FIRST LIGHT

10 May 2022

RESEARCH

Voltas | Target: Rs 1,250 | +17% | BUY

Structural story intact

BOB Economics Research | FPI Flows

Trends in FPI flows in India

SUMMARY

Voltas

- Below-expected quarter but strong portfolio and distribution coupled with low market penetration remain key structural drivers
- Better positioned than peers to weather RM cost inflation given superior margins and market leadership
- We assume coverage with BUY and a TP of Rs 1,250 largely driven by moats in room ACs and best-in-class margins

Click here **for the full report.**

India Economics: FPI Flows

FPIs play an important role in the economy in terms of providing support to the equity and debt market besides adding strength to the foreign capital flows. This study analyzes data on FPIs over a span of 25-years to understand trends. These flows have been analyzed in terms of trends in movement of equity and debt flows, sources of these flows and the sectors preferred by them. India's share in overall flow of FPIs is also looked at after which we conjecture the prospects for FY23.

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Daily macro indicators

Indicator	05-May	06-May	Chg (%)
US 10Y yield (%)	3.04	3.13	9bps
India 10Y yield (%)	7.4	7.45	5bps
USD/INR	76.26	76.93	(0.9)
Brent Crude (US$/bbl)	110.9	112.4	1.3
Dow	32,998	32,899	(0.3)
Hang Seng	20,793	20,002	(3.8)
Sensex	55,702	54,836	(1.6)
India FII (US$ mn)	**04-May**	**05-May**	**Chg ($ mn)**
FII-D	(7.5)	15.7	23.2
FII-E	(374.9)	(205.1)	169.8

Source: Bank of Baroda Economics Research

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BUY
TP: Rs 1,250 | ⮝ 17%

VOLTAS | Consumer Durables | 09 May 2022

Structural story intact

- **Below-expected quarter but strong portfolio and distribution coupled with low market penetration remain key structural drivers**
- **Better positioned than peers to weather RM cost inflation given superior margins and market leadership**
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Flat revenue growth and higher RM cost impact bottomline: VOLT's Q4FY22 revenue was flat YoY at Rs 26bn as growth in the UCP (unitary cooling) and engineering product segments was negated by a poor performance in the electromechanical segment. Gross margin declined 307bps YoY to 21.8% as the company failed to pass on higher raw material prices to customers. EBIT margin contracted 305bps YoY to 8.3% primarily due to the lower gross margin and higher employee cost. Net income fell 23% YoY to Rs 1.8bn.

Higher southern sales hit room AC market share: VOLT saw its market share fall to 23.4% in FY22 (vs. 25.2% in FY21) as South India, which has an early summer, had a higher share in the sales mix. While the company ceded some ground to Lloyd, Samsung and LG, it is optimistic of returning to its original market share of 25-26% by the end of summer as sales in northern regions kick in. It has already gained share in the western and eastern markets this season. Also, subsidiary VOLTBEK has sold 1mn units in FY22 and has a market share of 3.5% in refrigerators and 4% in washing machines.

Better positioned to tackle RM inflation: We expect raw material inflation to dampen Covid-led pent-up demand for room ACs (RAC). VOLT, being the market leader in this space with a superior distribution reach, is likely to buck the trend and grow market share. Its above-industry margins should also offer some cushion against cost inflation, even as the company has the scale necessary to source raw materials if supply chain disruptions worsen.

Our preferred pick – BUY, TP Rs 1,250: Rising summer temperatures and pent-up demand augur well for the AC and refrigeration industry as a whole. However, supply chain constraints and rising input costs are expected to sap margins. VOLT enjoys the highest margins among peers and is better positioned to weather the storm, in our view, making it our preferred pick in the AC space. We value the stock at 50x FY24E EPS, a 40% premium to its 5Y average, and assume coverage with BUY for a TP of Rs 1,250. Negative drivers for the stock include weak AC sales in the event of higher product prices or an economic downturn.

Key changes

Target	Rating
▼	▲

Ticker/Price	VOLT IN/Rs 1,069
Market cap	US$ 4.6bn
Free float	70%
3M ADV	US$ 21.5mn
52wk high/low	Rs 1,357/Rs 953
Promoter/FPI/DII	30%/26%/28%

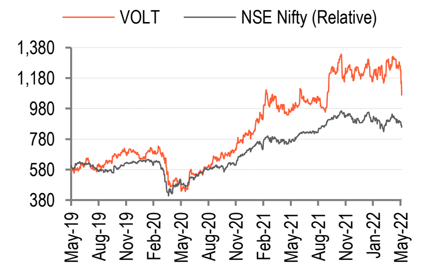
Source: NSE | Price as of 6 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	78,411	91,792	1,10,200
EBITDA (Rs mn)	5,861	8,308	10,902
Adj. net profit (Rs mn)	4,107	6,130	8,210
Adj. EPS (Rs)	12.4	18.5	24.8
Consensus EPS (Rs)	12.4	23.8	29.6
Adj. ROAE (%)	7.8	10.6	12.6
Adj. P/E (x)	86.1	57.7	43.1
EV/EBITDA (x)	59.5	41.9	31.7
Adj. EPS growth (%)	(3.6)	49.3	33.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

FPI FLOWS

09 May 2022

Trends in FPI flows in India

Jahnavi
Economist

FPIs play an important role in the economy in terms of providing support to the equity and debt market besides adding strength to the foreign capital flows. This study analyzes data on FPIs over a span of 25-years to understand trends. These flows have been analyzed in terms of trends in movement of equity and debt flows, sources of these flows and the sectors preferred by them. India's share in overall flow of FPIs is also looked at after which we conjecture the prospects for FY23.

Emerging markets have continued to remain an attractive destination for international portfolio investment. While the liberalization process began in the country in the early 1990s, FPIs investment began in Sep'92. Portfolio flows in India to begin with have tended to be largely stable. In a span of over 25 years since FY98, India has witnessed portfolio outflows in 7 years only, the remaining have had inflows. The first bout of this outflow was post the Asian Financial crisis; however it was short lived one as the country made a stronger than expected comeback. As of FY22, net FPI flows has dipped to US$ 16 bn with Net equity outflow of US$ 18.5 bn and Debt inflow of US$ 0.3 bn. However, in the last decade, there have been more occurrences of negative new inflows.

Figure 1 gives the trend in movement of FPIs for the period FY08 to FY22. In 10 of the 15 years, the flows were positive while it was negative in the rest. On 5 of the 10 occasions, the flows were above $ 20 bn in a year, with the highest being achieved in FY15 where they peaked at $ 45.7 bn.

Figure 2 shows that in this year both equity and debt flows were high with the latter peaking at $ 27.3 bn. This was the time when the government also had more liberal terms for FPI investment in both government and corporate debt. This was probably the golden year because after FY15 there have been erratic movements in both equity and debt. In the last 4 years, debt inflows have been negative or virtually close to nil which is a concern as even though there are more liberal limits for FPIs to invest, they are not being utilized. The focus must be on the development of the corporate bond market to make them more liquid. Also the high government borrowing programme has militated at the margin at the attractiveness of these bonds.

In terms of sources of FPI, USA had the largest share (37%) in Mar'22, followed by Mauritius (11%), Singapore (8%), Luxembourg (8%) and UK (3%). With a large share from the USA it can be intuitively seen that any development on the economy as well as policy can have an impact on the flow of FPIs. A strong US economy goes with a conservative monetary stance which involves high interest rates as is the case today. This would tend to deter funds from moving out as higher returns are earned by them in the domestic market.

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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