

**HOLD**

TP: Rs 900 | ▲ 10%

**VOLTAS**

| Consumer Durables

| 14 June 2023

## Management meet takeaways – Trying times

- Q1FY24 growth likely to fall short of expectations as unseasonal showers dampened summer demand
- Unwillingness to hike prices due to intense competition point to continuation of subdued single-digit UCP EBIT margin
- Room AC segment remains under pressure but project business outlook looks positive; maintain HOLD, TP Rs 900

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We interacted with VOLT's management and the following are key takeaways:

**Q1FY24 to be tepid for RAC business:** Per management, the room air conditioner (RAC) business did well in April, but VOLT saw below-expected volume growth in the key month of May due to unseasonal rain. Sales in the first half of June have been healthy, but the company expects the slowdown in May to weaken the growth rate for Q1FY24 to single digits from double-digit growth anticipated earlier.

**Margins likely to remain subdued:** Based on cues from summer season demand, VOLT does not expect to take any price hikes in Q1 – making June the 13 straight month without pricing action. The benefit of lower commodity prices will take time to flow in. Also, due to a spillover of high-cost inventory, raw material cost is likely to move up in Q1. The company indicated that SG&A expense will also rise in Q1 as it has stepped up advertising spends. Hence, management is sticking to its guidance of high-single-digit EBIT margins in the unitary cooling product (UCP) segment despite a 10% exit margin in FY23.

**Brands carrying higher inventory:** Inventory in the system is currently running at 45-50 days, in line with the normal stock for summer, but dealers are not placing many orders given the unseasonal rains in May. This has resulted in lower primary sales and inventory of 90 days with companies.

**Balancing market share and margins:** VOLT ended FY23 with 21.3% market share but has begun taking a conscious approach to balance growth and margins. Thus, market share in March and April was ~18% lower than the FY23 average. The objective is to hold onto share and also protect margins as far as possible.

**Project business steady:** VOLT's project business has a Rs 81.5bn order book, and management's outlook remains positive.

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

## Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	VOLT IN/Rs 815
Market cap	US\$ 3.3bn
Free float	70%
3M ADV	US\$ 11.6mn
52wk high/low	Rs 1,065/Rs 737
Promoter/FPI/DII	30%/21%/33%

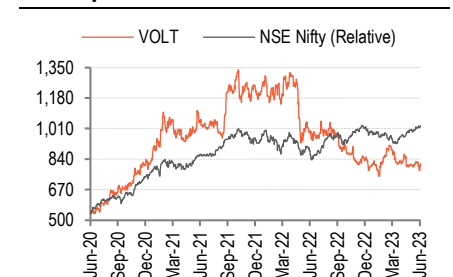
Source: NSE | Price as of 14 Jun 2023

## 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)	71.2	46.0	36.1
EV/EBITDA (x)	47.1	31.3	24.7
Adj. EPS growth (%)	(24.8)	54.9	27.4

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>75,558</b>	<b>79,345</b>	<b>94,988</b>	<b>1,07,632</b>	<b>1,27,104</b>
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)
<b>Reported net profit</b>	<b>5,288</b>	<b>5,041</b>	<b>1,350</b>	<b>5,866</b>	<b>7,471</b>
Adjustments	0	0	2,438	0	0
<b>Adjusted net profit</b>	<b>5,288</b>	<b>5,041</b>	<b>3,788</b>	<b>5,866</b>	<b>7,471</b>

### 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
<b>Total liab. and equities</b>	<b>86,555</b>	<b>97,463</b>	<b>1,02,790</b>	<b>1,07,123</b>	<b>1,22,704</b>
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
<b>Total assets</b>	<b>86,555</b>	<b>97,463</b>	<b>1,02,790</b>	<b>1,07,123</b>	<b>1,22,704</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>5,561</b>	<b>5,842</b>	<b>1,594</b>	<b>5,310</b>	<b>7,273</b>
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)
<b>Cash flow from investing</b>	<b>(2,559)</b>	<b>(3,646)</b>	<b>(816)</b>	<b>(6,962)</b>	<b>(8,872)</b>
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
<b>Cash flow from financing</b>	<b>(1,215)</b>	<b>(1,070)</b>	<b>550</b>	<b>(1,347)</b>	<b>(1,078)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,787</b>	<b>1,126</b>	<b>1,328</b>	<b>(2,999)</b>	<b>(2,677)</b>
<b>Closing cash &amp; cash eq.</b>	<b>4,588</b>	<b>5,717</b>	<b>7,084</b>	<b>4,085</b>	<b>1,408</b>

### 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	2.8	2.5	2.1
EV/EBITDA	42.1	39.6	47.1	31.3	24.7
Adjusted P/E	51.0	53.5	71.2	46.0	36.1
P/BV	5.4	4.9	4.9	4.6	4.2

### 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
<b>YoY growth (%)</b>					
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
<b>Profitability &amp; Return ratios (%)</b>					
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
<b>Working capital days (days)</b>					
Receivables	87	97	84	75	72
Inventory	62	76	61	64	65
Payables	119	135	116	100	105
<b>Ratios (x)</b>					
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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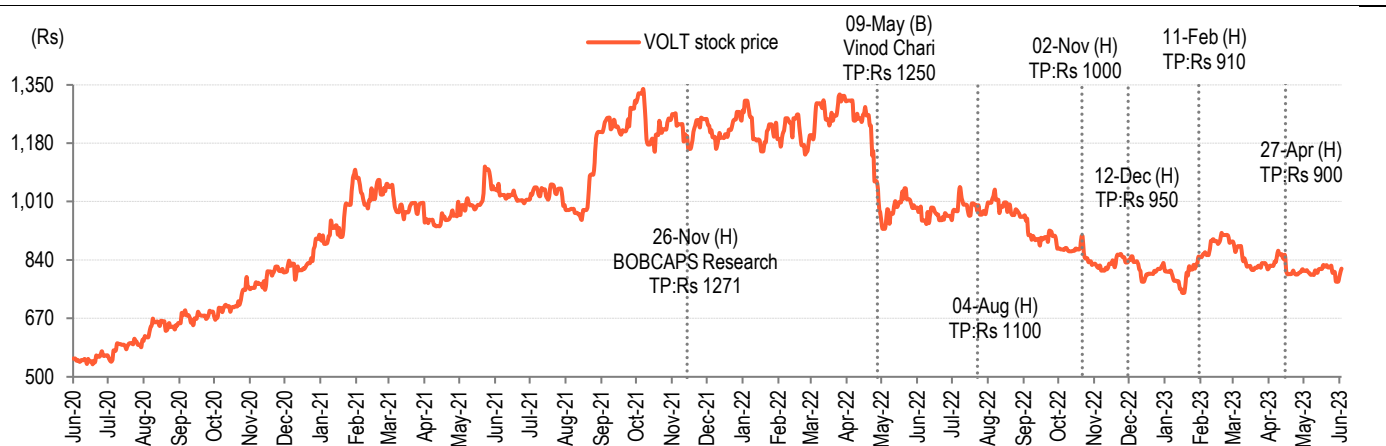
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**Note:** Recommendation structure changed with effect from 21 June 2021

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

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