

**HOLD**

TP: Rs 1,100 | ▲ 10%

**VOLTAS**

| Consumer Durables

| 04 August 2022

## Competitive edge appears blunted; downgrade to HOLD

- Subpar Q1 on double whammy of lower cooling business margins and provisioning-led losses in projects business
- Market share recouped by ~400bps to 24% but at cost of margins; both metrics remain key monitorables
- FY23/FY24 EPS cut ~12% post two offseason quarters and limited price relief; downgrade from BUY to HOLD with new TP of Rs 1,100 (vs. Rs 1,250)

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**Disappointing quarter:** Q1FY23 was a disappointing quarter from VOLT led by muted EBIT margins in unitary cooling (-300bps QoQ to 7.7%) and expected credit loss (ECL) provisioning in the projects business. Subsequently, Net profit was also a miss at Rs 1.1bn (Rs 2bn est.)

**Market share recouped at cost of margins:** VOLT had an exit market share of 24.1% for Jun'22 vs. 21.6%/19.6% in April/March. However, this growth came at the cost of its operating margin, which plunged 300bps QoQ to 7.7% amid increasing competitive intensity. Management has guided market share at ~25% by July/Aug'22, however, talks pertaining to improvement in margin remained elusive.

**Competitive edge waning:** VOLT's high operating margins (a 5ppt+ lead over peers in the air conditioner space) have been under pressure, as evident in the two previous quarters as well. Further, peers such as Lloyd have an aggressive growth trajectory (3Y revenue CAGR at 19% vs. 7% for VOLT), which is forcing the market leader to change its strategy. VOLT's lagging presence in the southern region is another worry as this is a key market due to lower product ownership (for details, see our note of 12 May: [Strong strategy for southern market holds the key](#)).

**Immediate price hike unlikely:** In Q1FY23, there were neither significant price hikes nor discounts. Besides, no price increases are expected in the near term, and the same is true for the competitor. However, beginning in Q3, when dealers begin to build inventory, the company will look to pass on input costs.

**Next real test is ensuing summer; cut to HOLD:** Margins in the unitary cooling business are the most important monitorable for VOLT. We believe any recovery will shift to the summer of 2023, given that the next two quarters are seasonally weak and unlikely to see much pricing action. Considering these headwinds, we turn cautious on the stock and cut our FY23/FY24 EPS estimates by 13%/12% while downgrading our rating from BUY to HOLD. Post estimate change, our revised TP stands at Rs 1,100 (vs. Rs 1,250), based on an unchanged 50x FY24E P/E multiple.

### Key changes

Target	Rating
▼	▼

Ticker/Price	VOLT IN/Rs 1,000
Market cap	US\$ 4.2bn
Free float	70%
3M ADV	US\$ 16.3mn
52wk high/low	Rs 1,357/Rs 923
Promoter/FPI/DII	30%/25%/30%

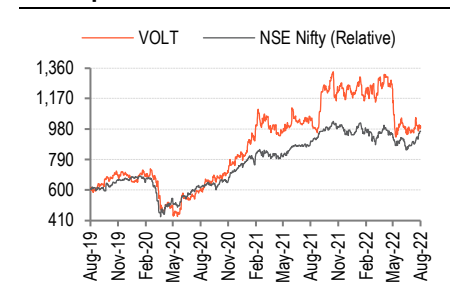
Source: NSE | Price as of 4 Aug 2022

### Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	79,345	88,613	1,07,669
EBITDA (Rs mn)	6,816	7,508	10,279
Adj. net profit (Rs mn)	5,060	5,335	7,266
Adj. EPS (Rs)	15.3	16.1	22.0
Consensus EPS (Rs)	15.3	20.9	26.8
Adj. ROAE (%)	9.6	9.4	11.9
Adj. P/E (x)	65.4	62.0	45.5
EV/EBITDA (x)	48.6	44.1	32.2
Adj. EPS growth (%)	(4.3)	5.4	36.2

Source: Company, Bloomberg, BOBCAPS Research

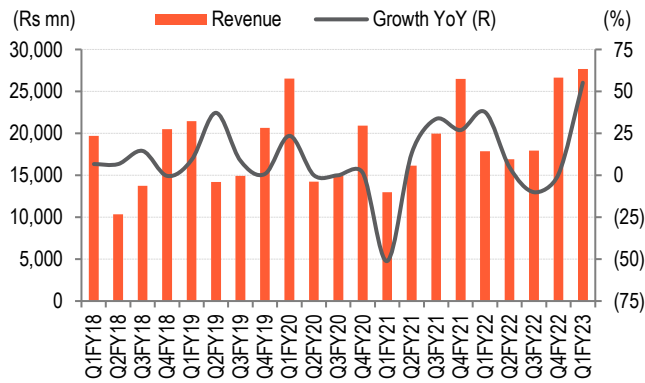
### Stock performance



Source: NSE

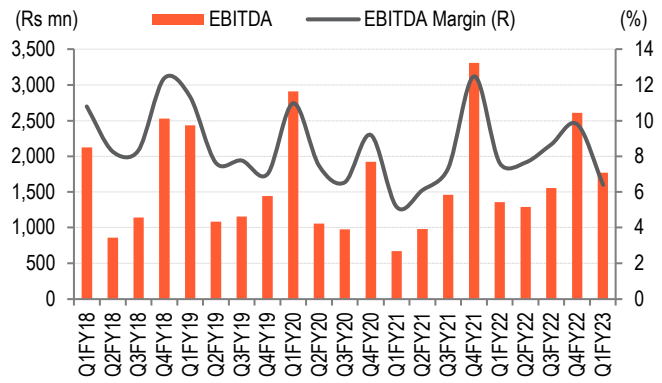


**Fig 1 – Revenue growth**



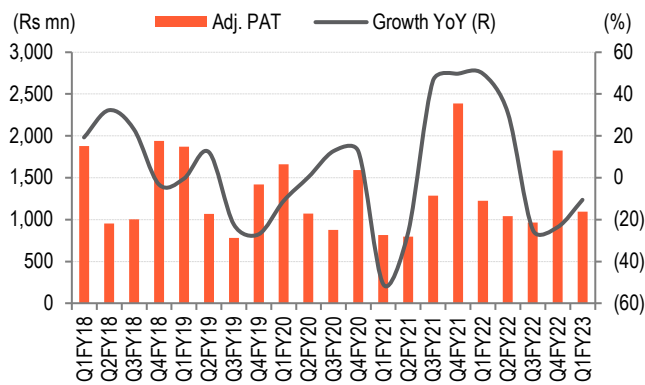
Source: Company, BOBCAPS Research

**Fig 2 – EBITDA growth**



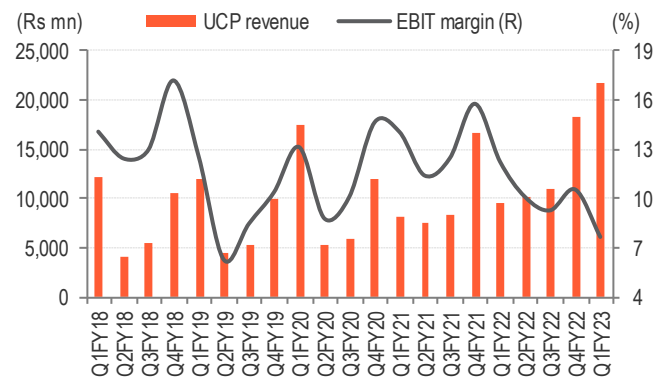
Source: Company, BOBCAPS Research

**Fig 3 – PAT growth**



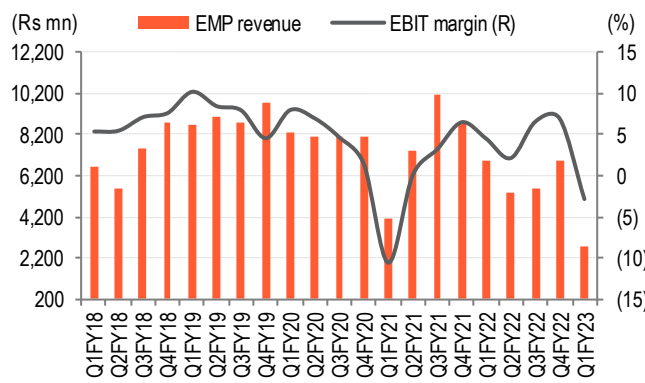
Source: Company, BOBCAPS Research

**Fig 4 – UCP: Growth trend**



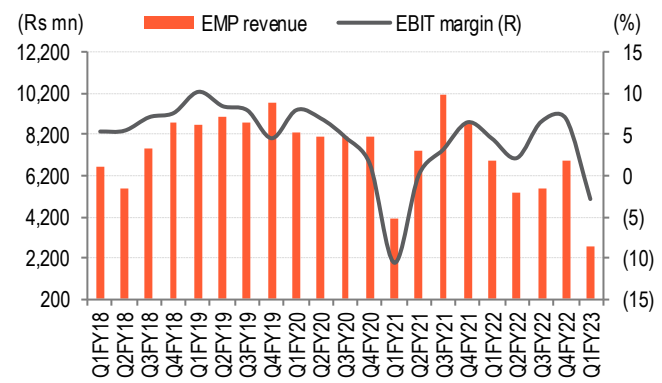
Source: Company, BOBCAPS Research

**Fig 5 – EMP: Growth trend**



Source: Company, BOBCAPS Research

**Fig 6 – Engineering products: growth trend**



Source: Company, BOBCAPS Research

**Fig 7 – UCP segment: VOLT vs. BLSTR vs. Lloyd**

(%)	EBIT margin Q1FY23	Revenue 3Y CAGR	Revenue growth YoY	Revenue growth QoQ
VOLT	7.7	7	125	19
BLSTR	8.1	7	122	9
Lloyd	(5.1)	19	120	14

Source: Company, BOBCAPS Research

## Quarterly performance

**Fig 8 – Quarterly performance**

Particulars (Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Revenue	27,680	17,852	55.1	26,666	3.8
EBITDA	1,770	1,358	30.4	2,610	(32.2)
EBITDA margin (%)	6.4	7.6	(121bps)	9.8	(339bps)
Depreciation	85	86	-	95	-
Interest	40	35	-	125	-
Other Income	268	750	-	372	-
PBT	1,913	1,986	(3.7)	2,762	(30.8)
Tax	508	456	-	647	-
Adj. PAT	1,095	1,224	(10.6)	1,827	(40.1)
Exceptional item	-	-	-	0	-
Reported PAT	1,095	1,224	(10.6)	1,827	(40.1)
Adj. PAT margin (%)	4.0	6.9	(290bps)	6.9	(290bps)
EPS (Rs)	4.2	4.6	(8.2)	6.4	(33.6)

Source: Company, BOBCAPS Research

**Fig 9 – Actual vs. Estimates**

Particulars (Rs mn)	Actual	Estimates	Variance (%)
Revenue	27,680	30,032	(7.8)
EBITDA	1,770	2,514	(29.6)
EBITDA margin (%)	6.4	8.4	(198bps)
Adj. PAT	1,095	2,014	(45.6)

Source: Company, BOBCAPS Research

## Valuation methodology

Margins in the unitary cooling (UCP) business are the most important monitorable for VOLT. We believe any recovery will shift to the summer of 2023, given that the next two quarters are seasonally weak and unlikely to see much pricing action. Considering these headwinds, we turn cautious on the stock and cut our FY23/FY24 EPS estimates by 13%/12% while downgrading our rating from BUY to HOLD. Post estimate change, our revised TP stands at Rs 1,100 (vs. Rs 1,250), based on an unchanged 50x FY24E P/E multiple

**Fig 10 – Revised estimates**

Particulars (Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	88,613	1,07,669	91,792	1,10,200	(3.5)	(2.3)
EBITDA	7,508	10,279	8,308	10,902	(9.6)	(5.7)
PAT	5,335	7,266	6,130	8,210	(13.0)	(11.5)
EPS	16.1	22.0	18.5	24.8	(13.0)	(11.5)
EBITDAM (%)	8.5	9.5	9.1	9.9	(57.8)	(34.6)

Source: Company, BOBCAPS Research

**Fig 11 – Peer comparison**

Ticker	Revenue (Rs bn)				EBITDA (Rs bn)				EBITDA Margin (%)			PAT (Rs bn)				PE (x)		
	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E
VOLT	79	89	108	16	6.8	7.5	10.3	23	8.6	8.5	9.5	5.1	5.3	7.3	20	65	61	45
BLSTR	60	70	81	16	3.5	4.4	5.0	20	5.7	6.2	6.2	1.7	2.5	2.8	29	57	38	34
POLYCAB	122	143	162	15	12.7	16.0	19.4	24	10.4	11.2	12.0	8.4	10.6	13.0	25	41	33	27
CROMPTON	54	76	88	27	7.7	10.3	12.6	28	14.3	13.5	14.4	5.9	6.8	8.8	22	42	36	28
HAVL	139	158	179	13	17.6	21.1	25.4	20	12.6	13.3	14.2	12.0	14.6	17.4	21	65	54	45
ORIENTEL	24	29	33	16	2.3	2.7	3.3	19	9.4	9.4	9.9	1.3	1.5	1.9	21	44	37	30
VGRD	35	40	44	13	3.4	4.2	4.7	18	9.7	10.3	10.7	2.3	2.7	3.1	16	43	36	32
DIXON	107	171	220	44	3.8	6.4	8.4	48	3.6	3.8	3.8	1.9	3.5	4.8	59	115	63	46
AMBER	42	58	74	33	2.7	4.4	5.8	46	6.5	7.5	7.9	1.0	1.9	2.9	71	83	43	28

Source: Company, BOBCAPS Research | Note: FY23, FY24 are forecasted

## Key risks

- Stronger-than-expected margins are a key upside risk to our estimates.
- Loss of market share is a primary downside risk.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.0	2,383	3,500	HOLD
Blue Star	BLSTR IN	1.2	1,010	1,200	HOLD
Crompton Greaves	CROMPTON IN	3.1	389	500	BUY
Dixon Technologies	DIXON IN	2.9	3,837	4,500	BUY
Havells India	HAVL IN	10.3	1,310	1,500	BUY
Orient Electric	ORIENTEL IN	0.7	263	310	HOLD
Polycab India	POLYCAB IN	4.5	2,375	3,000	BUY
V-Guard Industries	VGRD IN	1.3	238	250	HOLD
Voltas	VOLT IN	4.2	1,000	1,100	HOLD

Source: BOBCAPS Research, NSE | Price as of 4 Aug 2022

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Total revenue</b>	<b>76,581</b>	<b>75,558</b>	<b>79,345</b>	<b>88,613</b>	<b>1,07,669</b>
EBITDA	6,867	6,414	6,816	7,508	10,279
Depreciation	320	339	373	588	813
EBIT	6,547	6,075	6,443	6,920	9,466
Net interest inc./(exp.)	(211)	(262)	(259)	(307)	(373)
Other inc./(exp.)	2,306	1,889	1,892	1,986	2,086
Exceptional items	0	0	0	0	0
EBT	8,130	7,702	8,076	8,600	11,180
Income taxes	2,233	1,804	1,913	2,165	2,814
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(687)	(610)	(1,103)	(1,100)	(1,100)
<b>Reported net profit</b>	<b>5,211</b>	<b>5,288</b>	<b>5,060</b>	<b>5,335</b>	<b>7,266</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>5,211</b>	<b>5,288</b>	<b>5,060</b>	<b>5,335</b>	<b>7,266</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	26,889	24,645	29,421	33,989	41,888
Other current liabilities	8,304	7,882	7,707	8,607	10,324
Provisions	0	0	0	0	0
Debt funds	2,179	2,514	3,432	3,833	4,657
Other liabilities	1,387	1,580	1,909	2,087	2,454
Equity capital	331	331	331	331	331
Reserves & surplus	42,471	49,603	54,665	58,015	63,130
Shareholders' fund	42,802	49,934	54,996	58,345	63,460
<b>Total liab. and equities</b>	<b>81,561</b>	<b>86,555</b>	<b>97,463</b>	<b>1,06,861</b>	<b>1,22,784</b>
Cash and cash eq.	3,084	4,588	5,717	3,972	1,385
Accounts receivables	18,273	18,009	21,097	23,064	25,074
Inventories	14,689	12,796	16,614	18,451	21,239
Other current assets	19,738	16,501	15,365	17,160	20,691
Investments	0	0	0	0	0
Net fixed assets	2,402	2,384	2,305	3,716	5,403
CWIP	263	88	593	662	805
Intangible assets	948	941	999	999	999
Deferred tax assets, net	0	0	0	0	0
Other assets	22,163	31,248	34,775	38,837	47,188
<b>Total assets</b>	<b>81,561</b>	<b>86,555</b>	<b>97,463</b>	<b>1,06,861</b>	<b>1,22,784</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Cash flow from operations</b>	<b>4,625</b>	<b>5,561</b>	<b>5,842</b>	<b>5,793</b>	<b>9,367</b>
Capital expenditures	0	0	0	(2,000)	(2,500)
Change in investments	(1,242)	(3,257)	(3,910)	0	0
Other investing cash flows	(863)	698	264	(3,953)	(8,127)
<b>Cash flow from investing</b>	<b>(2,105)</b>	<b>(2,559)</b>	<b>(3,646)</b>	<b>(5,953)</b>	<b>(10,627)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(2,057)	(5,110)	(166)	401	824
Interest expenses	0	0	0	0	0
Dividends paid	(880)	3,895	(905)	(1,985)	(2,151)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(2,937)</b>	<b>(1,215)</b>	<b>(1,070)</b>	<b>(1,584)</b>	<b>(1,326)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(417)</b>	<b>1,787</b>	<b>1,126</b>	<b>(1,745)</b>	<b>(2,587)</b>
<b>Closing cash &amp; cash eq.</b>	<b>3,084</b>	<b>4,588</b>	<b>5,717</b>	<b>3,972</b>	<b>1,385</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	15.7	16.0	15.3	16.1	22.0
Adjusted EPS	15.7	16.0	15.3	16.1	22.0
Dividend per share	4.0	5.0	5.5	6.0	6.5
Book value per share	129.4	150.9	166.2	176.3	191.8

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	4.3	4.4	4.2	3.7	3.1
EV/EBITDA	48.2	51.6	48.6	44.1	32.2
Adjusted P/E	63.5	62.6	65.4	62.0	45.5
P/BV	7.7	6.6	6.0	5.7	5.2

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	64.1	68.7	62.7	62.0	65.0
Interest burden (PBT/EBIT)	124.2	126.8	125.3	124.3	118.1
EBIT margin (EBIT/Revenue)	8.5	8.0	8.1	7.8	8.8
Asset turnover (Rev./Avg TA)	31.9	31.7	34.4	23.8	19.9
Leverage (Avg TA/Avg Equity)	0.1	0.1	0.0	0.1	0.1
Adjusted ROAE	12.4	11.4	9.6	9.4	11.9

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	7.5	(1.3)	5.0	11.7	21.5
EBITDA	12.3	(6.6)	6.3	10.2	36.9
Adjusted EPS	1.4	1.5	(4.3)	5.4	36.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	9.0	8.5	8.6	8.5	9.5
EBIT margin	8.5	8.0	8.1	7.8	8.8
Adjusted profit margin	6.8	7.0	6.4	6.0	6.7
Adjusted ROAE	12.4	11.4	9.6	9.4	11.9
ROCE	11.9	11.2	9.4	9.2	11.5
<b>Working capital days (days)</b>					
Receivables	87	87	97	95	85
Inventory	70	62	76	76	72
Payables	128	119	135	140	142
<b>Ratios (x)</b>					
Gross asset turnover	16.4	15.5	16.2	15.1	13.2
Current ratio	1.5	1.5	1.4	1.3	1.2
Net interest coverage ratio	31.0	23.2	24.9	22.6	25.4
Adjusted debt/equity	0.1	0.1	0.1	0.1	0.1

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

## Disclaimer

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

**BUY** – Expected return >+15%

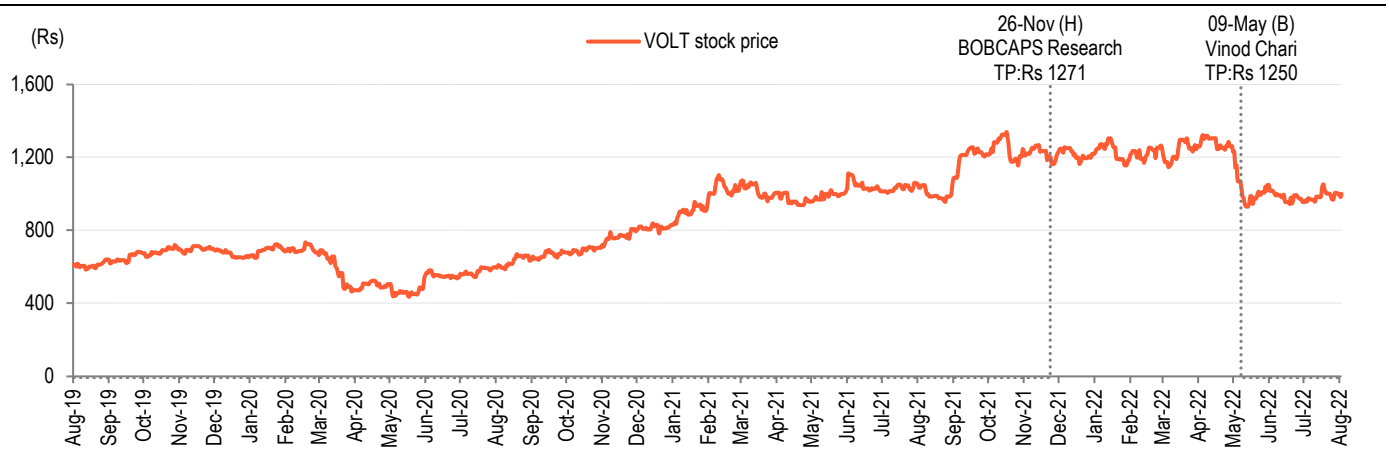
**HOLD** – Expected return from -6% to +15%

**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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