

HOLD

TP: Rs 910 | ▲ 7%

VOLTAS

| Consumer Durables

| 11 February 2023

Subpar quarter as EMP losses deepen

- UCP revenue up 11% YoY but EBIT margin band seems to have softened to 7-9% from 12-14% earlier
- EMP posts losses yet again as uncertainty persists over overseas contract withdrawal
- We lower FY23/FY24 EPS by 22%/3% and cut our target P/E to 40x (vs. 43x); post rollover, our TP moves to Rs 910 (vs. Rs 950)

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Muted Q3 as margins plunge: VOLT's Q3FY23 revenue grew 12% YoY to Rs 20.1bn (Rs 19.6bn est.), led by traction in both unitary cooling product (UCP) and electromechanical product (EMP) businesses. EBITDA margin, however, deteriorated further to 3.8% (-490bps YoY/-190bps QoQ) owing to high commodity costs and other expenses. The UCP EBIT margin remained muted at 7.4% while EMP incurred operational losses. Adj. PAT for the quarter fell 72% YoY to Rs 270mn.

UCP resilient despite challenges: UCP revenue at Rs 12.2bn increased 11% YoY (3Y CAGR: +27%) despite a seasonally weak quarter and subdued festive demand. Traction in premium products and commercial refrigeration aided growth. VOLT secured market share of 22.5% in FY23 YTD despite intensified competition, thus maintaining its leadership position. However, UCP EBIT declined by 12% YoY in Q3 with margins deteriorating 195bps YoY to 7.4%.

EMP orders healthy but withdrawals raise uncertainty: EMP revenue at Rs 6.9bn (+17% YoY, 3Y CAGR of -7%) was resilient due to traction in the domestic market. However, VOLT incurred an operational loss of Rs 461mn (ex-exceptionals). Further, it set aside provisions for cancellation of an overseas contract for the second consecutive quarter, which raised the operational loss to Rs 1.8bn (Rs 2.4bn for 9MFY23). On the other hand, the company expanded its carry-forward order book sequentially to Rs 75.4bn from Rs 60bn. Though order flows seem promising, uncertainty persists over seamless execution given overseas withdrawals.

Maintain HOLD, TP cut to Rs 910: VOLT has maintained its leadership in the room air conditioner (RAC) business but lost ground to competition in recent months. Management sees little scope for double-digit UCP EBIT margins amid rising competition. Considering the pressure on market share and margins, we trim our FY23/FY24 EPS estimates by 22%/3% and cut our target P/E multiple from 43x to 40x – in line with the 7Y average 2Y forward P/E of 41.5x. This coupled with valuation rollover to Dec'24E leads to a revised TP of Rs 910 (earlier Rs 950) – retain HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	VOLT IN/Rs 850
Market cap	US\$ 3.4bn
Free float	70%
3M ADV	US\$ 11.3mn
52wk high/low	Rs 1,348/Rs 737
Promoter/FPI/DII	30%/22%/32%

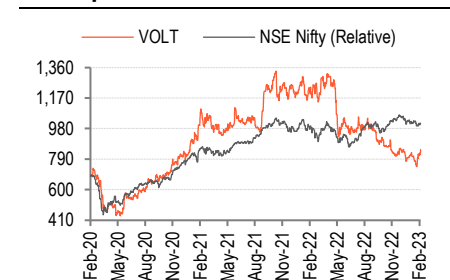
Source: NSE | Price as of 10 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	79,345	88,613	107,669
EBITDA (Rs mn)	6,816	5,497	9,108
Adj. net profit (Rs mn)	5,060	3,671	6,244
Adj. EPS (Rs)	15.3	11.1	18.9
Consensus EPS (Rs)	15.3	16.0	22.7
Adj. ROAE (%)	9.6	6.8	11.3
Adj. P/E (x)	55.6	76.6	45.0
EV/EBITDA (x)	41.3	51.2	30.9
Adj. EPS growth (%)	(4.3)	(27.5)	70.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	20,056	17,936	11.8	17,684	13.4	65,420	52,679	24.2
EBITDA	764	1,556	(50.9)	1,008	(24.3)	3,542	4,205	(15.8)
EBITDA Margin (%)	3.8	8.7	(490bps)	5.7	(190bps)	5.4	8.0	(260bps)
Depreciation	111	97	-	97	-	292	278	-
Interest	64	36	-	67	-	172	134	-
Other Income	307	288	-	644	-	1,218	1,520	-
PBT	895	1,711	(47.7)	1,488	(39.8)	4,296	5,314	(19.2)
Tax	300	425	-	195	-	1,003	1,266	-
Adjusted PAT	270	966	(72.0)	990	(72.7)	2,349	3,214	(26.9)
Exceptional item	1,374	-	-	1,064	-	2,438	-	-
Reported PAT	(1,104)	966	NA	(74)	NA	(89)	3,214	NA
Adj. PAT Margin (%)	1.3	5.4	(400bps)	5.6	(430bps)	3.6	6.1	(250bps)
EPS (Rs)	1.8	3.9	(53.7)	3.9	(54.0)	10.0	12.2	(18.6)

Source: Company, BOBCAPS Research

Fig 2 – Actual vs Estimates

Particulars (Rs mn)	Actual	Estimates	Variance (%)
Revenue	20,056	19,640	2.1
EBITDA	764	1,434	(46.7)
EBITDA Margin (%)	3.8	7.3	(350bps)
Adj. PAT	270	844	(68.0)

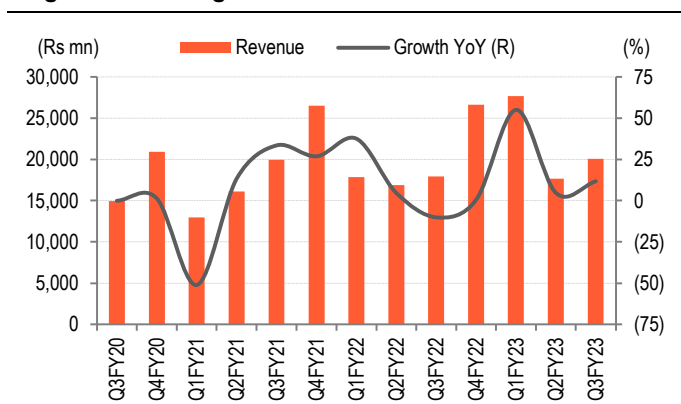
Source: Company, BOBCAPS Research

Fig 3 – Peer comparison: UCP business

UCP segment	Q3FY23 EBIT Margin (%)	Q3FY23 Revenue Growth YoY (%)	Q3FY23 Revenue Growth QoQ (%)	3Y Revenue CAGR FY20-FY23 (%)
VOLT	7.4	11.2	16.1	26.5
BLSTR	7.4	15.1	33.7	18.6
LLOYD	(9.8)	29.9	45.4	26.6

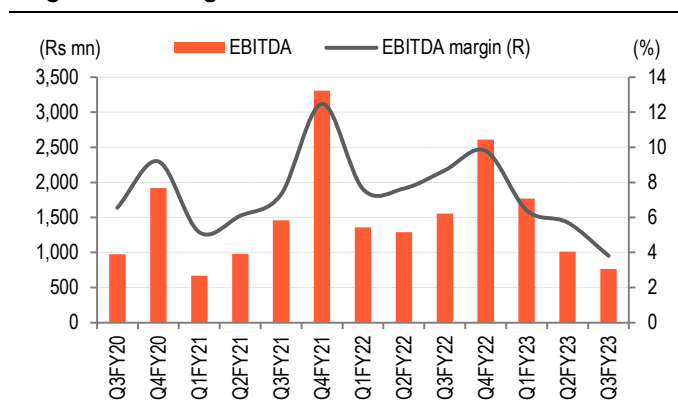
Source: Company, BOBCAPS Research

Fig 4 – Revenue growth trend



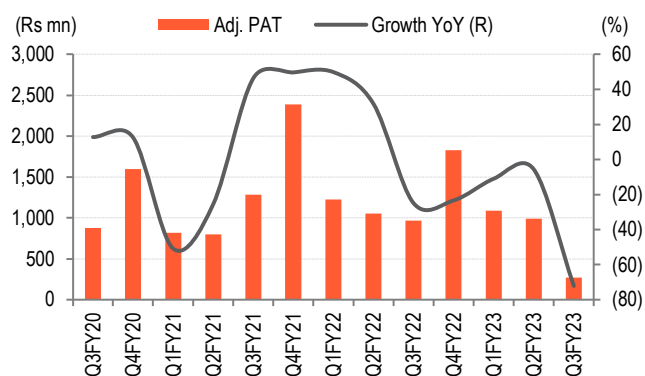
Source: Company, BOBCAPS Research

Fig 5 – EBITDA growth trend



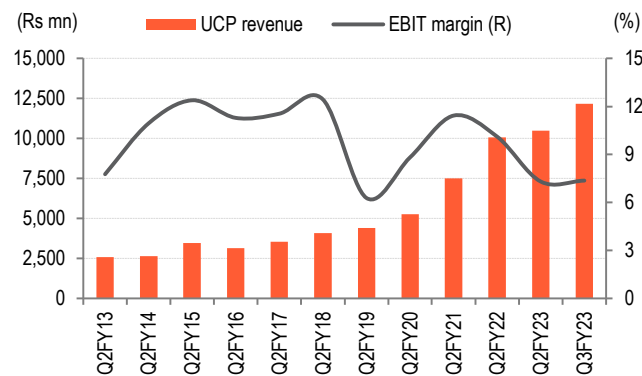
Source: Company, BOBCAPS Research

Fig 6 – Profitability growth trend



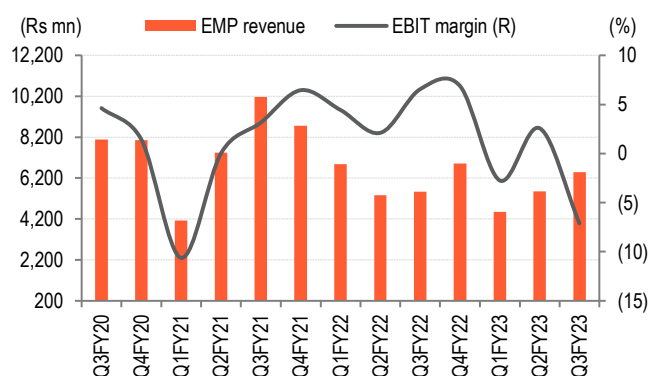
Source: Company, BOBCAPS Research

Fig 7 – UCP business growth trend



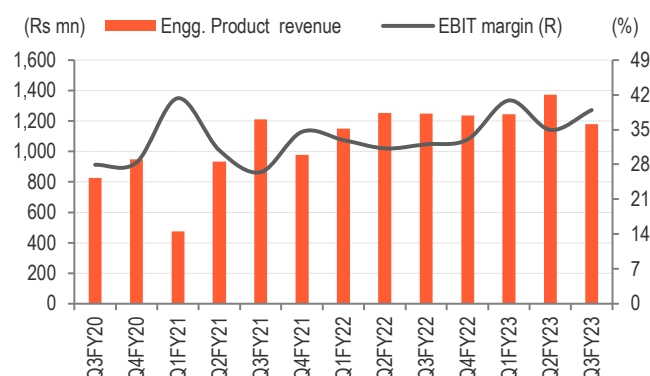
Source: Company, BOBCAPS Research

Fig 8 – EMP business growth trend



Source: Company, BOBCAPS Research

Fig 9 – Engg. Product business growth trend



Source: Company, BOBCAPS Research

Earning call highlights

- Market share:** VOLT controls 22.5% market share as of FY23 YTD and expects the upcoming summer season to prove favourable as exclusive brand outlet development and improved participation in multiple channels are likely to boost sales and enhance market share.
- Pricing action:** The company has not hiked prices in Q3FY23 and to date in Q4. Management will consider pricing action in Q1FY24 based on the Q4 outcome.
- Inventory:** Management estimates that industry players are carrying 75-80 days of inventory which is on par with that of VOLT.
- EMP order book:** The carry-forward EMP order book has improved further to Rs 75.4bn in Q3FY23 (vs. Rs 60bn in Q2FY23) – close to the pre-Covid mark which offers good revenue visibility. Of this book, Rs 45.4bn comprise domestic orders while the rest are from the overseas market. Domestic order bookings have improved to Rs 10.4bn in Q3 vs. just Rs 1.9bn in the year-ago period, and VOLT remains positive on inflows due to higher infrastructure allocation in the budget.
- Voltas Beko:** Management remains optimistic of achieving breakeven at subsidiary Voltas Beko by FY25 but does not expect to meet its earlier guidance of 10% market share following the unavoidable Covid impact.

Valuation methodology

VOLT has maintained its leadership in the RAC business but lost ground to competition in recent months. Management sees little scope for double-digit UCP EBIT margins amid rising competition. Considering the pressure on market share and margins, we trim our FY23/FY24 EPS estimates by 22%/3% and cut our target P/E multiple from 43x to 40x – in line with the stock’s seven-year average two-year forward multiple of 41.5x. This coupled with valuation rollover to Dec’24E leads to a revised TP of Rs 910 (earlier Rs 950) – retain HOLD.

Fig 10 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Sales	88,613	107,669	127,359	88,613	107,669	127,359	0.0	0.0	0.0
EBITDA	5,497	9,108	11,540	6,591	9,143	11,579	(16.6)	(0.4)	(0.3)
PAT	3,641	6,200	7,898	4,649	6,415	8,078	(21.7)	(3.3)	(2.2)
EPS (Rs)	11.0	18.7	23.9	14.1	19.4	24.4	(21.7)	(3.3)	(2.2)
EBITDA Margin (%)	6.2	8.5	9.1	7.4	8.5	9.1	(120bps)	0bps	0bps

Source: Company, BOBCAPS Research

Key risks

Key risks to our estimates are:

- **Upside risks:** Strong revival in UCP EBIT margin and high market share gains
- **Downside risks:** Incremental exceptional losses in the EMP business and adverse commodity costs

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.8	1,907	2,100	HOLD
Blue Star	BLSTR IN	1.6	1,377	1,450	BUY
Crompton Greaves	CROMPTON IN	2.4	318	440	BUY
Dixon Technologies	DIXON IN	1.9	2,705	4,100	BUY
Havells India	HAVL IN	9.1	1,201	1,500	BUY
KEI Industries	KEII IN	1.8	1,677	1,900	BUY
Orient Electric	ORIENTEL IN	0.7	279	290	HOLD
Polycab India	POLYCAB IN	5.4	2,985	3,300	BUY
Syrma SGS	SYRMA IN	0.6	277	400	BUY
V-Guard Industries	VGRD IN	1.3	249	260	HOLD
Voltas	VOLT IN	3.4	850	910	HOLD

Source: BOBCAPS Research, NSE | Price as of 10 Feb 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	75,558	79,345	88,613	107,669	127,359
EBITDA	6,414	6,816	5,497	9,108	11,540
Depreciation	339	373	379	504	679
EBIT	6,075	6,443	5,117	8,604	10,861
Net interest inc./(exp.)	(262)	(259)	(255)	(379)	(453)
Other inc./(exp.)	1,889	1,892	1,514	1,589	1,669
Exceptional items	0	0	0	0	0
EBT	7,702	8,076	6,375	9,815	12,077
Income taxes	1,804	1,913	1,605	2,470	3,040
Extraordinary items	0	0	1,800	0	0
Min. int./Inc. from assoc.	(610)	(1,103)	(1,100)	(1,100)	(1,100)
Reported net profit	5,288	5,060	1,871	6,244	7,937
Adjustments	0	0	1,800	0	0
Adjusted net profit	5,288	5,060	3,671	6,244	7,937

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	24,645	29,421	22,728	29,498	36,638
Other current liabilities	7,882	7,707	8,361	10,324	12,213
Provisions	0	0	0	0	0
Debt funds	2,514	3,432	3,929	4,731	5,660
Other liabilities	1,580	1,909	1,766	2,055	2,354
Equity capital	331	331	331	331	331
Reserves & surplus	49,603	54,665	52,750	56,844	62,630
Shareholders' fund	49,934	54,996	53,081	57,175	62,961
Total liab. and equities	86,555	97,463	89,865	103,784	119,826
Cash and cash eq.	4,588	5,717	9,722	4,847	2,586
Accounts receivables	18,009	21,097	17,995	22,124	25,123
Inventories	12,796	16,614	15,610	18,879	22,680
Other current assets	16,501	15,365	14,062	17,125	20,257
Investments	0	0	0	0	0
Net fixed assets	2,384	2,305	3,001	4,996	6,817
CWIP	88	593	1,421	1,726	2,042
Intangible assets	941	999	790	960	1,135
Deferred tax assets, net	0	0	0	0	0
Other assets	31,248	34,775	27,264	33,127	39,186
Total assets	86,555	97,463	89,865	103,784	119,826

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	5,561	5,842	1,620	5,022	7,711
Capital expenditures	0	0	(1,075)	(2,500)	(2,500)
Change in investments	(3,257)	(3,910)	0	0	0
Other investing cash flows	698	264	6,709	(6,049)	(6,251)
Cash flow from investing	(2,559)	(3,646)	5,634	(8,549)	(8,751)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(5,110)	(166)	498	802	929
Interest expenses	0	0	0	0	0
Dividends paid	3,895	(905)	(3,746)	(2,151)	(2,151)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(1,215)	(1,070)	(3,248)	(1,349)	(1,222)
Chg in cash & cash eq.	1,787	1,126	4,006	(4,875)	(2,261)
Closing cash & cash eq.	4,588	5,717	9,722	4,847	2,586

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	16.0	15.3	5.7	18.9	24.0
Adjusted EPS	16.0	15.3	11.1	18.9	24.0
Dividend per share	5.0	5.5	6.0	6.5	6.5
Book value per share	150.9	166.2	160.4	172.8	190.3

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	3.7	3.5	3.2	2.6	2.2
EV/EBITDA	43.8	41.3	51.2	30.9	24.4
Adjusted P/E	53.2	55.6	76.6	45.0	35.4
P/BV	5.6	5.1	5.3	4.9	4.5

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	68.7	62.7	57.6	63.6	65.7
Interest burden (PBT/EBIT)	126.8	125.3	124.6	114.1	111.2
EBIT margin (EBIT/Revenue)	8.0	8.1	5.8	8.0	8.5
Asset turnover (Rev./Avg TA)	31.7	34.4	29.5	21.6	18.7
Leverage (Avg TA/Avg Equity)	0.1	0.0	0.1	0.1	0.1
Adjusted ROAE	11.4	9.6	6.8	11.3	13.2

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(1.3)	5.0	11.7	21.5	18.3
EBITDA	(6.6)	6.3	(19.4)	65.7	26.7
Adjusted EPS	1.5	(4.3)	(27.5)	70.1	27.1
Profitability & Return ratios (%)					
EBITDA margin	8.5	8.6	6.2	8.5	9.1
EBIT margin	8.0	8.1	5.8	8.0	8.5
Adjusted profit margin	7.0	6.4	4.1	5.8	6.2
Adjusted ROAE	11.4	9.6	6.8	11.3	13.2
ROCE	11.2	9.4	6.6	10.9	12.6
Working capital days (days)					
Receivables	87	97	74	75	72
Inventory	62	76	64	64	65
Payables	119	135	94	100	105
Ratios (x)					
Gross asset turnover	15.5	16.2	16.4	14.9	13.1
Current ratio	1.5	1.4	1.6	1.4	1.3
Net interest coverage ratio	23.2	24.9	20.0	22.7	24.0
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%

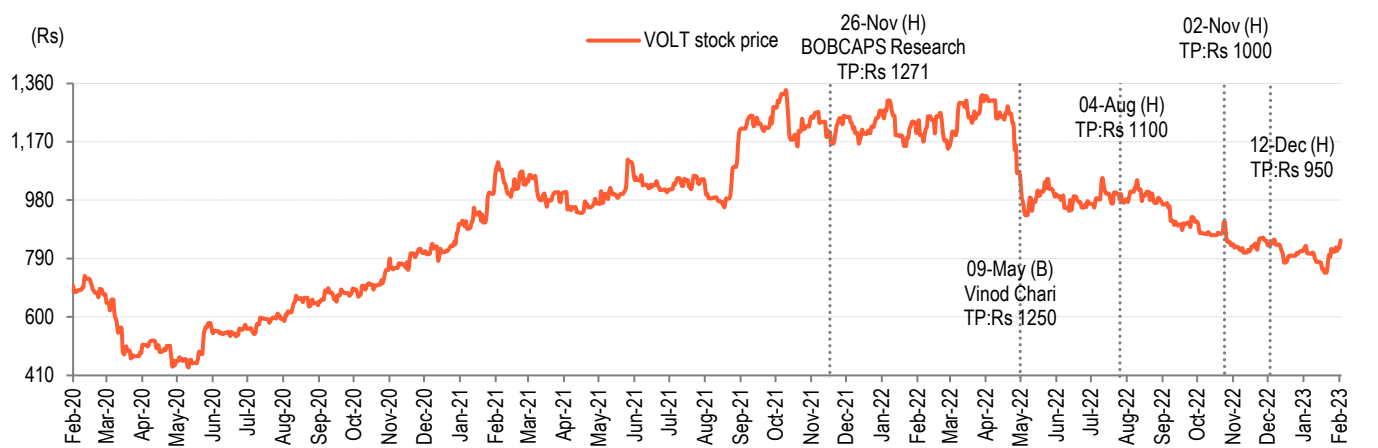
HOLD – Expected return from -6% to +15%

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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