

Voltas Limited

March 29, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term / Short term Fund-based / Non-fund based Facilities	3,500.00	3,500.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Positive) / [ICRA]A1+; reaffirmed
Total	3,500.00	3,500.00	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade of Voltas Limited (Voltas) takes into account the steady improvement in the performance of the electromechanical projects and services (EMPS) division with robust growth in sales and improvement in profitability in 9M FY2019 driven by better quality of orders, effective execution in both domestic as well as international projects and healthy order-book inflow in the domestic market. ICRA also favourably factors in Voltas' 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 a 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 upgrade positively factors in its robust financial profile as reflected by its strong capital structure, healthy coverage indicators, and favourable liquidity profile characterised by large liquid funds and unutilised bank lines.

The long-term rating, however, remains constrained on account of the company's exposure to challenges in the project business, primarily in the international market, wherein it has witnessed headwinds in past, in terms of delay in project execution and moderation in fresh order inflow driven by selective bidding for new projects to an extent. However, the slowdown in the international business has, however, been offset by strong order booking in the domestic project business over the past two years. Timely execution of these newly-acquired domestic projects has been driving the EMPS segment revenues in the recent quarters (34.1% YoY growth during 9M FY2019). The segment margins, which were impacted due to delays in project execution, also witnessed continual improvement since FY2016, as many of the legacy projects were completed and the new projects being executed were booked at relatively better margins. The rating is also constrained by the vulnerability of the unitary cooling products business group (UPBG) to weather conditions, primarily intensity of summer along with stiff competition in the sector, given the presence of several other established players. Input costs also play a key role for this segment, with movement of the Indian rupee against the US dollar being a driver of margins, given large imports in this division. However, Voltas continues to maintain its market leadership position in air conditioners despite the subdued industry volume in the current fiscal. Additionally, the rating continues to favourably factor in its strong business fundamentals, the management's sound investment and financial policies, and its strong parentage, as a part of the Tata Group, imparting financial flexibility.

Outlook: Stable

The Stable outlook reflects ICRA's belief that Voltas will continue to benefit from its leadership position in the domestic AC market and strong market position in the project business in both domestic and the Middle East market. The outlook may be revised to a Positive 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 if there is an improvement in its margins in the UPBG division along with improvement in inflow of remunerative orders in the West Asian markets. The outlook may be revised to Negative if Voltas' competitive position in the AC market deteriorates, leading to a drop in profitability, or a deterioration in operating environment of the project business leads to a stretch in cash flows. Any material impact on liquidity on account of large debt-funded capital expenditure, leveraged acquisitions or crystallisation of contingent liabilities/higher-than-anticipated support to subsidiaries/JVs, will also be a negative rating trigger.

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 the domestic and international (mainly West Asian) markets, as well as in the AC business in the domestic market. These two businesses account for ~95% of Voltas' revenues. However, the company's 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). The EPBG segment accounted for ~5% of 9M FY2019 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 ~12% over the past six years. This was achieved despite facing a few years of short summers or unseasonal rains during this period.

Improvement in EMPS segment's performance in FY2018 and 9M FY2019 – The performance of the EMPS division improved significantly with the company reporting 7.2% growth in FY2018 and ~34.1% growth in 9M FY2019 as against a decline in FY2017, driven by better quality of orders, effective execution in both domestic as well as international projects and healthy order book inflow in the domestic market. The same resulted in an improvement in segmental margins to 6.5% in FY2018 and 8.8% in 9M FY2019 from 3.2% in FY2017.

Extensive presence and strong market position in West Asian markets with significant potential spend on infrastructure – Voltas has a well-established market position in the project business in both the domestic and international markets and it is well poised in the long term 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 the UAE and Qatar) are at present slower due to a 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 – Voltas had a strong capital structure as reflected by gearing of 0.1 times and Total Debt/OPBDITA of 0.7 times as on September 30, 2018. It also had a superior liquidity as reflected by cash and bank balances and liquid investments worth ~Rs. 2,400 crore as on September 30, 2018.

Credit challenges

Subdued order inflow in international project business of the EMPS division with focus only on remunerative orders – Over the past five to six 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 constrained the EMPS segment's revenue growth. However, the infrastructure investments in the West Asian region are likely 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 adopted a cautious approach to bid for a project in these geographies, given the past experiences of delays in claim settlement, impacting its cash flows and profitability.

Project business exposed to time and cost overruns along with stiff competition from established players – The company's EMPS business remains exposed to time and cost overruns with a longer gestation period for most of the orders in the project business. The tenure for international projects ranges from two to three years while the domestic projects span around ~1-1.5 years. Moreover, the competition in the West Asian region also remains intense with several international as well as large local contractors in the region.

UPBG segment susceptible to climatic vagaries, changing technologies and intense competition from the Korean and Japanese players – While Voltas, at present, has a 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 the leading Korean and Japanese entities, the inverter AC segment is characterised by stiff competition. 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. It will continue to benefit from the same over the near term. The market for the UPBG sector also remains susceptible to climatic vagaries as seen in current fiscal with Voltas reporting muted performance in 9M FY2019. The company reported a decline in revenues from the UPBG segment by 0.2% in 9M FY2019 on account erratic summer conditions across northern and southern market, which affected its sales in Q1 FY2019. The same also resulted in higher inventory in the channel as well as with manufacturers resulting in pricing pressure. Subsequently, higher input cost and a depreciating rupee resulted in moderation in the segmental margins for the UPBG division for the current fiscal.

Liquidity position

The company's liquidity position remains strong given the positive free cash flow generation since FY2013 supported by the performance of the UPBG division and low capital expenditure requirement. Lower borrowings resulted in low interest expenses, which in turn supported its cash flows. The company has sizeable cash balances and liquid investments (Rs. 2,407.11 crore as on September 30, 2018, as against consolidated total debt of Rs. 515.2 crore), indicating a strong liquidity. Voltas has not borrowed any long-term funds and hence, it does not have any scheduled pending debt repayment. ICRA also takes into account the expected outflow of Rs. 150.0 crore (in addition to ~Rs. 200 crore incurred till date) towards investments in Voltbek - JV formed with Ardutch B.V. (a subsidiary of Arçelik A.S.; part of the Turkey-based Koç Group).

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 December 31, 2019, the company had nine subsidiaries, 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 international markets. The EPBG business markets and trades in mining and construction equipment and textile machinery segments, and provides after-sales services. The UPBG business markets air-conditioners, air coolers, water coolers and other commercial refrigeration products.

As per audited financials for FY2018, Voltas, on a consolidated basis, reported a profit after tax (PAT) of Rs. 574.1 crore on an operating income (OI) of Rs. 6,404.4 crore, as against a PAT of Rs. 539.1 crore on an OI of Rs. 6,032.8 crore in FY2017.

In 9M FY2019, Voltas, on a consolidated basis, had an adjusted¹ PAT of Rs. 404.6 crore on an OI of Rs. 5,061.2 crore, as against an adjusted² PAT of Rs. 378.9 crore on an OI of Rs. 4,356.0 crore in 9M FY2018.

Key financial indicators (audited, consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)*	6,032.8	6,404.4
PAT (Rs. crore)#	539.1	574.1
OPBDIT/ OI (%)	9.6%	10.5%
RoCE (%)	21.5%	19.5%
Total Debt/ TNW (times)	0.1	0.0
Total Debt/ OPBDIT (times)	0.3	0.2
Interest Coverage (times)	36.2	56.5

* net of excise duty

excluding share of profits from associates and joint ventures

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

¹ Excluding share of profits from associates and joint ventures

² Ibid

Rating history for last three years:

		Current Rating (FY2019)		Chronology of Rating History for the Past 3 Years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs.crore)*	Date &Rating March 2019	Date & Rating in FY2018		Date & Rating in FY2017	Date & Rating in FY2016
					January 2018	April 2017		
1	Fund based / Non-fund Based Facility	Long-term / Short-term	3,500.0	NA	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Positive) / [ICRA]A1+	-	-
2	Term Loan	Long-term	-	0	-	-	[ICRA]AA (Stable)	-
3	Fund-based Facility	Long-term	-	NA	-	-	[ICRA]AA (Stable)	-
4	Non-fund based Facility	Long-term / Short-term	-	NA	-	-	[ICRA]AA (Stable) / [ICRA]A1+	-

*As on March 31, 2018

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	-	-	-	3,500.00	[ICRA]AA+ (Stable) / [ICRA]A1+

Source: Voltas Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Universal Comfort Products Limited	100%	Full Consolidation
Rohini Industrial Electricals Limited	100%	Full Consolidation
Auto Aircon (India) Limited (AAIL)	100%	Full Consolidation
Weathermaker Limited	100%	Full Consolidation
Saudi Ensas Company for Engineering Services W.L.L.	100%	Full Consolidation
Voltas Oman L.L.C.	65%	Full Consolidation
Lalbuksh Voltas Engineering Services & Trading L.L.C.	60%	Full Consolidation
Voltas Qatar W.L.L.	49%	Full Consolidation
Voltas Netherlands B.V.	100%	Full Consolidation

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408
subrata@icraindia.com

Jay Sheth

+91 22 6114 3419
jay.sheth@icraindia.com

Suprio Banerjee

+91 22 6114 3443
suprio.banerjee@icraindia.com

Vicky Bhoir

+91 22 6114 3450
vicky.bhoir@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents