

BUY

TP: Rs 1,250 | ▲ 23%

VOLTAS

Consumer Durables

06 June 2022

Market share partly recouped in April

- Claws back ~200bps of market share in April over March, taking share to 21.6%
- Management confident of double-digit margins in UCP segment in FY23 – a positive in the current inflationary scenario
- We continue to like VOLT in the RAC space; maintain BUY with TP at Rs 1,250

Vinod Chari | Tanay Rasal
 Someel Shah
 researchreport@bobcaps.in

Regains some ground in April: In its recent analyst meet, VOLT stated that the company has clawed back ~200bps of market share in April – this indicates an effective share of 21.6% vs. 19.6% in March (and 23.4% in FY22). Its March figure has been raised by 110bps from the earlier 18.5% by market research agency GfK. VOLT has a multi-pronged strategy in place to improve its positioning in the South, especially in Tamil Nadu and Kerala, where it is relatively weaker (see our report of 12 May: [Strong strategy for southern market holds the key](#)). Data for the month of May is likely to be slightly weaker than April, especially in West and South India, where the monsoon sets in toward the end of the month, dampening AC sales.

Balancing market share and margins: While VOLT is trying to recoup market share, it is taking a balanced approach so that margins don't suffer. Management is confident of achieving double-digit margins (~10%) in the UCP segment in FY23, which is commendable in the current inflationary scenario. The ~3% pricing gap for VOLT vs. competition still continues in the AC segment. There have been no major price hikes across the industry as players wait for the energy label change in July.

New capacities unlikely to dent pricing: 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. The company is not unduly worried about most players adding capacities over the next 3-5 years as it believes that market growth will ensure the new capacities are absorbed, implying a limited impact on pricing.

Reiterate BUY: VOLT continues to be the strongest player in the RAC business and expects to deliver double-digit margins. We are confident of the company'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.

Ticker/Price	VOLT IN/Rs 1,012
Market cap	US\$ 4.3bn
Free float	70%
3M ADV	US\$ 22.1mn
52wk high/low	Rs 1,357/Rs 923
Promoter/FPI/DII	30%/26%/28%

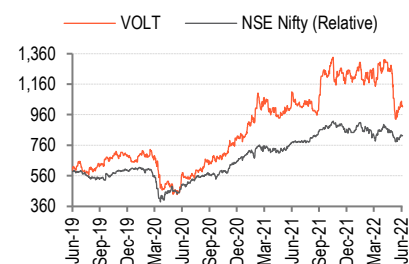
Source: NSE | Price as of 6 Jun 2022

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)	81.6	54.6	40.8
EV/EBITDA (x)	56.3	39.7	29.9
Adj. EPS growth (%)	(3.6)	49.3	33.9

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

Stock performance



Source: NSE

[Click here for our last detailed report](#)


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	3.0
EV/EBITDA	49.7	60.1	56.3	39.7	29.9
Adjusted P/E	64.0	78.7	81.6	54.6	40.8
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%

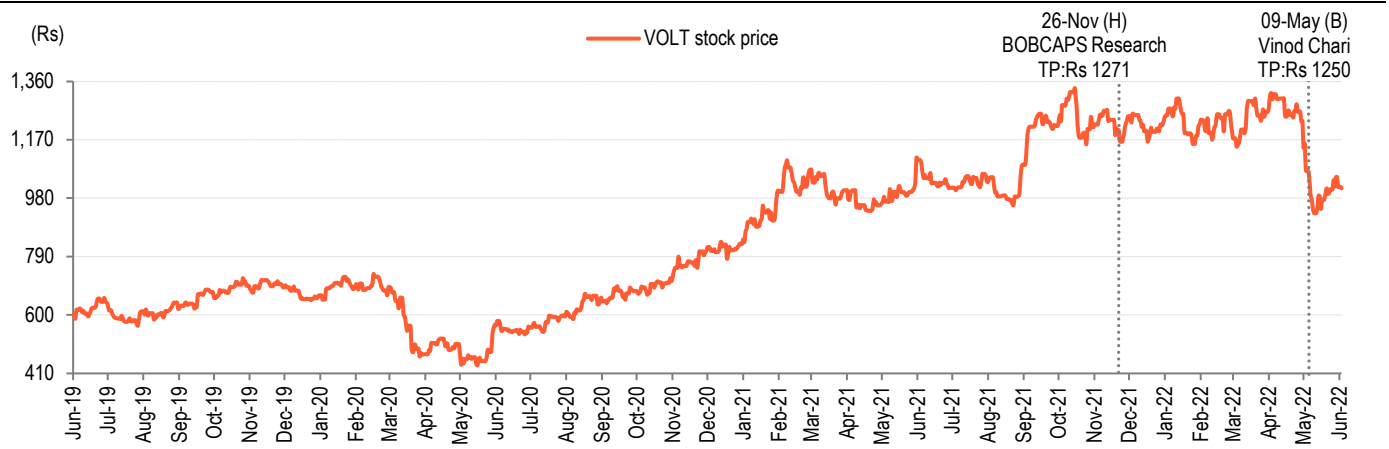
HOLD – Expected return from -6% to +15%

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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