

BUY

TP: Rs 1,250 | ▲ 24%

VOLTAS

| Consumer Durables

| 30 May 2022

Annual report analysis: Reinforcing its #1 position

- Retains leadership in RAC segment with 23.4% market share; bolstering supply chain through JV with Highly
- Continued traction in Voltbek; management confident of 10% market share in home appliances by 2025
- Balance sheet strong with cash & cash equivalents improving; ROCE remains muted given VOLT's investment mode. Maintain BUY, TP Rs 1,250

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We analysed VOLT's FY22 annual report – key takeaways:

Recent market share loss not a worry: VOLT has maintained its leadership position in the room AC (RAC) category with 23.4% market share in FY22. While its share is down from 25.2% in FY21, the marginal loss was due to an extended summer in the north (non-core market) and aggressive pricing by competitors in its core southern market. Nonetheless, the company has stated that it has a strategy in place to revive market share to 25% by Jun-Jul'22 through differentiated product offerings and consumer financing.

Voltbek profitability remains the key: Voltbek has demonstrated revenue scalability over the last four years with a CAGR of 112% over FY19-FY22, but losses have continued. Management remains optimistic of achieving 10% market share (from 3%+ currently) in the home appliances segment by 2025, which would imply a 3.3x increase in revenue. Given the high level of competition, it remains to be seen whether management intends to achieve growth at the expense of margins.

Capex plan to expand offering: VOLT has planned Rs 5bn in capex over the next three years, primarily for (i) backward integration of inverter AC compressors in the JV with Hong Kong-based Highly International, and (ii) capacity expansion for RAC and commercial refrigerators as part of the PLI scheme. We thus anticipate that ROCE will be relatively muted at 13% in FY23.

Reiterate BUY: Being the market leader in RAC with best-in-class margins and a well-defined growth strategy, we expect VOLT to buck the trend and expand market share. The company has internally restructured its business to drive B2C and B2B sales, strengthening the supply chain for compressors, and has focus on home appliances. Cash & cash equivalents has improved from Rs 25bn to Rs 28bn and the balance sheet remains strong. We are confident of VOLT's growth trajectory and continue to value the stock at 50x FY24E EPS, a 40% premium to its 5Y average, for an unchanged TP of Rs 1,250.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	VOLT IN/Rs 1,008
Market cap	US\$ 4.3bn
Free float	70%
3M ADV	US\$ 22.4mn
52wk high/low	Rs 1,357/Rs 923
Promoter/FPI/DII	30%/26%/28%

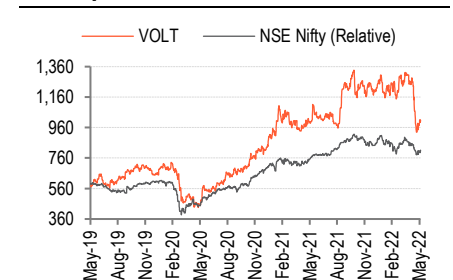
Source: NSE | Price as of 27 May 2022

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)	81.2	54.4	40.6
EV/EBITDA (x)	56.0	39.5	29.8
Adj. EPS growth (%)	(3.6)	49.3	33.9

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

Stock performance

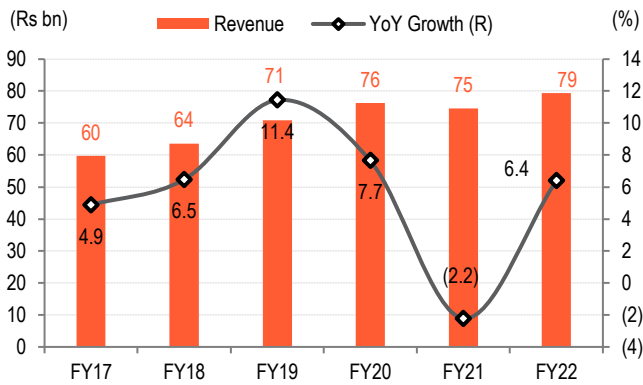


Source: NSE



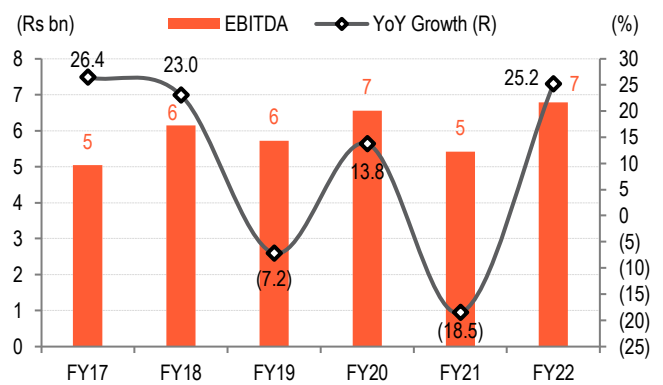
Annual report in charts

Fig 1 – Revenue growth



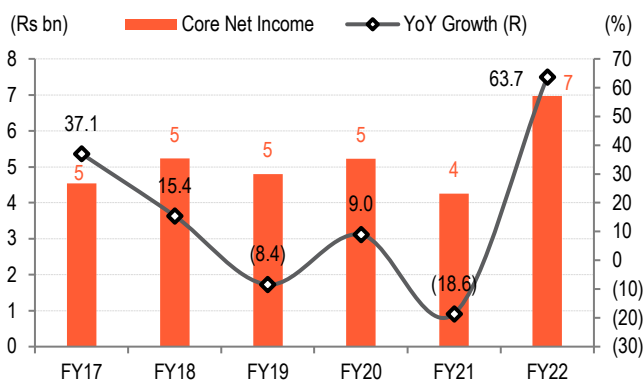
Source: Company, BOBCAPS Research

Fig 2 – EBITDA growth



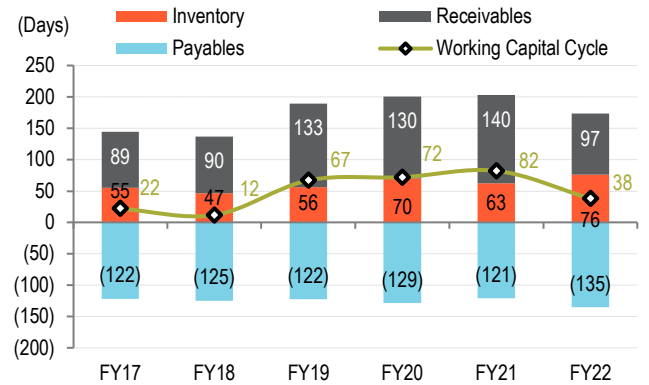
Source: Company, BOBCAPS Research

Fig 3 – PAT growth



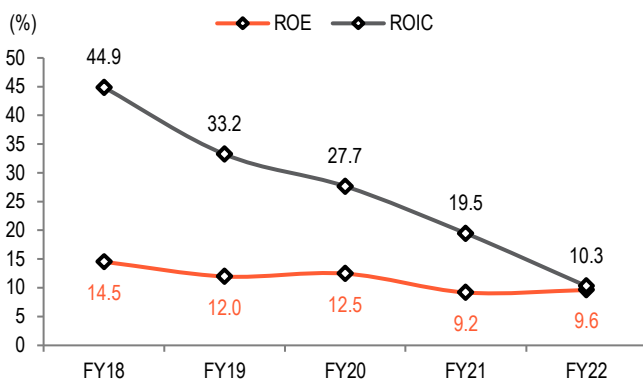
Source: Company, BOBCAPS Research

Fig 4 – Working capital cycle has been steady



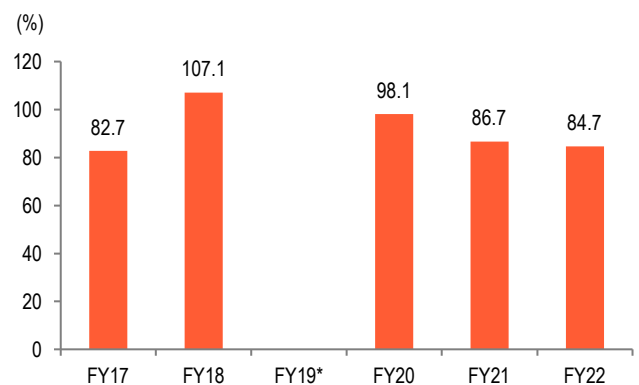
Source: Company, BOBCAPS Research

Fig 5 – ROE/ROIC to remain muted due to ongoing investments



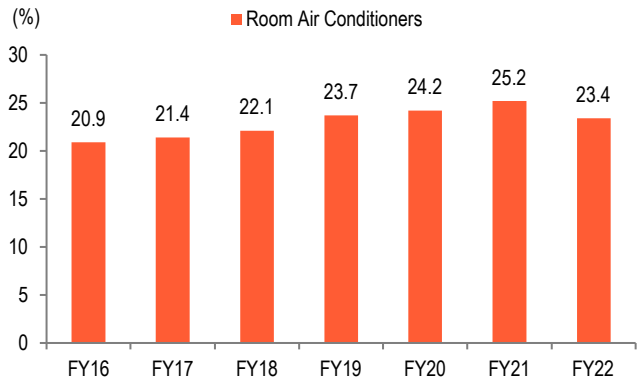
Source: Company, BOBCAPS Research

Fig 6 – Healthy EBITDA to OCF conversion



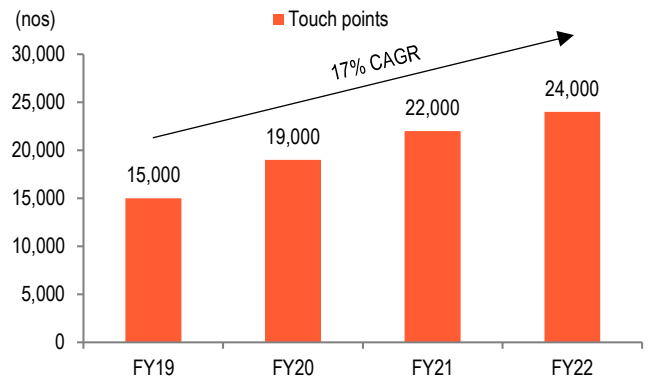
Source: Company, BOBCAPS Research | *OCF was negative in FY19 due to high working capital

Fig 7 – Recent market share loss due to extended winter



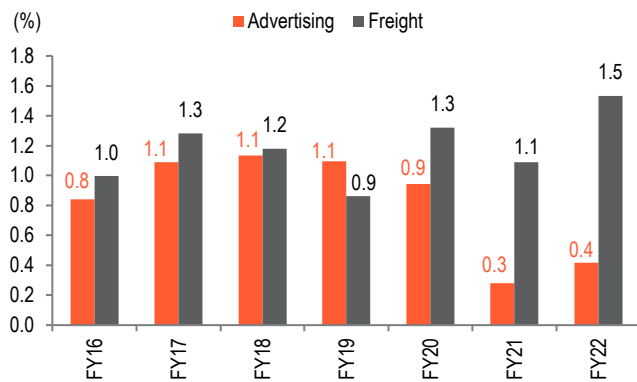
Source: Company, BOBCAPS Research

Fig 8 – Steady expansion of distribution footprint



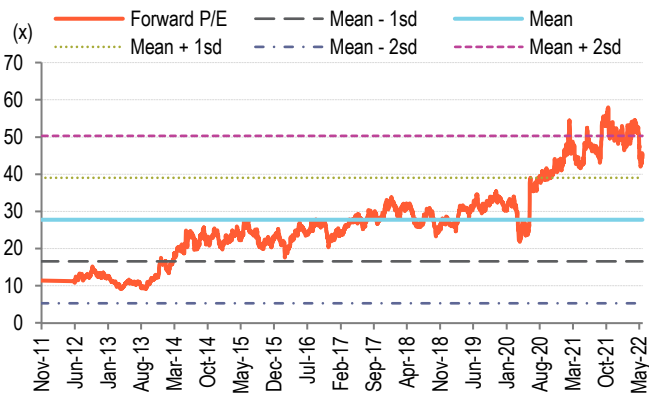
Source: Company, BOBCAPS Research

Fig 9 – Key expenses items as % of sales



Source: Company, BOBCAPS Research

Fig 10 – 1Y fwd P/E valuation



Source: Company, BOBCAPS Research

Annual report analysis: Key takeaways

VOLT has established itself as an indisputable leader in cooling products (unitary products, engineering products, and engineering projects) with a market share of 23.4% as of FY22. To bolster its supply chain, the company has entered into a joint venture with Highly International (Hong Kong) for compressors. It has also restructured its business to drive focus on the B2C and B2B segments. Furthermore, through subsidiary Voltbek, it plans to gain 10% market share in home appliances (from 3%+ currently) by 2025.

Fig 11 – Segment financials

Particulars (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Revenue							
Electromechanical Products and Services	28,288	26,550	28,452	36,191	32,461	35,664	24,705
Unitary Cooling Products	25,210	30,469	32,261	31,556	40,737	35,550	48,819
Engineering Products and Services	3,706	3,318	3,099	3,117	3,317	3,595	4,887
EBIT Margin (%)							
Electromechanical Products and Services	1.9	3.2	6.5	7.7	5.2	3.0	5.1
Unitary Cooling Products	13.4	14.5	14.7	10.3	12.6	14.1	10.5
Engineering Products and Services	30.4	28.8	32.0	33.7	29.9	31.8	32.3

Source: Company, BOBCAPS Research

Unitary Cooling Products

Room air conditioning (RAC)

- Despite unfavourable macroeconomic conditions, VOLT's RAC business grew thanks to its focus on the inverter sub-category, which had competitive pricing and a smaller number of SKUs. To compensate for the higher input costs, the company raised prices in stages throughout the year.
- Over the next five years, management expects the Indian government's white goods PLI scheme to spur industrywide production worth ~Rs 2.7tn in components for ACs and LEDs. Furthermore, it estimates that localisation will reduce import sourcing by 30% on the component side.

Air coolers

- VOLT maintained its second place in the air cooler category with a market share of 12% in FY22.
- The lockdown had an impact on the business because it disrupted the limited seasonal window for secondary sales. Importantly, trade reported a significant amount of inventory, affecting primary sales. Nonetheless, a focus on building out the dealer network, expanding products in each sub-category, and launching new SKUs helped to shore up sales.
- Commercial air coolers are emerging as a new subsegment with high growth potential, as there are currently only limited offerings from a few brands.

Commercial refrigeration

- The commercial refrigeration segment performed well owing to continued traction in trade & distribution, export contribution and a healthier B2B channel partner mix.
- Changes in consumer behaviour and the expansion of mini-cold chain facilities across Mom & Pop (kirana)-type stores in tier-2 and tier-3 cities contributed to sustainable growth in this business. Moreover, by focusing on strengthening OEM contracts and expanding new product lines, the vertical was able to achieve record growth of 22% over the previous year.
- Management expects commercial refrigeration to reach Rs 80bn by 2026-27, growing at a 10% CAGR, due to improved demand for frozen foods and growth in the organised retail sector with the increase in number of hyper/supermarkets.

Commercial air conditioning

- VOLT is the market leader in HVAC products. The synergy between RAC and commercial air conditioning helps the organisation to be equitably present in all market sectors via a healthy distribution network.

Key highlights

- Launched PureAir 6-Stage Adjustable Inverter AC – India's first AC with HEPA filter technology
- Strengthened product offerings in commercial refrigerators by launching 60 SKUs
- Launched 32 SKUs under 'Maha-adjustable' inverter air conditioners
- Received a license from the Bureau of Indian Standards (BIS) for air cooled ducted and packaged air conditioners

Engineering Projects

Infrastructure solutions

- VOLT has a domestic infrastructure order backlog of Rs 36.4bn with new orders totalling Rs 12bn received in FY22.
- Management sees promising opportunities in metros, rural electrification, data centres and hospitals. Specifically, the company hopes to secure orders under the government's Revamped Distribution Sector Scheme (RDSS), which has an estimated investment outlay of Rs 3tn by 2025. Also, opportunities in renewables, particularly EPC projects, could amount to Rs 2.5tn for the industry over the next nine years. The company anticipates projects under the Jal Shakti Mantralaya/Har Ghar Jal se Nal Yojana schemes as well.

International projects

- Weakened sentiments from potential clients across operational geographies combined with careful order selection have translated into subdued but high-quality order booking.
- The company has an international order backlog of Rs 17bn across the UAE, Oman and Qatar. Its International Operations Business Group (IOBG) booked jobs such as Dubai Waste Management Centre (Waste to Energy) and facility management projects in the UAE, Qatar and Bahrain.

Key highlights

- Commissioned one project of 300MW AC and 225MW DC under solar EPC for Azure Power
- Commissioned a second project for SB Energy, later renamed as Adani Energy, for 71MW AC and 104MWp DC
- Gained tier-1 status in solar EPC business

Engineering Products & Services

Textile machinery division (TMD)

- VOLT has 60% market share in spinning machinery.
- Pent-up demand, aided by the China-plus-one strategy of leading global brands, resulted in increased investments in various verticals of the textile value chain. TMD thus achieved 75% growth in FY22 over FY21.
- TMD plans to collaborate with new non-woven and warp knitting principals to strengthen its position in the textile value chain.

Mining & construction equipment

- The Mozambique operation has remained largely insulated from pandemic-induced disruptions and has continued various on-the-ground initiatives to improve the performance of large mining equipment.
- Indian business secured the largest-ever order of 55 Terex Powerscreen machines from an existing customer. In addition to crushing and screening equipment, municipal solid waste (MSW) screening emerged as a focus market, with a significant portion of demand coming from local governments. The company entered into a tender-based agreement with Komatsu Mining Corp (Joy Global) to provide service support for their 42cbm electric rope shovel in SECL, Chhattisgarh.

Subsidiary performance

Voltbek

Voltbek has shown revenue scalability over the last four years with a CAGR of 112% over FY19-FY22, though losses have persisted. In FY22, the company's volumes grew 45%. Voltbek has made significant progress in terms of garnering an overall market share of 3% or higher and has a goal of reaching 10% share in home appliances by 2025. As part of this strategy, the company has taken steps to reduce imports and leverage savings on high-value-added products by manufacturing frost-free refrigerators and automatic washing machines at its Sanand factory in Gujarat.

Key highlights

- Commenced production of washing machines and frost-free refrigerators from Sanand factory
- Launched 74 new SKUs to further strengthen the product portfolio
- Launched products with new and upgraded technologies in all categories

Fig 12 – Voltbek

Particulars (Rs mn)	FY19	FY20	FY21	FY22
Revenues	994	2,902	6,369	9,445
YoY Growth (%)		192.0	119.5	48.3
Profit/ (Loss)	(1,023)	(1,445)	(1,311)	(2,223)
Current Assets	2,455	2,586	6,884	8,660
Current Liabilities	1,349	2,553	6,925	8,903
Net current assets	1,106	33	(41)	(243)
Non-current Assets	1,841	4,490	5,219	5,845
Non-current Liabilities	16	237	674	1,422
Net non-current assets	1,825	4,253	4,545	4,423
Net asset	2,931	4,286	4,504	4,181
Investment	1,180	1,383	2,207	2,049

Source: Company, BOBCAPS Research

Fig 13 – Universal Voltas

Particulars (Rs mn)	FY19	FY20	FY21	FY22
Revenues	3,176	2,587	3,525	2,812
YoY Growth (%)		(18.5)	36.2	(20.2)
Profit/ (Loss)	136	181	61	(54)
Current Assets	2,713	2,515	2,318	2,186
Current Liabilities	1,590	1,256	1,139	990
Net current assets	1,122	1,259	1,179	1,196
Non-current Assets	14	33	7	6
Non-current Liabilities	87	105	104	141
Net non-current assets	(73)	(72)	(97)	(135)
Net asset	1,049	1,187	1,082	1,061
Investment	514	582	530	518

Source: Company, BOBCAPS Research

Key financial metrics

Fig 14 – Contingent liabilities

Particulars (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22
Sales tax / Vat matters	1,216	1,036	1,573	2,238	1,645	1,256
Service tax matters	370	220	180	157	184	184
Excise matters	171	195	188	188	199	199
Contractual matters	281	290	359	361	677	654
Customs duty matters					11	11
Guarantees	3,011	3,015	3,171	3,458	3,368	3,456
Income tax matters	142	89	100	100	148	148
Total	5,192	4,845	5,570	6,501	6,231	5,909
Net worth	33,066	39,052	41,100	42,802	49,934	54,996
CL (ex-guarantees) as a % of Net worth	6.6	4.7	5.8	7.1	5.7	4.5

Source: Company, BOBCAPS Research

Fig 15 – Working capital management

Particulars (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22
Account receivables	14,541	15,703	25,882	27,266	28,647	21,097
Receivable days	89	90	133	130	140	97
Inventory	9,070	8,130	10,907	14,689	12,796	16,614
Inventory days	55	47	56	70	63	76
Account Payables	19,946	21,764	23,745	26,889	24,645	29,421
Payable days	122	125	122	129	121	135
Cash conversion cycle	22	12	67	72	82	38

Source: Company, BOBCAPS Research

Fig 16 – Auditor's remuneration

Particulars (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22
Auditor's remunerations	39	28.3	23.4	26.7	27	30
as a % of EBITDA	0.8	0.5	0.4	0.4	0.5	0.4

Source: Company, BOBCAPS Research

Fig 17 – Remuneration of key management personnel (KMP)

Particulars (Rs mn)	Salary	Allowances	Commission	Total
FY22 Pradeep Bakshi (MD)	11	24	31	66
as a % of wages				1.1
FY21 Pradeep Bakshi (MD)	8	15	21	44
Anil George (DMD)	3	4	7	15
as a % of wages				1.0
FY20 Pradeep Bakshi (MD)	25	1	26	52
Anil George (DMD)	19	2	25	46
as a % of wages				1.5
FY19 Pradeep Bakshi (MD)	32	1	12	45
Anil George (DMD)	27	1	12	40
as a % of wages				1.3
FY18 Sanjay Johri	53	1	26	80
Pradeep Bakshi (MD)	9	0	-	10
Anil George (DMD)	9	1	-	10
as a % of wages				1.7

Source: Company, BOBCAPS Research

Valuation methodology

VOLT, being the market leader in RACs 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 bolster market share. We continue to value the stock at an FY24E P/E of 50x, a 40% premium over its five-year average, and maintain BUY with an unchanged TP of Rs 1,250.

Fig 18 – Key assumption

Parameter (Rs bn)	FY22A	FY23E	FY24E
Revenue	78.4	91.8	110
EBITDA	5.9	8.3	10.9
EBITDA Margin (%)	7.5	9.1	9.9
EPS (Rs)	12.4	18.5	24.8

Source: Company, BOBCAPS Research

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 to market share growth 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	1.1	2,547	3,500	HOLD
Blue Star	BLSTR IN	1.2	1,004	1,200	HOLD
Crompton Greaves	CROMPTON IN	2.7	328	621	BUY
Dixon Technologies	DIXON IN	2.6	3,421	5,431	HOLD
Havells India	HAVL IN	9.5	1,181	1,500	BUY
Orient Electric	ORIENTEL IN	0.7	270	350	HOLD
Polycab India	POLYCAB IN	4.6	2,399	3,000	BUY
V-Guard Industries	VGRD IN	1.3	230	250	HOLD
Voltas	VOLT IN	4.3	1,008	1,250	BUY
Whirlpool India	WHIRL IN	2.7	1,622	2,901	BUY

Source: BOBCAPS Research, NSE | Price as of 27 May 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Total revenue	76,272	74,566	78,411	91,792	1,10,200
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)
Reported net profit	5,172	5,251	5,041	6,130	8,210
Adjustments	60	(992)	(934)	0	0
Adjusted net profit	5,232	4,259	4,107	6,130	8,210

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
Total liab. and equities	81,561	90,565	97,463	1,05,027	1,20,167
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
Total assets	81,561	90,565	97,463	1,05,027	1,20,167

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Cash flow from operations	6,685	6,254	8,011	3,023	7,130
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
Cash flow from investing	(2,548)	(2,882)	(3,802)	(500)	(631)
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)
Cash flow from financing	(2,937)	(1,215)	(1,070)	0	0
Chg in cash & cash eq.	1,644	2,480	3,294	662	8,391
Closing cash & cash eq.	8,288	7,081	10,376	11,037	19,428

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	4.3	4.4	4.2	3.6	2.9
EV/EBITDA	49.5	59.8	56.0	39.5	29.8
Adjusted P/E	63.8	78.3	81.2	54.4	40.6
P/BV	7.8	6.7	6.1	5.5	4.8

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
YoY growth (%)					
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
Profitability & Return ratios (%)					
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
Working capital days (days)					
Receivables	130	140	98	125	120
Inventory	70	63	77	55	55
Payables	129	121	137	137	137
Ratios (x)					
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%

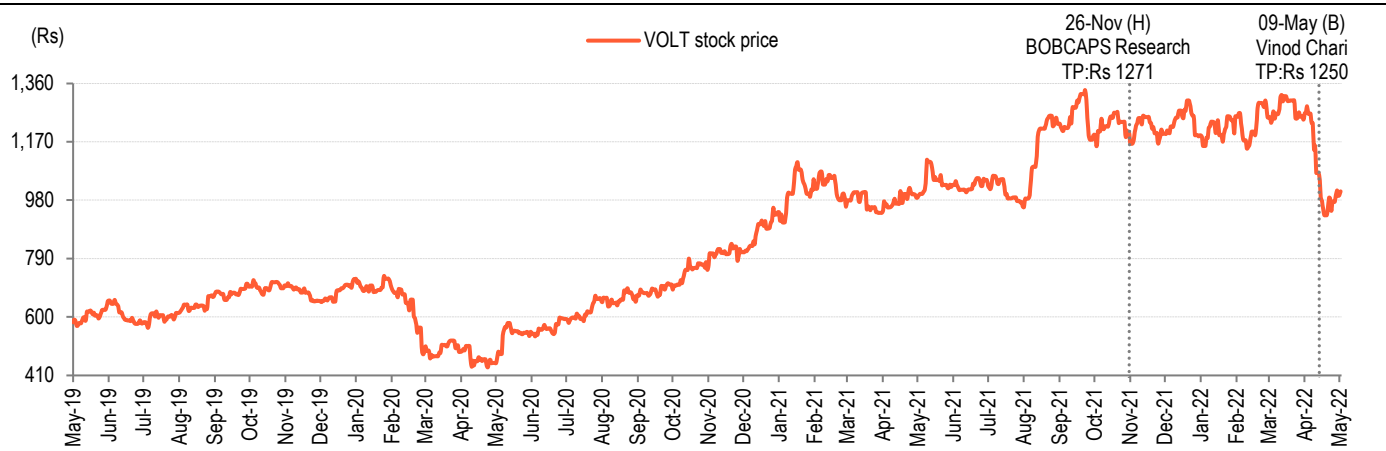
HOLD – Expected return from -6% to +15%

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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