

HOLD**TP: Rs 910 | ▲ 10%****VOLTAS**

Consumer Durables

12 August 2023

UCP growth above industry, EMP losses continue

- Q1 a mixed bag with UCP performing well (+ 16% YoY) while losses continued in the EMP segment
- Medium-term outlook remains positive due to low AC penetration, product diversification via Beko and good prospects for EMP business
- Stiff competition in AC business leads us to retain HOLD with a TP of Rs 910 (vs Rs 900) upon rollover

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Mixed quarter: VOLT posted 21% YoY topline growth to Rs 33.6bn and 60bps YoY gross margin expansion to 21.1% in Q1FY24. The latter, however, did not flow into EBITDA margin which contracted 90bps YoY due to higher promotion spends. The electro-mechanical projects (EMP) topline grew 49% YoY, though losses continued due to provisions made on account of litigation in the overseas business.

UCP business above industry: Unitary cooling products (UCP) revenue grew 16% YoY to Rs 25.1bn with an EBIT margin of 8.2%, a 50bps increase YoY. Growth has been ahead of the industry, per management. BLSTR grew 7% for the quarter with an EBIT margin of 7.5%, whereas Lloyd's topline increased 20%. VOLT's exit market share stood at 20.6% (vs. 24.1% in Jun'22), with average market share for the quarter standing at 19% (vs. 22% in Q1FY23).

Medium-term outlook positive: The medium-term outlook remains positive as the company continues to expand its footprint beyond room air conditioning (RAC), though competition is a key monitorable. In four years, Voltbek has sold an impressive 3.3mn units of refrigerators and washing machines. Similarly, in EMP, 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.

Healthy EMP business outlook: Given the upcycle in capex globally, VOLT's EMP business has a strong outlook with an order book of Rs 81.9bn. It is currently incurring provisional losses due to disagreements with customers overseas but expects these to reverse, backed by legal opinion. To prevent the same in future, management has been more selective in taking on projects.

Maintain HOLD: Given market share bleed amid intensifying competition, we retain our HOLD rating on the stock. Our TP changes to Rs 910 (vs Rs 900) on rolling forward to Jun'25E. We continue to value the stock at 40x, an 11% premium to the long-term average 2Y forward P/E.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	VOLT IN/Rs 829
Market cap	US\$ 3.3bn
Free float	70%
3M ADV	US\$ 13.2mn
52wk high/low	Rs 1,051/Rs 737
Promoter/FPI/DII	30%/21%/33%

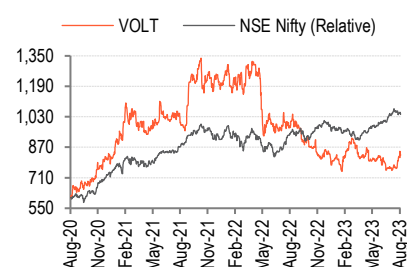
Source: NSE | Price as of 11 Aug 2023

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	18.2	23.7
Adj. ROAE (%)	6.9	10.4	12.3
Adj. P/E (x)	72.4	46.7	36.7
EV/EBITDA (x)	47.9	31.8	25.1
Adj. EPS growth (%)	(24.8)	54.9	27.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

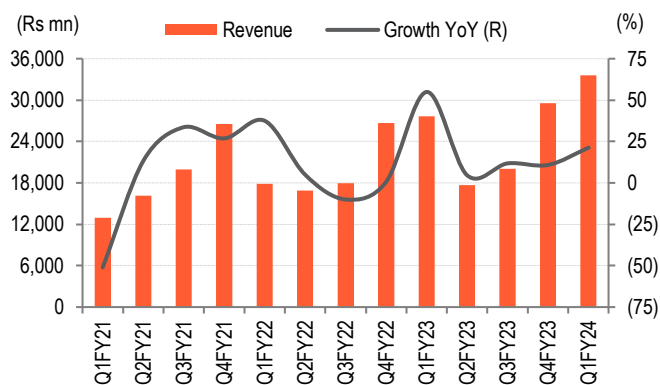
Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	33,599	27,680	21.4	29,568	13.6
EBITDA	1,854	1,770	4.7	2,182	(15.0)
EBITDA Margin (%)	5.5	6.4	(90bps)	7.4	(190bps)
Depreciation	113	85		104	
Interest	101	40		124	
Other Income	700	268		467	
PBT	2,340	1,913	22.3	2,420	(3.3)
Tax	735	508		706	
Adjusted PAT	1,293	1,089	18.7	1,439	(10.2)
Exceptional item	-	-		-	
Reported PAT	1,293	1,089	18.7	1,439	(10.2)
Adj. PAT Margin (%)	3.8	3.9	(10bps)	4.9	(100bps)
EPS (Rs)	4.8	4.2	14.2	5.2	(6.4)

Source: Company, BOBCAPS Research

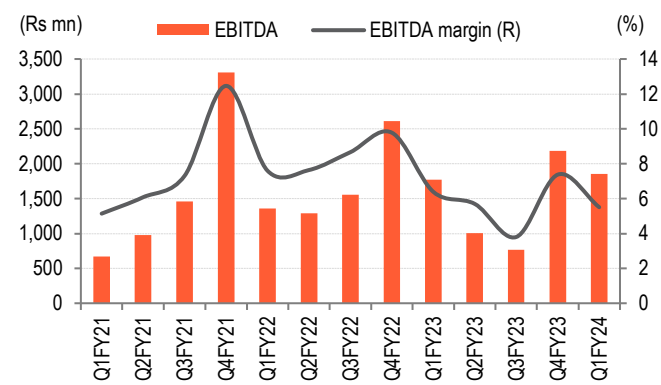
Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Revenues													
Electro- Mechanical Projects and Services	4,118	7,445	10,167	8,755	6,884	5,365	5,538	6,918	4,547	5,540	6,484	7,458	6,791
YoY growth (%)	(50.0)	(8.0)	25.8	8.8	67.2	(27.9)	(45.5)	(21.0)	(34.0)	3.3	17.1	7.8	49.3
Engineering Products and Services	476	933	1,209	977	1,151	1,254	1,247	1,235	1,243	1,374	1,179	1,424	1,423
YoY growth (%)	(35.6)	16.2	46.4	3.0	141.7	34.4	3.1	26.4	8.1	9.5	(5.4)	15.3	14.5
Unitary Cooling Products	8,113	7,498	8,396	16,547	9,631	10,068	10,936	18,184	21,622	10,477	12,160	20,486	25,140
YoY growth (%)	(53.6)	42.7	39.8	38.0	18.7	34.3	30.3	9.9	124.5	4.1	11.2	12.7	16.3
EBIT													
Electro- Mechanical Projects and Services	(437)	5	322	566	306	113	363	476	(125)	143	(461)	(140)	(519)
Margin (%)	(10.6)	0.1	3.2	6.5	4.4	2.1	6.6	6.9	(2.7)	2.6	(7.1)	(1.9)	(7.6)
Engineering Products and Services	197	288	320	338	379	392	400	408	508	480	460	559	541
Margin (%)	41.3	30.9	26.5	34.6	32.9	31.3	32.1	33.0	40.9	35.0	39.0	39.3	38.0
Unitary Cooling Products for Comfort and Commercial Use	1,140	856	1,046	2,610	1,180	1,017	1,017	1,919	1,662	765	895	2,057	2,073
Margin (%)	14.0	11.4	12.5	15.8	12.3	10.1	9.3	10.6	7.7	7.3	7.4	10.0	8.2

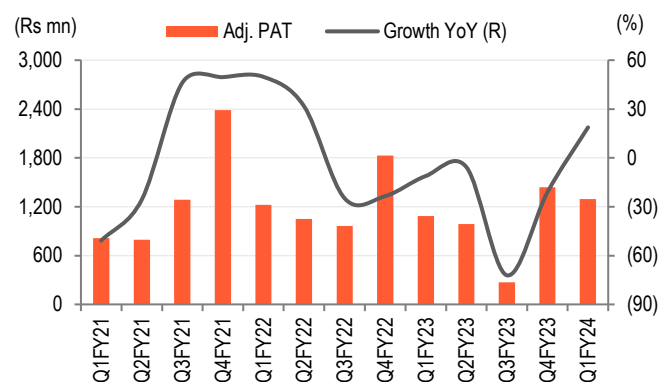
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth trend

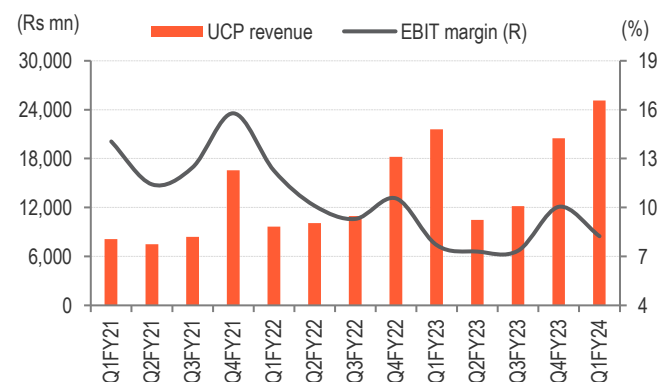
Source: Company, BOBCAPS Research

Fig 4 – EBITDA trend

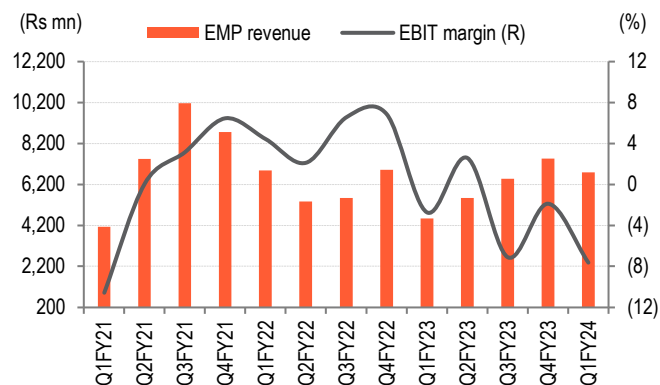
Source: Company, BOBCAPS Research

Fig 5 – Profitability trend

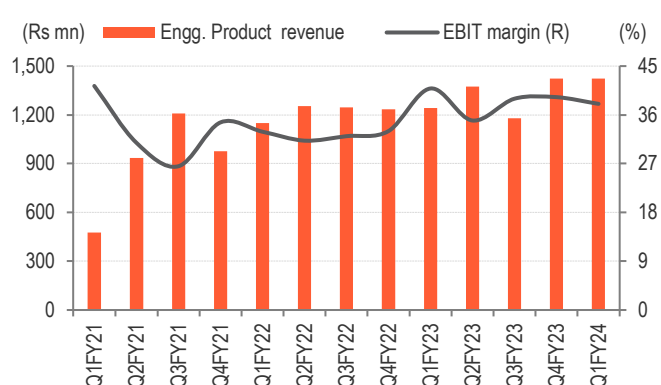
Source: Company, BOBCAPS Research

Fig 6 – UCP performance

Source: Company, BOBCAPS Research

Fig 7 – EMP performance

Source: Company, BOBCAPS Research

Fig 8 – Engineering Products and Services performance

Source: Company, BOBCAPS Research

Earnings call highlights

- **UCP industry slow:** During Q1FY24, the cooling industry saw a decline on account of incessant rains – a view echoed by industry players. North India was affected the most, and VOLT's geographical mix shifted as the South and East performed relatively better. The northern market contributes ~50% of industry sales and softer business here impacted all players. Demand for commercial refrigeration was also lower than anticipated due to lower demand for cold beverages and a higher volume base in the previous year. However, demand was buoyant for water coolers and AC coolers in the commercial refrigeration category.
- **Volume growth:** UCP volumes revived in June to 15% YoY, above the industry's single-digit print, which aided 16% YoY topline growth in the segment for VOLT. Secondary sales growth for the period of January to June was 8% YoY for the cooling industry. Commercial refrigeration posted volume growth of 49%.
- **Product mix:** In the UCP segment, RACs contribute 75-80% of sales, while commercial refrigeration and air coolers contribute 15-17% and 3-4% respectively.
- **Margins:** Gross margin improvement was visible across the AC industry and VOLT reported 60bps YoY expansion to 21.1%. This, however, did not flow into the EBITDA margin as higher promotional spends in Q1 led to a decline of 90bps YoY to 5.5%.
- **Market share:** VOLT's average market share was 19% during the quarter, compared to 22% in Q1FY23. Voltas Beko (Voltbek) commands a 5% market share in washing machines with 9.6% share in the sub-category of semi-automatic washing machines. Beko also has a 3.5% market share in refrigerators.
- **Order book:** The EMP order book stood at Rs 81.9bn at the end of Q1FY24, a 53% YoY increase. Of this, the international order book stood at Rs 29.5bn, driven by demand from Qatar, UAE and Saudi Arabia.

Valuation methodology

VOLT has faced significant challenges during FY23 and also seen a steady decline in cooling product market share over the last two years. The current overhang of EMP losses continues, although our outlook on this segment is positive given the current capex cycle.

Given market share bleed amid intensifying competition, we retain our HOLD rating on the stock. Our TP changes to Rs 910 (vs Rs 900) on rolling forward to Jun'25E.. We continue to value the stock at 40x, an 11% premium to the long-term average two-year forward P/E multiple.

Fig 9 – Key assumptions

Particulars (Rs mn)	FY24E	FY25E
Sales	1,07,632	1,27,104
EBITDA	8,631	10,941
PAT	5,866	7,471
EPS (Rs)	17.7	22.6
EBITDA Margin (%)	8.0	8.6

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	1.0	2,477	2,500	HOLD
Blue Star	BLSTR IN	1.7	742	880	BUY
Crompton Greaves	CROMPTON IN	2.3	296	370	BUY
Dixon Technologies	DIXON IN	3.5	4,781	4,300	HOLD
Havells India	HAVL IN	9.9	1,301	1,600	BUY
KEI Industries	KEII IN	2.6	2,329	2,300	HOLD
Orient Electric	ORIENTEL IN	0.6	238	250	HOLD
Polycab India	POLYCAB IN	8.5	4,659	5,000	BUY
Syrma SGS	SYRMA IN	1.0	473	600	BUY
V-Guard Industries	VGRD IN	1.6	304	290	HOLD
Voltas	VOLT IN	3.3	829	910	HOLD

Source: BOBCAPS Research, NSE | Price as of 11 Aug 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	3.5	2.9	2.5	2.2
EV/EBITDA	42.7	40.2	47.9	31.8	25.1
Adjusted P/E	51.8	54.4	72.4	46.7	36.7
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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BUY – Expected return >+15%

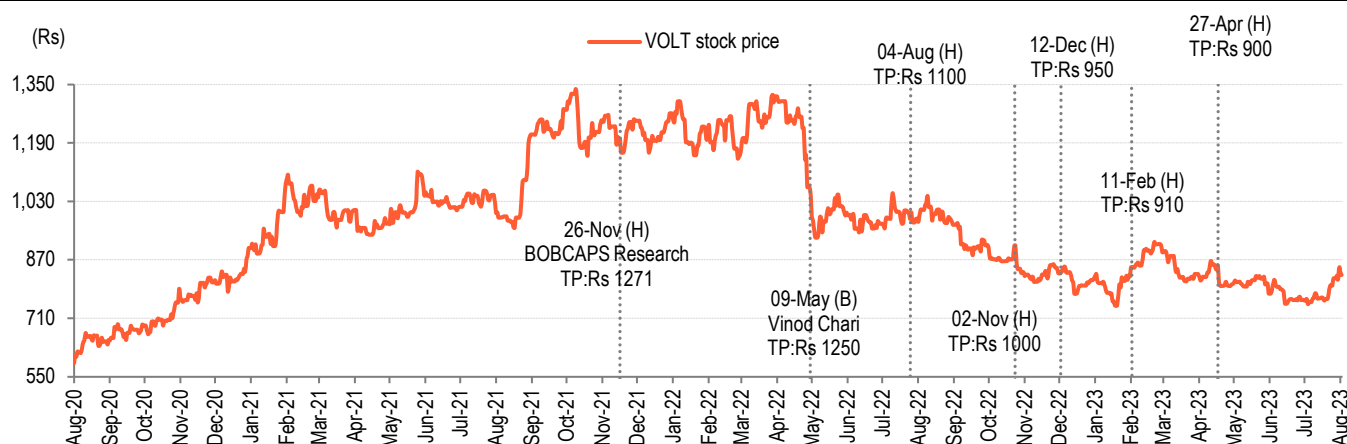
HOLD – Expected return from -6% to +15%

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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