

HOLD

TP: Rs 950 | ▲ 14%

VOLTAS

Consumer Durables

12 December 2022

Competition weighing on margins

- Management does not anticipate return to double-digit RAC EBIT margins in medium term amid rising competition
- Demand remains tepid industry-wide with low scope for pricing action; VOLT aims to defend market share and margins
- Target P/E cut to 43x (vs. 45x) given lower visibility on RAC margin revival; retain HOLD with revised TP of Rs 950 (vs. Rs 1,000)

Vinod Chari | Nilesh Patil
 Tanay Rasal
 research@bobcaps.in

We interacted with the management of VOLT. Key takeaways:

RAC margin revival ruled out in medium term: VOLT anticipates continued stiff competition in the room air conditioner (RAC) segment over the near term as peers appear to be aggressively chasing market share at the cost of margins. Consequently, management has ruled out a revival to double-digit EBIT margins in the near-to-medium term. VOLT's response to the current difficult climate is to maintain market share and protect margins via concerted efforts to lower costs.

Demand still tepid with no price hikes: Following a weak Q2FY23, demand has remained sluggish across the industry, with no positive trigger after the start of the festive season. None of the industry players have opted for price hikes in the third quarter thus far. Management remains optimistic of a better Q4 ahead of the summer season, with early demand indicators by January ideal to determine pricing action.

Commodity prices inching up again: After witnessing deflation in Q2FY23, prices of core raw materials such as copper and aluminum are reversing. The effect of softer costs wasn't visible in Q2 due to expensive inventory in the system. While H2FY23 will see the benefits of lower costs, the recent reversal can play spoilsport.

Capex and PLI: VOLT believes component makers are currently on a capex drive to avail of production-linked incentives (PLI), whereas RAC players are incurring capex for captive consumption. VOLT is in the midst of a Rs 3bn-3.5bn phased capex programme aimed at backward integration (along with productive capex) to partly insulate itself against supply chain disruptions.

Maintain HOLD: At 38x, the stock is currently trading around its 10Y average P/E multiple on a 2Y forward basis. Given the reduced visibility on margin recovery, we cut our target Sep'24E P/E to 43x (vs. 45x) while retaining our estimates. This leads to a lower TP of Rs 950 (vs. Rs 1,000) – maintain HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	VOLT IN/Rs 834
Market cap	US\$ 3.4bn
Free float	70%
3M ADV	US\$ 13.7mn
52wk high/low	Rs 1,348/Rs 804
Promoter/FPI/DII	30%/24%/30%

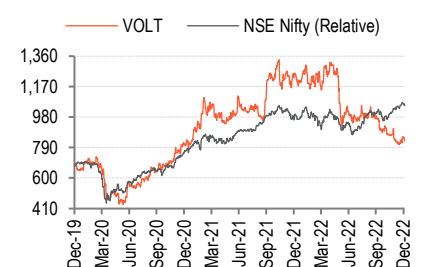
Source: NSE | Price as of 9 Dec 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	79,345	88,613	107,669
EBITDA (Rs mn)	6,816	6,591	9,143
Adj. net profit (Rs mn)	5,060	4,649	6,415
Adj. EPS (Rs)	15.3	14.1	19.4
Consensus EPS (Rs)	15.3	16.0	22.7
Adj. ROAE (%)	9.6	8.3	10.9
Adj. P/E (x)	54.5	59.3	43.0
EV/EBITDA (x)	40.5	41.8	30.2
Adj. EPS growth (%)	(4.3)	(8.1)	38.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Valuation methodology

Rising competition in the RAC space has taken a toll on market leader VOLT, as evident from its market share decline to 22.8% in Aug'22 YTD vs. 26.8% in Aug'20 YTD coupled with EBIT margin contraction in the unitary cooling product (UCP) business to a 10-year low of 7.3% in Q2FY23. While the stock is currently hovering around its 10-year average on a 2Y forward basis, we believe structural headwinds will continue to weigh on performance and hence prune our target Sep'24E P/E multiple from 45x to 43x. Our TP thus reduces to Rs 950 (vs. Rs 1,000) – retain HOLD.

Fig 1 – Key estimates

Particulars (Rs mn)	FY23E	FY24E	FY25E
Sales	88,613	107,669	127,359
EBITDA	6,591	9,143	11,579
PAT	4,649	6,415	8,078
EPS (Rs)	14.1	19.4	24.4
EBITDA Margin (%)	7.4	8.5	9.1

Source: Company, BOBCAPS Research

Key risks

- Increase in market share represents an upside risk to our estimates.
- Prolonged pressure on the UCP EBIT margin is a key downside risk.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.8	1,999	2,100	HOLD
Blue Star	BLSTR IN	1.5	1,273	1,350	HOLD
Crompton Greaves	CROMPTON IN	2.7	355	500	BUY
Dixon Technologies	DIXON IN	3.0	4,104	5,200	BUY
Havells India	HAVL IN	9.0	1,182	1,500	BUY
Orient Electric	ORIENTEL IN	0.7	275	280	HOLD
Polycab India	POLYCAB IN	5.0	2,734	3,300	BUY
Syrma SGS	SYRMA IN	0.6	280	390	BUY
V-Guard Industries	VGRD IN	1.4	260	250	HOLD
Voltas	VOLT IN	3.4	834	950	HOLD

Source: BOBCAPS Research, NSE | Price as of 9 Dec 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	75,558	79,345	88,613	107,669	127,359
EBITDA	6,414	6,816	6,591	9,143	11,579
Depreciation	339	373	588	813	1,063
EBIT	6,075	6,443	6,003	8,330	10,516
Net interest inc./(exp.)	(262)	(259)	(307)	(373)	(441)
Other inc./(exp.)	1,889	1,892	1,986	2,086	2,190
Exceptional items	0	0	0	0	0
EBT	7,702	8,076	7,683	10,043	12,266
Income taxes	1,804	1,913	1,934	2,528	3,087
Extraordinary items	0	0	1,064	0	0
Min. int./Inc. from assoc.	(610)	(1,103)	(1,100)	(1,100)	(1,100)
Reported net profit	5,288	5,060	3,585	6,415	8,078
Adjustments	0	0	1,064	0	0
Adjusted net profit	5,288	5,060	4,649	6,415	8,078

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	24,645	29,421	33,989	41,888	49,548
Other current liabilities	7,882	7,707	8,607	10,324	12,213
Provisions	0	0	0	0	0
Debt funds	2,514	3,432	3,833	4,657	5,509
Other liabilities	1,580	1,909	2,087	2,454	2,833
Equity capital	331	331	331	331	331
Reserves & surplus	49,603	54,665	56,264	60,529	66,457
Shareholders' fund	49,934	54,996	56,595	60,860	66,788
Total liab. and equities	86,555	97,463	105,111	120,183	136,890
Cash and cash eq.	4,588	5,717	2,222	(1,216)	(6,976)
Accounts receivables	18,009	21,097	23,064	25,074	29,659
Inventories	12,796	16,614	18,451	21,239	25,123
Other current assets	16,501	15,365	17,160	20,691	24,475
Investments	0	0	0	0	0
Net fixed assets	2,384	2,305	3,716	5,403	6,840
CWIP	88	593	662	805	952
Intangible assets	941	999	999	999	999
Deferred tax assets, net	0	0	0	0	0
Other assets	31,248	34,775	38,837	47,188	55,818
Total assets	86,555	97,463	105,111	120,183	136,890

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	5,561	5,842	4,042	8,516	6,437
Capital expenditures	0	0	(2,000)	(2,500)	(2,500)
Change in investments	(3,257)	(3,910)	0	0	0
Other investing cash flows	698	264	(3,953)	(8,127)	(8,398)
Cash flow from investing	(2,559)	(3,646)	(5,953)	(10,627)	(10,898)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(5,110)	(166)	401	824	852
Interest expenses	0	0	0	0	0
Dividends paid	3,895	(905)	(1,985)	(2,151)	(2,151)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(1,215)	(1,070)	(1,584)	(1,326)	(1,299)
Chg in cash & cash eq.	1,787	1,126	(3,495)	(3,438)	(5,760)
Closing cash & cash eq.	4,588	5,717	2,222	(1,216)	(6,976)

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	16.0	15.3	10.8	19.4	24.4
Adjusted EPS	16.0	15.3	14.1	19.4	24.4
Dividend per share	5.0	5.5	6.0	6.5	6.5
Book value per share	150.9	166.2	171.1	183.9	201.9

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	3.7	3.5	3.1	2.6	2.2
EV/EBITDA	43.0	40.5	41.8	30.2	23.8
Adjusted P/E	52.2	54.5	59.3	43.0	34.1
P/BV	5.5	5.0	4.9	4.5	4.1

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	68.7	62.7	60.5	63.9	65.9
Interest burden (PBT/EBIT)	126.8	125.3	128.0	120.6	116.6
EBIT margin (EBIT/Revenue)	8.0	8.1	6.8	7.7	8.3
Asset turnover (Rev./Avg TA)	31.7	34.4	23.8	19.9	18.6
Leverage (Avg TA/Avg Equity)	0.1	0.0	0.1	0.1	0.1
Adjusted ROAE	11.4	9.6	8.3	10.9	12.7

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(1.3)	5.0	11.7	21.5	18.3
EBITDA	(6.6)	6.3	(3.3)	38.7	26.7
Adjusted EPS	1.5	(4.3)	(8.1)	38.0	25.9
Profitability & Return ratios (%)					
EBITDA margin	8.5	8.6	7.4	8.5	9.1
EBIT margin	8.0	8.1	6.8	7.7	8.3
Adjusted profit margin	7.0	6.4	5.2	6.0	6.3
Adjusted ROAE	11.4	9.6	8.3	10.9	12.7
ROCE	11.2	9.4	8.2	10.6	12.1
Working capital days (days)					
Receivables	87	97	95	85	85
Inventory	62	76	76	72	72
Payables	119	135	140	142	142
Ratios (x)					
Gross asset turnover	15.5	16.2	15.1	13.2	12.0
Current ratio	1.5	1.4	1.3	1.2	1.1
Net interest coverage ratio	23.2	24.9	19.6	22.4	23.9
Adjusted debt/equity	0.1	0.1	0.1	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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

BUY – Expected return >+15%

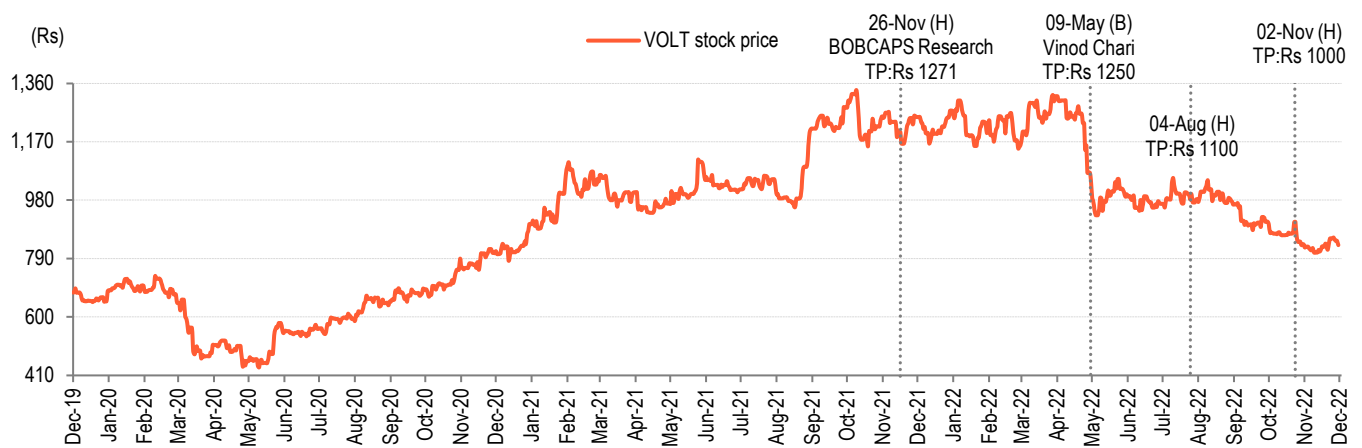
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): VOLTAS (VOLT IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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