016	FY2017
Operating Income (Rs. crore)	5,719.81	6,032.80
PAT (Rs. crore)	393.11	519.86
OPBDIT/ OI (%)	7.57%	9.62%
RoCE (%)	21.69%	22.28%
Total Debt/ TNW (times)	0.10	0.05
Total Debt/ OPBDIT (times)	0.63	0.29
Interest coverage (times)	27.41	36.19
NWC/ OI (%)	11%	10%

Source: Voltas Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

				Current Rating (FY2018)		Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on December 31, 2017 (Rs. crore)	Date & Rating		Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				January 2018	April 2017			
1 Term Loans (Proposed)	Long Term	-	0.00	-	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)	-
2 Fund-based limits	Long Term	-	NA	-	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)	-
3 Non-fund based limits	Long Term / Short Term	-	NA	-	[ICRA]AA (Stable) / [ICRA]A1+	-	[ICRA]AA (Stable) / [ICRA]A1+	-
4 Fund-based / Non-fund based Bank Facilities	Long Term / Short Term	3,500.00	NA	[ICRA]AA (Positive) / [ICRA]A1+	-	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit / WCDL / Letter of Credit / Bank Guarantee	NA	NA	NA	3,500.00	[ICRA]AA (Positive) / [ICRA]A1+

Source: Voltas Limited

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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