

**BUY**

TP: Rs 1,250 | ▲ 28%

**VOLTAS**

Consumer Durables

12 May 2022

## Strong strategy for southern market holds the key

- Analysis of AC/cooler ownership shows higher product penetration in North India while the South lags
- South India is VOLT's Achilles' heel where it has seen competitors pull ahead this summer, depleting market share in Q4FY22
- Formulation of a strong strategy for southern markets is paramount for VOLT to spur growth and regain ground. Maintain BUY.

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**South India lags in cooling product ownership:** Data from the latest National Family Health Survey (NFHS) 2019-21 pegs the national average penetration of ACs/coolers at 23.7%, rising to 39.5% for urban areas but at just 15.8% in rural areas. Northern regions such as Chandigarh, Delhi, Haryana and Punjab have over 60% penetration, ~3x the national average. However, all the key southern states (Andhra Pradesh, Karnataka, Tamil Nadu, Kerala) are well below average, with Telangana, Goa and Puducherry being exceptions (Fig1). While the data doesn't separate ACs and coolers, our interaction with industry experts indicates AC penetration at 7-8%.

**Market spread data holds the key for Voltas:** VOLT's market share declined in Q4FY22 as South India, which has an early summer, formed a higher proportion of sales. The company's market share fell to 23.4% vs. 25.2% in FY21 as it ceded ground to Lloyd, Samsung and LG. VOLT has been traditionally strong in northern markets. However, going by the NFHS data, South India becomes a more important geography due to its lower ownership and resultant long runway for growth. We, thus, believe VOLT must formulate a more robust strategy for the southern markets.

**Longer-term strategy for the South could rejuvenate growth:** VOLT is optimistic of recouping its original market share of 25-26% by the end of summer, as sales in the North kick in. It has already gained share in the West and East this season. While the company is a leader at the pan-India level, we believe it must address its market share decline in the South, where growth potential appears higher. The company has mentioned redressing the issue through pricing, incentives and better subventions to take on competition.

**Established leader; maintain BUY:** VOLT has been a longstanding market leader commanding market share in the range of 21-26% for the past eight years (Fig 2). We believe its Q4 market share print of 23% is a blip and expect the company to recover some share as the season progresses. VOLT also enjoys the highest margins among peers and is better positioned to weather the ongoing supply chain constraints and input cost inflation, making it our top pick in the AC space. We value the stock at 50x FY24E EPS, a 40% premium to its 5Y average. BUY, TP Rs 1,250.

## Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	VOLT IN/Rs 978
Market cap	US\$ 4.2bn
Free float	70%
3M ADV	US\$ 22.9mn
52wk high/low	Rs 1,357/Rs 953
Promoter/FPI/DII	30%/26%/28%

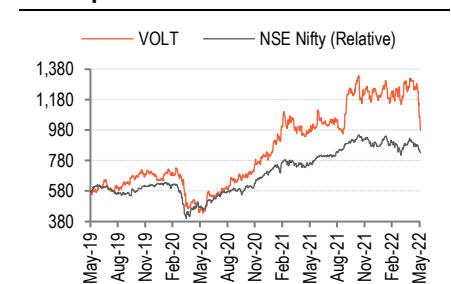
Source: NSE | Price as of 11 May 2022

## 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)	78.8	52.8	39.4
EV/EBITDA (x)	54.3	38.3	28.9
Adj. EPS growth (%)	(3.6)	49.3	33.9

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

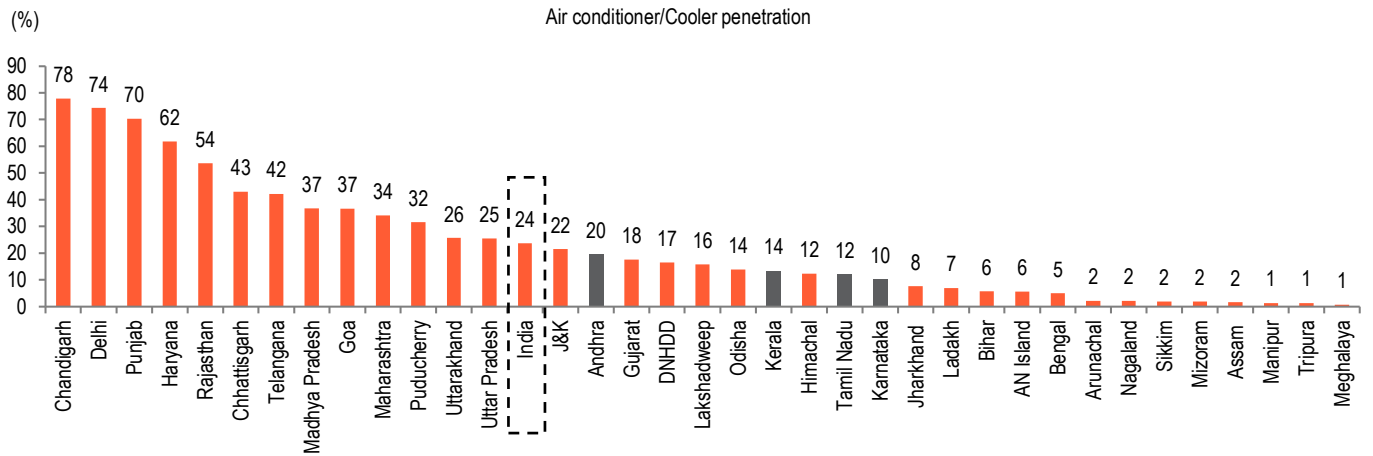
## Stock performance



Source: NSE

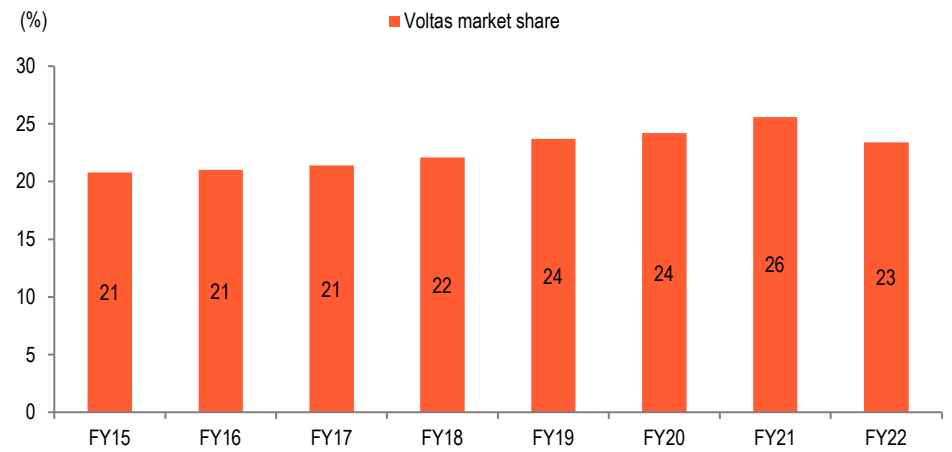


**Fig 1 – Southern market lags in cooling product penetration by a wide margin**



Source: NFHS

**Fig 2 – VOLT’s market share has held in the range of 21-26%**



Source: Company, BOBCAPS Research

## Valuation methodology

VOLT, being the market leader and earning superior margins, is likely to navigate the current inflationary environment better than peers. We also expect a stronger distribution network to help the company grow its market share during such times. We value the stock at an FY24E P/E of 50x, a 40% premium over its five-year average and maintain BUY with a TP of Rs 1,250.

## Key risks

Key downside risks to our estimates are:

- demand being impacted by pricing increases due to raw material inflation and/or a potential new Covid wave,
- intense competition, leading to challenges in growing market share in the RAC and water cooler business, and
- delays in infrastructure rollout, leading to slower growth in new orders for the EMP and HVAC businesses.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.5	3,340	3,471	HOLD
Blue Star	BLSTR IN	1.2	1,001	1,200	HOLD
Crompton Greaves	CROMPTON IN	2.9	363	621	BUY
Dixon Technologies	DIXON IN	2.7	3,512	5,431	HOLD
Havells India	HAVL IN	10.0	1,229	1,500	BUY
Orient Electric	ORIENTEL IN	0.9	310	350	HOLD
Polycab India	POLYCAB IN	4.7	2,428	3,000	BUY
V-Guard Industries	VGRD IN	1.2	207	321	BUY
Voltas	VOLT IN	4.2	978	1,250	BUY
Whirlpool India	WHIRL IN	2.6	1,565	2,901	BUY

Source: BOBCAPS Research, NSE | Price as of 11 May 2022

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Total revenue</b>	<b>76,272</b>	<b>74,566</b>	<b>78,411</b>	<b>91,792</b>	<b>1,10,200</b>
EBITDA	6,557	5,421	5,861	8,308	10,902
Depreciation	(320)	(339)	(352)	(387)	(435)
EBIT	6,238	5,082	5,509	7,921	10,467
Net interest inc./(exp.)	129	136	142	256	401
Other inc./(exp.)	1,966	1,491	1,491	1,491	1,491
Exceptional items	(203)	992	934	0	0
EBT	7,443	7,092	6,973	8,585	11,344
Income taxes	(2,233)	(1,804)	(1,913)	(2,434)	(3,111)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(726)	(646)	(1,122)	(1,105)	(1,038)
<b>Reported net profit</b>	<b>5,172</b>	<b>5,251</b>	<b>5,041</b>	<b>6,130</b>	<b>8,210</b>
Adjustments	60	(992)	(934)	0	0
<b>Adjusted net profit</b>	<b>5,232</b>	<b>4,259</b>	<b>4,107</b>	<b>6,130</b>	<b>8,210</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	26,889	24,645	29,421	34,441	41,348
Other current liabilities	28,059	25,841	31,009	36,030	42,937
Provisions	875	899	1,030	1,030	1,030
Debt funds	2,179	2,606	3,608	0	0
Other liabilities	1,387	5,534	1,782	1,803	1,826
Equity capital	331	331	331	331	331
Reserves & surplus	42,471	49,603	54,665	60,795	69,005
Shareholders' fund	42,802	49,934	54,996	61,126	69,336
<b>Total liab. and equities</b>	<b>81,561</b>	<b>90,565</b>	<b>97,463</b>	<b>1,05,027</b>	<b>1,20,167</b>
Cash and cash eq.	8,288	7,081	10,059	11,037	19,428
Accounts receivables	27,266	28,647	21,097	31,436	36,230
Inventories	14,689	12,796	16,614	13,832	16,605
Other current assets	5,541	3,371	11,022	11,022	11,022
Investments	15,453	25,139	29,151	29,151	29,151
Net fixed assets	2,533	2,509	2,509	2,622	2,817
CWIP	0	0	0	0	0
Intangible assets	95	85	72	72	72
Deferred tax assets, net	729	558	440	440	440
Other assets	6,967	10,381	6,500	5,416	4,401
<b>Total assets</b>	<b>81,561</b>	<b>90,565</b>	<b>97,463</b>	<b>1,05,027</b>	<b>1,20,167</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Cash flow from operations</b>	<b>6,685</b>	<b>6,254</b>	<b>8,011</b>	<b>3,023</b>	<b>7,130</b>
Capital expenditures	(905)	(208)	(482)	(500)	(631)
Change in investments	0	0	0	0	0
Other investing cash flows	(1,643)	(2,674)	(3,321)	0	0
<b>Cash flow from investing</b>	<b>(2,548)</b>	<b>(2,882)</b>	<b>(3,802)</b>	<b>(500)</b>	<b>(631)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	(3,608)	0
Interest expenses	0	0	0	1,298	1,443
Dividends paid	0	0	0	0	0
Other financing cash flows	(2,937)	(1,215)	(1,070)	2,310	(1,443)
<b>Cash flow from financing</b>	<b>(2,937)</b>	<b>(1,215)</b>	<b>(1,070)</b>	<b>0</b>	<b>0</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,644</b>	<b>2,480</b>	<b>3,294</b>	<b>662</b>	<b>8,391</b>
<b>Closing cash &amp; cash eq.</b>	<b>8,288</b>	<b>7,081</b>	<b>10,376</b>	<b>11,037</b>	<b>19,428</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	15.6	15.9	15.2	18.5	24.8
Adjusted EPS	15.8	12.9	12.4	18.5	24.8
Dividend per share	4.0	5.0	3.8	4.6	6.2
Book value per share	129.4	150.9	166.2	184.7	209.5

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	4.1	4.2	4.1	3.5	2.9
EV/EBITDA	47.9	58.0	54.3	38.3	28.9
Adjusted P/E	61.8	76.0	78.8	52.8	39.4
P/BV	7.6	6.5	5.9	5.3	4.7

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	68.4	69.8	68.0	71.4	72.4
Interest burden (PBT/EBIT)	122.6	120.0	109.6	108.4	108.4
EBIT margin (EBIT/Revenue)	8.2	6.8	7.0	8.6	9.5
Asset turnover (Rev./Avg TA)	97.3	86.6	83.4	90.7	97.9
Leverage (Avg TA/Avg Equity)	1.9	1.9	1.8	1.7	1.7
Adjusted ROAE	12.5	9.2	7.8	10.6	12.6

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	7.7	(2.2)	5.2	17.1	20.1
EBITDA	14.6	(17.3)	8.1	41.8	31.2
Adjusted EPS	9.0	(18.6)	(3.6)	49.3	33.9
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	8.6	7.3	7.5	9.1	9.9
EBIT margin	8.2	6.8	7.0	8.6	9.5
Adjusted profit margin	6.9	5.7	5.2	6.7	7.5
Adjusted ROAE	12.5	9.2	7.8	10.6	12.6
ROCE	14.4	10.2	9.8	13.2	15.6
<b>Working capital days (days)</b>					
Receivables	130	140	98	125	120
Inventory	70	63	77	55	55
Payables	129	121	137	137	137
<b>Ratios (x)</b>					
Gross asset turnover	16.3	15.3	15.1	16.2	17.7
Current ratio	1.5	1.5	1.4	1.6	1.7
Net interest coverage ratio	(48.2)	(37.4)	(38.8)	(30.9)	(26.1)
Adjusted debt/equity	0.1	0.1	0.1	0.0	0.0

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

## Disclaimer

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

**BUY** – Expected return >+15%

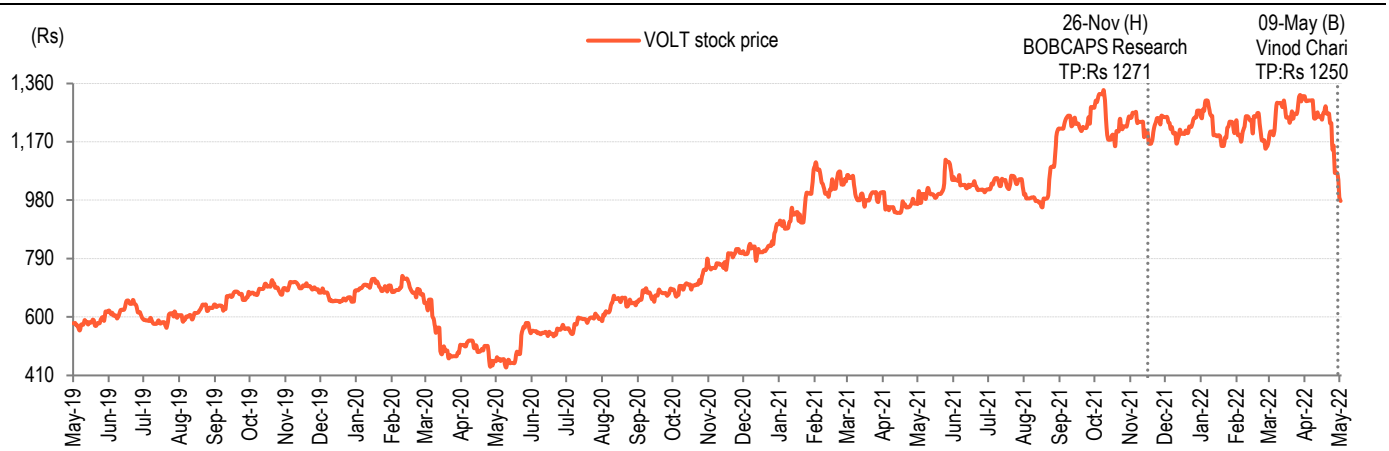
**HOLD** – Expected return from -6% to +15%

**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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