

May 11, 2020

Voltas Limited: Rating reaffirmed; rated amount enhanced

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	3,500.0	2,782.5	[ICRA]AA+(Stable)/[ICRA]A1+; ratings reaffirmed
Unallocated - Long term/Short term	0.0	1,217.5	[ICRA]AA+(Stable)/[ICRA]A1+; Rating reaffirmed
Total	3,500.0	4,000.0	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to take into account Voltas's strong business risk profile with diversified presence across consumer and projects businesses, balanced export and domestic sales mix for the projects businesses, its sustained leadership position in the domestic air conditioner (AC) business and its strong financial risk profile, supported by nominal debt levels and superior liquidity profile.

The COVID-19 outbreak and consequent lockdown has significantly impacted demand for consumer durables with closure of retail outlets from the latter half of March 2020, because the onset of summer and the first quarter of a fiscal typically comprise peak sale for the AC industry. Thus, ICRA expects the company's AC sales for FY2021 to be adversely impacted till the lockdown ends, with relaxation on retailing. Additionally, the adverse economic impact of the lockdown on consumer spends may also crimp consumer durable sales. The eventual duration of COVID-19 and its impact on consumer confidence is likely to determine the extent of demand fallout. Voltas's products witness intense pricing competition from other incumbents. Also, being in the B2C space, constant focus on advertising/branding, discounts/schemes and competitive trade margins are critical for maintaining sales and brand recall; and reduction in any of these could impact sales. Moreover, there could be delay in project execution because of the lockdown and slowdown in fresh orders, as well as delay in collections given that the fiscal situation of the Government could remain constrained in the current year. Nevertheless, ICRA draws significant comfort from the company's leadership position in Voltas' Unitary Cooling Products Business segment and strong execution track record in the projects business, which is expected to support its revenue growth whenever the business returns to normalcy. ICRA also takes significant comfort from the company's superior liquidity position, which will support it in meeting its business and financial obligations comfortably over the short-term. Despite the above, ICRA will continue to monitor the developments, should there be an extended lockdown and a prolonged demand slowdown.

In the projects business, also called electro-mechanical projects and services (EMPS), Voltas enjoys an established position in the mechanical, electrical and plumbing (MEP), as well as the heating, ventilation and air conditioning (HVAC) space in the domestic and West Asian markets. The business division drove 51% of its overall sales in FY2019. In its consumer business, also called UPBG, the company enjoys a presence in room air conditioning, air coolers, air purifiers and commercial refrigeration with 45% overall share of sales in FY2019. The company is the number one player in the domestic air conditioner business with 24.3% market share as on December 2019. During

FY2019, the subdued performance of the UPBG business (2.2% decline) led by a weak summer season was partly offset by the EMPS segment (27.2% growth) due to better quality orders and effective execution in both domestic and international business segments. While during 9M FY2020, the company witnessed a 7.6% decline in the EMPS segment due to the slow pace of execution in domestic markets from the general sluggishness in the environment, the same was partially offset by the strong performance of the UPBG segment (33.2% YoY growth). The same was driven by better product mix and cost efficiencies. Voltas's strong financial profile is reflected in its modest debt levels, comfortable profitability, healthy liquidity position (~Rs. 1,850–1,900 crore cash and equivalents as on March 31, 2020) and consequently above par debt protection metrics. Voltas's healthy accruals and relatively low capex have resulted in minimal debt over the last four to five years.

The long-term rating, however, remains constrained by the company's exposure to challenges in the project business, primarily in the international market, wherein it 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 to an extent. The company remains cautious in picking up the right international projects due to liquidity concerns, stretch in receivables and the crude oil-led slowdown in West Asia, which has been further exacerbated by the COVID-19 outbreak. An improvement in order book for domestic projects, with a shorter execution period, provides better revenue visibility. The segment margins for EMPS segment during 9M FY2020 were impacted by delays in project execution. The rating is also constrained by the vulnerability of the UPBG segment to weather conditions, primarily the intensity of summer along with stiff competition from several other established players in the field. Input costs also play a key role in this segment, with movement of the Indian Rupee against Dollar being a driver of margins, given large imports in this division. Further, custom duty hikes by the Government in July 2019 also led to increase in input costs, however it was largely mitigated by strong volume growth in 9M FY2020. Voltas continues to maintain its market leadership position in ACs. 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.

Key rating drivers and their description

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 segments 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's revenues. However, the company's revenues are fairly diversified within each of these segments in terms of geographies and products/services offered. Through its EPBG segment, Voltas has a small presence as a dealer in textile machinery (domestic market) as well as in mining and construction equipment (domestic and Mozambique markets). The EPBG segment accounted for ~5% of its FY2019 revenues.

Strong domestic market presence in retail and commercial AC 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 six years. This was achieved despite facing a few years of short summers or unseasonal rains during its peak business season.

Improvement in EMPS segment's performance in FY2019, albeit subdued during 9M FY2020, with strong order book position reflecting healthy revenue visibility - The performance of the EMPS division improved significantly with the company reporting 7.2% growth in FY2018 and ~27.2% growth in FY2019, driven by better quality of orders, effective execution in both domestic as well as international projects and healthy order book inflow from the domestic market. The same resulted in a sequential improvement in segmental margins to 7.7% in FY2019 from 6.6% in FY2018. Though revenues in this segment declined by 7.6% to Rs. 2,442 crore during 9M FY2020 (over Rs. 2,643 crore in 9M FY2019) due to the slow pace of project execution, the company had a strong order book position of Rs. 7,024 crore as on December 31, 2019, indicating healthy revenue visibility.

Extensive presence and strong market position in West Asian markets – 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 water management projects, 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 time and Total Debt/OPBDITA of 0.4 time as on September 30, 2019. It also had a superior liquidity as reflected by cash and bank balances as well as liquid investments worth ~Rs. 1,850-1,900 crore as on March 31, 2020.

Credit challenges

Adverse demand environment along with expected revenue and profitability pressure in FY2021 due to COVID-19 related lockdown - The ongoing pandemic and consequent lockdown have significantly impacted demand for consumer durables with closure of retail outlets in March 2020. Further, it will impact the consumer durables demand in H1 FY2021 due to the continued closure of retail outlets till the lockdown ends, adverse economic impact and pull down in consumer confidence. Additionally, there could be delay in project execution given the lockdown and consequent slowdown in fresh orders as well as delay in collections, given that the fiscal situation of the Government could remain constrained in the current year. Nevertheless, ICRA draws significant comfort from the company's leadership position in the UPBG business and strong execution track record in the projects business, which is expected to support its revenue growth whenever the economy regains normalcy. ICRA also takes significant comfort from the company's superior liquidity position, which will support the company in meeting its business and financial obligations comfortably over the short-term.

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. 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. However, during H1 FY2020, the company bagged a large order in Qatar 'Commercial Boulevard', which provides revenue visibility in this segment.

Project business exposed to time and cost overruns along with 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 generally ranges from two to three years, while domestic projects span around ~1–1.5 years. The company continues to face competition from established players in the project business.

UPBG segment susceptible to climatic vagaries, changing technologies and intense competition from 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 leading Korean and Japanese entities, the inverter AC segment is characterised by stiff competition. 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 with Voltas reporting decline in revenues in FY2019. The same also resulted in higher inventory in the channel as well as with manufacturers resulting in pricing pressure. However, in 9M FY2020, the revenues in the UPBG segment reported a 33.2% increase in revenues to Rs. 2,875.0 crore (Rs. 2,158.0 crore during 9M FY2019) on the back of favourable product mix. In 9M FY2020, the PBIT margin improved to 11.7% (10.3% in 9M FY2019) driven by better product mix and cost efficiencies. During 9M FY2020, the company reported an increase in market share to 24.3% as against 23.7% in FY2019.

Liquidity position: Superior

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. 1,850-1,900 crore as on March 31, 2020, as against consolidated total debt of Rs. 330.4 crore), indicating a superior liquidity. Apart from the above, the company can avail working capital limits of Rs. 102 crore sanctioned limits from the banks, which stand unutilised at present. Voltas, on a consolidated level, had a marginal long-term borrowing of Rs. 10.7 crore as on September 30, 2019. ICRA also takes into account the expected outflow towards investments in Voltbek, a JV formed with Ardutch B.V. (a subsidiary of Arçelik A.S., part of the Turkish Koç Group). ICRA notes the Rs. 500-crore capital expenditure towards a manufacturing facility in Tirupati (Andhra Pradesh), which is expected to be funded through internal accruals.

Rating sensitivities

Positive triggers – An upgrade is unlikely in the near term, given the weak macro environment, accentuated by the COVID-19 pandemic. However, ICRA could upgrade Voltas's ratings if it increases its market share in the UPBG segment with increase in revenues and profitability on a sustained basis along with further meaningful revenue diversification away from UPBG business, while maintaining its strong debt metrics.

Negative triggers – Downward pressure on Voltas's rating could emerge in case of a prolonged lockdown from the COVID-19 crisis and a weakening macro- economic environment leading to a sharp deterioration in earnings and liquidity on a sustained basis.

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, 2019, the company had nine subsidiaries, four joint venture and two associate companies, 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 ACs, air coolers, water coolers and other commercial refrigeration products.

As per audited financials for FY2019, Voltas, on a consolidated basis, reported a profit after tax (PAT) of Rs. 565.7 crore on an operating income (OI) of Rs. 7,124.1 crore, as against a PAT of Rs. 574.1 crore on an OI of Rs. 6,404.1 crore in FY2018.

In 9M FY2020, on a consolidated basis, Voltas had an adjusted¹ PAT of Rs. 410.8 crore on an OI of Rs. 5,568.5 crore, as against an adjusted PAT of Rs. 404.6 crore on an OI of Rs. 5,061.2 crore in 9M FY2019.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	6,404.4	7,124.1
PAT (Rs. crore)#	574.1	565.7
OPBDIT/OI (%)	10.5%	8.8%
RoCE (%)	21.5%	18.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.8
Total Debt/OPBDIT (times)	0.2	0.5
Interest Coverage (times)	56.5	19.0
DSCR	10.8	8.0

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

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated*	Amount Outstanding	Rating	FY2019	FY2018		FY2017	
					11-May-2020	29-Mar-2019	18-Jan-2018	11-Aug-2017	21-Apr-2017	31-Mar-2017
1	Fund based/Non-Fund based facilities	Long Term/ Short Term	2,782.5	NA	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA (Positive)/[ICRA]A1+	-	-	-
2	Long term / Short term, Unallocated	Long Term/ Short Term	1,217.5	NA	[ICRA]AA+ (Stable)/[ICRA]A1+	-	-	-	-	-
3	Term Loan	Long Term	-	0	-	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
4	Fund-based Facilities	Long Term	-	NA	-	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
5	Non-Fund based Facilities	Long Term/ Short Term	-	NA	-	-	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	-

Amount in Rs. crore / *As on May 11, 2020

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	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	-	-	-	2,782.5	[ICRA]AA+(Stable)/[ICR A]A1+
NA	Long-term/ Short-term, Unallocated	-	-	-	1,217.5	[ICRA]AA+(Stable)/[ICR A]A1+

Source: Voltas Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Universal Comfort Products Limited	100.00%	Full Consolidation
Rohini Industrial Electricals Limited	100.00%	Full Consolidation
Auto Aircon (India) Limited (AAIL)	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 L.L.C.	65.00%	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
Terrot GmbH, Germany	20.07%	Equity Method

Source: Voltas Limited

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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.

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