

HOLD

TP: Rs 900 | ▲ 9%

VOLTAS

| Consumer Durables

| 06 June 2023

Annual report analysis: A challenging year

- FY23 saw competition denting margins in VOLT's AC business and provisioning losses in the projects business
- Medium-term outlook remains positive given under-penetration of ACs in India and product diversification via Beko
- Stiff competitive headwinds lead us to retain HOLD; TP unchanged at Rs 900

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Challenges galore: FY23 was a difficult year for VOLT as competitors chipped away at its leadership in room ACs, pulling down its market share to 21.6% from 23.4% in FY22 and a peak of 27% in Q2FY21. Segmental EBIT margin contracted to single digits at 9.6% vs. a 10Y average of 12.2%. However, Q3FY23 closed with 10% margins, riding on summer demand. The EMP business also underperformed as a provision of ~Rs 2.5bn toward encashment of bank guarantees resulted in a sharp 73% drop in PAT to Rs 1.4bn despite ~20% topline growth. VOLT's strategy for supply integration also faltered as it had to call off its compressor JV with Highly.

Expanding consumer durables footprint: The medium-term outlook remains positive as VOLT continues to expand its footprint beyond RACs. In four years, Voltbek has sold an impressive 3.3mn units of refrigerators and washing machines, introduced a new line of home appliances, including 'Smart Hygiene' dishwashers, frost-free refrigerators and top-load washing machines, and is aggressively targeting a doubling of its presence in India to 15,000 outlets. Further, VOLT has entered into a technology license agreement with Vestfrost Solutions of Denmark for medical refrigeration and vaccine storage equipment, marking a foray into the biomedical and cold chain industry.

EMP opportunities robust: In the domestic market, VOLT is targeting major solar, underground cabling and rural electrification projects. Water management is another focus area where it can handle the entire water treatment process. In the international business, the Dubai government's 'D33' economic agenda adds visibility for new project opportunities. Further, the upcoming Palm Jebel Ali project could be a game-changer for the EMP business, being nearly four times the size of Palm Jumeirah.

Balance sheet remains sound: VOLT maintains a strong balance sheet with cash and equivalents of Rs 26bn despite a weak FY23. Planned capex of Rs 3.5bn-5bn over the next year and a half toward backward integration is unlikely to be a stretch.

Maintain HOLD: Given market share bleed amid intensifying competition, we retain our HOLD rating on the stock. Our TP remains at Rs 900 as we continue to value the stock at 40x FY25E EPS, 11% premium to the long-term average 2Y fwd P/E.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	VOLT IN/Rs 823
Market cap	US\$ 3.3bn
Free float	70%
3M ADV	US\$ 11.3mn
52wk high/low	Rs 1,065/Rs 737
Promoter/FPI/DII	30%/21%/33%

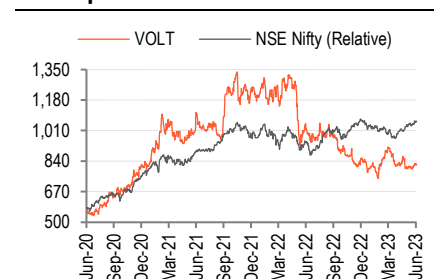
Source: NSE | Price as of 5 Jun 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	94,988	1,07,632	1,27,104
EBITDA (Rs mn)	5,724	8,631	10,941
Adj. net profit (Rs mn)	3,788	5,866	7,471
Adj. EPS (Rs)	11.4	17.7	22.6
Consensus EPS (Rs)	11.4	22.7	27.9
Adj. ROAE (%)	6.9	10.4	12.3
Adj. P/E (x)	71.9	46.4	36.5
EV/EBITDA (x)	47.6	31.6	24.9
Adj. EPS growth (%)	(24.8)	54.9	27.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

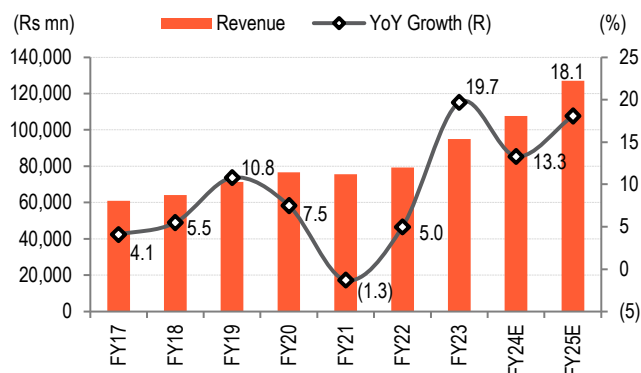


Source: NSE



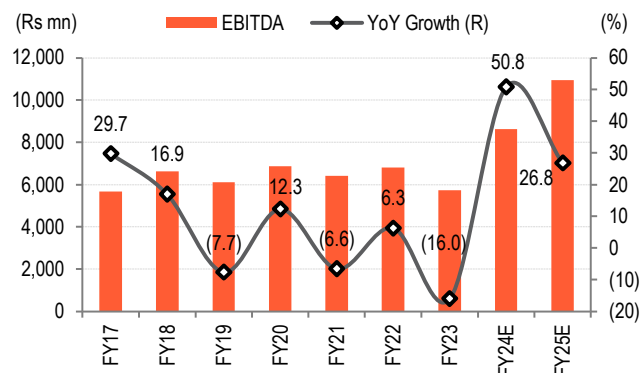
Growth trends

Fig 1 – Revenue growth trend



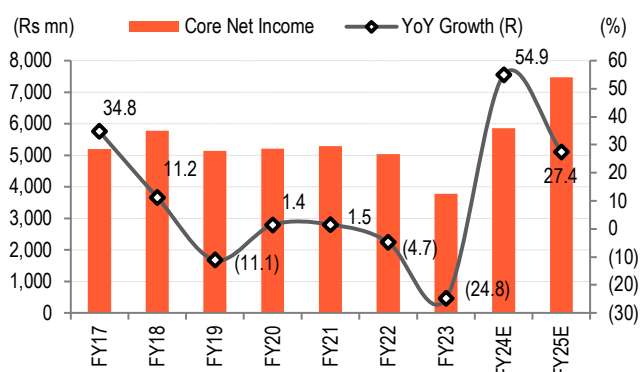
Source: Company, BOBCAPS Research

Fig 2 – EBITDA growth trend



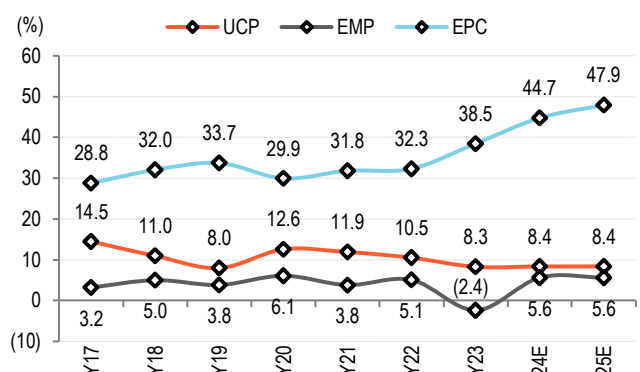
Source: Company, BOBCAPS Research

Fig 3 – PAT growth trend



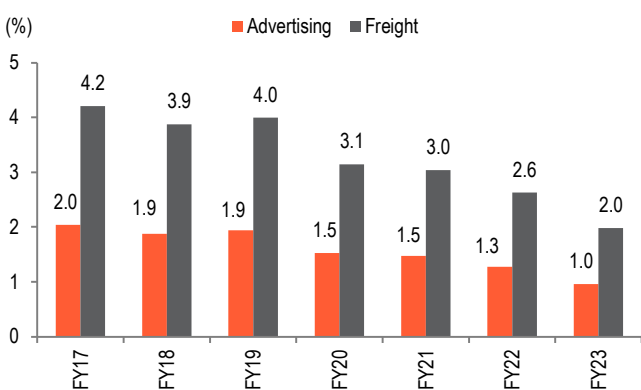
Source: Company, BOBCAPS Research

Fig 4 – Segmental EBIT margins



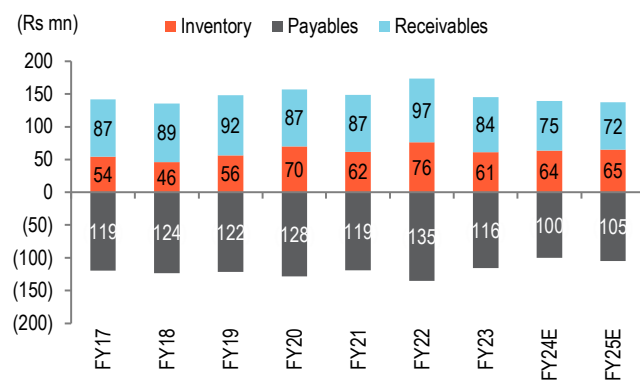
Source: Company, BOBCAPS Research

Fig 5 – Key expense items as a percentage of sales

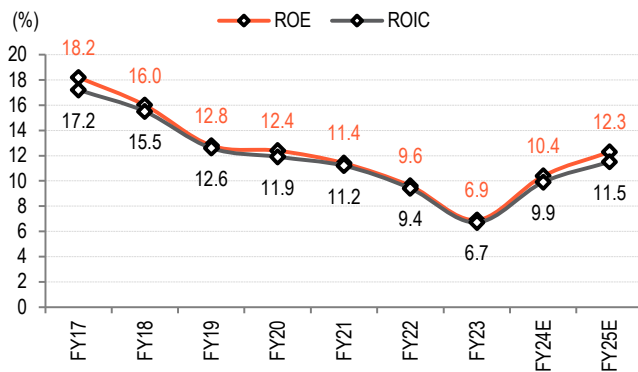


Source: Company, BOBCAPS Research

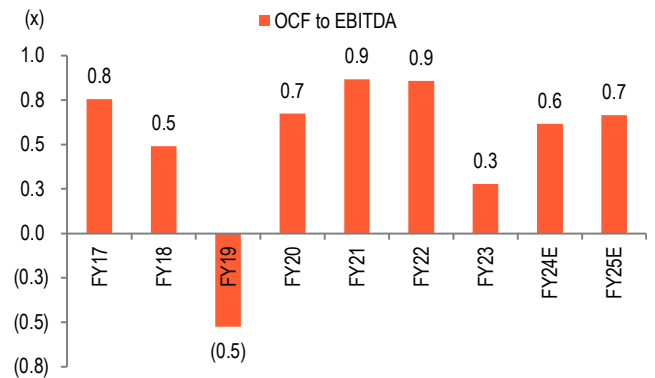
Fig 6 – Working capital cycle



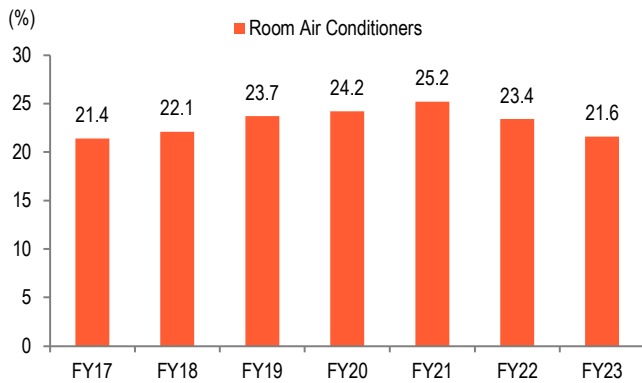
Source: Company, BOBCAPS Research

Fig 7 – Return ratios

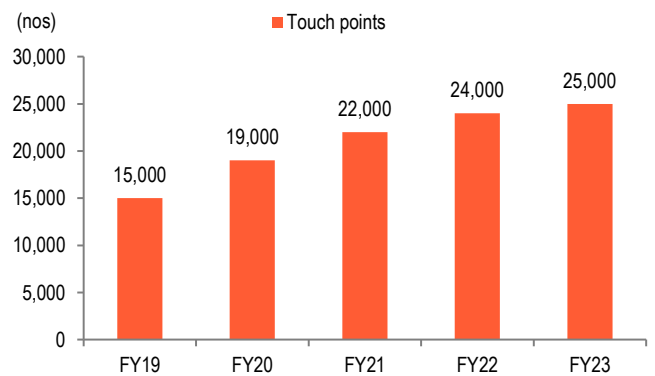
Source: Company, BOBCAPS Research

Fig 8 – EBITDA to OCF conversion

Source: Company, BOBCAPS Research

Fig 9 – RAC market share continues to fall

Source: Company, BOBCAPS Research

Fig 10 – Steady expansion of distribution footprint

Source: Company, BOBCAPS Research

Annual report takeaways

VOLT has faced significant challenges during FY23 and seen a steady decline in cooling product market share over the last two years. The company has recently shifted focus to expanding its footprint beyond room air conditioners (RAC) by growing its home appliances arm Voltbek and entering the cold storage industry.

Fig 11 – Segment financials

Particulars	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Revenue (Rs mn)								
Electro-Mechanical Projects and Services	28,288	26,550	21,801	31,396	27,912	28,786	24,705	24,029
Unitary Cooling Products	25,209	30,469	33,071	32,087	40,737	42,185	48,819	64,745
Engineering Products and Services	3,706	3,318	3,099	3,117	3,317	3,595	4,887	5,220
EBIT Margin (%)								
Electro-Mechanical Projects and Services	1.9	3.2	5.0	3.8	6.1	3.8	5.1	(2.4)
Unitary Cooling Products	13.4	14.5	11.0	8.0	12.6	11.9	10.5	8.3
Engineering Products and Services	30.4	28.8	32.0	33.7	29.9	31.8	32.3	38.5

Source: Company, BOBCAPS Research

Key developments in FY23

- VOLT set aside Rs 2.5bn toward encashment of bank guarantees, resulting in a sharp PAT decline in the electro-mechanical projects (EMP) business.
- The company entered into a technology license agreement with Vestfrost Solutions of Denmark for medical refrigeration and vaccine storage equipment, marking a foray into the lucrative biomedical and cold chain industry.
- Subsidiary UMPESL won projects worth Rs 37.6bn during FY23, including a solar power project.
- In the international business, VOLT won orders totalling Rs 9.4bn in Riyadh, Saudi Arabia, for a water theme park. Other wins include an order for the world's largest desalination plant in Jubail.

Manufacturing facilities

- VOLT has four manufacturing locations – two in Gujarat (in Waghodia for commercial air conditioners and in Sanand for Voltas Beko home appliances) and two in Uttarakhand (in Pantnagar for RAC and commercial refrigeration).
- These locations have an annual combined capacity of 50mn tonnes for commercial air conditioners and 2.7mn units for RACs.
- VOLT plans to incur capex of Rs 4.5bn-5bn during the next 18-24 months for expansion in Chennai. This facility will revolve around backward integration with products such as heat exchangers, cross flow fans and plastic components, and is expected to improve the company's reach in India's southern and western markets.

Segmental performance

Unitary cooling products (UCP)

- VOLT ended FY23 with 21.6% market share in RACs (vs. 23.4% last year) and 36.4% share in window ACs (vs. 35.7% last year).
- The UCP division launched the 2023 inverter AC range with a value proposition of 'pure & flexible' air conditioning.

Textiles

- The company expanded its textile portfolio to spreading and weaving preparatory machines. The strategy is to increase market share in capital machines, both in spinning and post spinning.
- The government recently announced investments worth Rs 44.5bn toward the setup of mega textile parks in Tamil Nadu, Telangana, Karnataka, Maharashtra, Gujarat, Madhya Pradesh and Uttar Pradesh. Management expects significant opportunities from this project.

Mining and Construction equipment

- Duties on iron ore slowed mining activities and impacted equipment sales services for a major part of the year. Subsequent duty removal helped sustain demand for crushing and screening equipment in India.

Electro-Mechanical Projects (EMP)

- VOLT set up an MEP prefabrication-modular solutions factory at Jebel Ali in Dubai during FY23, and has a strong foothold in the UAE's facility management, operations & maintenance segment.
- During the year, the company adopted a cautious approach in the EMP segment due to geopolitical uncertainty coupled with higher commodity prices, and hence opted for selective bidding. It did face issues in Dubai and Qatar due to termination of a contract and encashment of bank guarantees respectively, with the latter resulting in a significant provision of Rs 2.4bn in its books.

Voltas Beko (Voltbek)

- Voltbek has shown revenue scalability, recording a turnover of Rs 11bn in FY23 and clocking a CAGR of 56% over FY20-FY23.
- The JV has sold 3.3mn units of refrigerators and washing machines in four years and introduced over 100 SKUs during FY23, including a new line of 'Smart Hygiene' dishwashers, frost-free refrigerators and top-load washing machines.
- Voltbek currently has a network of 7,000 sales outlets and is targeting 15,000 outlets by FY24.

Fig 12 – Voltbek financials

Particulars (Rs mn)	FY19	FY20	FY21	FY22	FY23
Revenues	994	2,902	6,369	9,445	11,018
YoY Growth (%)	-	192.0	119.5	48.3	16.7
Profit/ (Loss)	(1,023)	(1,445)	(1,311)	(2,223)	(2,507)
Current Assets	2,455	2,586	6,884	8,660	8,800
Current Liabilities	1,349	2,553	6,925	8,903	8,903
Net Current Assets	1,106	33	(41)	(243)	(103)
Non-current Assets	1,841	4,490	5,219	5,845	5,343
Non-current Liabilities	16	237	674	1,422	1,968
Net Non-current Assets	1,825	4,253	4,545	4,423	3,375
Net Assets	2,931	4,286	4,504	4,181	3,272
Investment Made	1,180	1,383	2,207	2,049	2,045

Source: Company, BOBCAPS Research

Fig 13 – Universal Voltas

Particulars (Rs mn)	FY19	FY20	FY21	FY22	FY23
Revenues	3,176	2,587	3,525	2,812	3,018
YoY Growth (%)	-	(18.5)	36.2	(20.2)	7.3
Profit/ (Loss)	136	181	61	(54)	6
Current Assets	2,713	2,515	2,318	2,186	2,279
Current Liabilities	1,590	1,256	1,139	990	973
Net Current Assets	1,122	1,259	1,179	1,196	1,306
Non-current Assets	14	33	7	6	9
Non-current Liabilities	87	105	104	141	159
Net Non-current Assets	(73)	(72)	(97)	(135)	(150)
Net Assets	1,049	1,187	1,082	1,061	1,156
Investment Made	514	582	530	518	566

Source: Company, BOBCAPS Research

Key financial metrics

Fig 14 – Contingent liabilities

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23
Sales tax / VAT matters	1,036	1,573	2,238	1,645	1,256	747
Service tax matters	220	180	157	184	184	184
Excise matters	195	188	188	199	199	197
Contractual matters	290	359	361	677	654	644
Customs duty matters	-	-	-	11	11	11
Guarantees for terminated contract	3,015	3,171	3,458	3,368	3,456	3,750
Income tax matters	89	100	100	148	148	154
Total	4,845	5,570	6,501	6,231	5,909	5,688
Net worth	39,052	41,100	42,802	49,934	54,996	54,521
Contingent liabilities (ex-guarantees) as a % of Net worth	4.7	5.8	7.1	5.7	4.5	3.6

Source: Company, BOBCAPS Research

Fig 15 – Working capital management

Particulars (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Accounts Receivable	14,541	15,703	18,032	18,273	18,009	21,097	21,919
Accounts Receivable Days	87	89	92	87	87	97	84
Inventory	9,070	8,130	10,907	14,689	12,796	16,614	15,920
Inventory Days	54	46	56	70	62	76	61
Accounts Payable	19,946	21,764	23,745	26,889	24,645	29,421	30,126
Accounts Payable Days	119	124	122	128	119	135	116
Cash Conversion Cycle	22	12	27	29	30	38	30

Source: Company, BOBCAPS Research

Fig 16 – Auditor's remuneration

Particulars (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Auditor's remunerations	39	28.3	23.4	26.7	27	30	46.1
As a % of EBITDA	0.8	0.5	0.4	0.4	0.5	0.4	0.8

Source: Company, BOBCAPS Research

Fig 17 – Remuneration of key managerial personnel (KMP)

Particulars (Rs mn)	KMP	Salary	Allowances	Commission	Total
FY23	Pradeep Bakshi (MD)	12	26	40	78
as a % of wages					1.3
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

Market share bleed amid intensifying competitive headwinds remains a challenge for VOLT. Sustainability of UCP EBIT margin at the higher levels seen in Q4FY23 and smooth execution of EMP orders are other key monitorables. We thus maintain our HOLD rating with an unchanged TP of Rs 900, valuing VOLT at an FY25E P/E multiple of 40x, an 11% premium to the stock's long-term average two-year forward P/E.

Fig 18 – Key assumptions

Parameter (Rs mn)	FY22	FY23	FY24E	FY25E
Revenue	79,345	94,988	1,07,632	1,27,104
EBITDA	6,816	5,724	8,631	10,941
EBITDA Margin (%)	8.6	6.0	8.0	8.6
EPS (Rs)	15.2	11.4	17.7	22.6

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- above-expected summer season sales, yielding higher volume growth, and
- incremental market share despite a competitive environment.

Key downside risks to our estimates are:

- higher provisioning towards the EMP business, and
- unforeseen changes in foreign currency (VOLT maintains a 25% hedge on its foreign exposure).

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.9	2,188	2,260	HOLD
Blue Star	BLSTR IN	1.7	1,441	1,650	BUY
Crompton Greaves	CROMPTON IN	2.2	280	370	BUY
Dixon Technologies	DIXON IN	2.9	3,981	4,100	BUY
Havells India	HAVL IN	10.3	1,347	1,500	BUY
KEI Industries	KEII IN	2.3	2,115	2,130	BUY
Orient Electric	ORIENTEL IN	0.6	237	240	HOLD
Polycab India	POLYCAB IN	6.5	3,595	3,900	BUY
Syrma SGS	SYRMA IN	0.8	387	440	BUY
V-Guard Industries	VGRD IN	1.3	253	270	HOLD
Voltas	VOLT IN	3.3	823	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 5 Jun 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	75,558	79,345	94,988	1,07,632	1,27,104
EBITDA	6,414	6,816	5,724	8,631	10,941
Depreciation	339	373	396	505	673
EBIT	6,075	6,443	5,327	8,126	10,268
Net interest inc./(exp.)	(262)	(259)	(296)	(585)	(671)
Other inc./(exp.)	1,889	1,892	1,685	1,769	1,857
Exceptional items	0	0	0	0	0
EBT	7,702	8,076	6,716	9,310	11,454
Income taxes	1,804	1,913	1,709	2,343	2,883
Extraordinary items	0	0	2,438	0	0
Min. int./Inc. from assoc.	(610)	(1,103)	(1,207)	(1,100)	(1,100)
Reported net profit	5,288	5,041	1,350	5,866	7,471
Adjustments	0	0	2,438	0	0
Adjusted net profit	5,288	5,041	3,788	5,866	7,471

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	24,645	29,421	30,126	29,488	36,564
Other current liabilities	7,882	7,707	10,029	10,321	12,188
Provisions	0	0	0	0	0
Debt funds	2,514	3,432	6,506	7,310	8,383
Other liabilities	1,580	1,909	1,609	1,767	2,012
Equity capital	331	331	331	331	331
Reserves & surplus	49,603	54,665	54,190	57,906	63,226
Shareholders' fund	49,934	54,996	54,521	58,236	63,557
Total liab. and equities	86,555	97,463	1,02,790	1,07,123	1,22,704
Cash and cash eq.	4,588	5,717	7,084	4,085	1,408
Accounts receivables	18,009	21,097	21,919	22,116	25,073
Inventories	12,796	16,614	15,920	18,872	22,635
Other current assets	16,501	15,365	19,543	17,109	20,204
Investments	0	0	0	0	0
Net fixed assets	2,384	2,305	3,611	5,605	6,933
CWIP	88	593	983	1,113	1,315
Intangible assets	941	999	1,142	1,294	1,528
Deferred tax assets, net	0	0	0	0	0
Other assets	31,248	34,775	32,590	36,928	43,609
Total assets	86,555	97,463	1,02,790	1,07,123	1,22,704

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	5,561	5,842	1,594	5,310	7,273
Capital expenditures	0	0	(1,774)	(2,500)	(2,000)
Change in investments	(3,257)	(3,910)	253	0	0
Other investing cash flows	698	264	706	(4,462)	(6,872)
Cash flow from investing	(2,559)	(3,646)	(816)	(6,962)	(8,872)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(5,110)	(166)	2,728	804	1,073
Interest expenses	0	0	0	0	0
Dividends paid	3,895	(905)	(2,177)	(2,151)	(2,151)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(1,215)	(1,070)	550	(1,347)	(1,078)
Chg in cash & cash eq.	1,787	1,126	1,328	(2,999)	(2,677)
Closing cash & cash eq.	4,588	5,717	7,084	4,085	1,408

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	16.0	15.2	4.1	17.7	22.6
Adjusted EPS	16.0	15.2	11.4	17.7	22.6
Dividend per share	5.0	5.5	4.3	6.5	6.5
Book value per share	150.9	166.2	164.8	176.0	192.1

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	3.6	3.4	2.9	2.5	2.1
EV/EBITDA	42.5	40.0	47.6	31.6	24.9
Adjusted P/E	51.5	54.0	71.9	46.4	36.5
P/BV	5.5	5.0	5.0	4.7	4.3

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	68.7	62.4	56.4	63.0	65.2
Interest burden (PBT/EBIT)	126.8	125.3	126.1	114.6	111.6
EBIT margin (EBIT/Revenue)	8.0	8.1	5.6	7.5	8.1
Asset turnover (Rev./Avg TA)	31.7	34.4	26.3	19.2	18.3
Leverage (Avg TA/Avg Equity)	0.1	0.0	0.1	0.1	0.1
Adjusted ROAE	11.4	9.6	6.9	10.4	12.3

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	(1.3)	5.0	19.7	13.3	18.1
EBITDA	(6.6)	6.3	(16.0)	50.8	26.8
Adjusted EPS	1.5	(4.7)	(24.8)	54.9	27.4
Profitability & Return ratios (%)					
EBITDA margin	8.5	8.6	6.0	8.0	8.6
EBIT margin	8.0	8.1	5.6	7.5	8.1
Adjusted profit margin	7.0	6.4	4.0	5.5	5.9
Adjusted ROAE	11.4	9.6	6.9	10.4	12.3
ROCE	11.2	9.4	6.7	9.9	11.5
Working capital days (days)					
Receivables	87	97	84	75	72
Inventory	62	76	61	64	65
Payables	119	135	116	100	105
Ratios (x)					
Gross asset turnover	15.5	16.2	16.6	13.7	12.6
Current ratio	1.5	1.4	1.4	1.3	1.2
Net interest coverage ratio	23.2	24.9	18.0	13.9	15.3
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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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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

BUY – Expected return >+15%

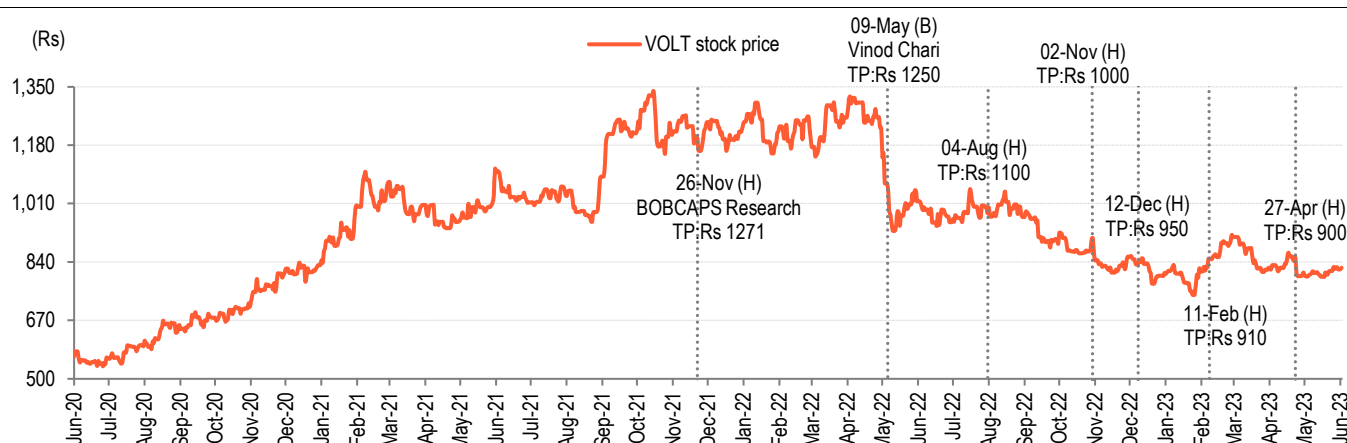
HOLD – Expected return from -6% to +15%

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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