

**HOLD**  
 TP: Rs 1,060 | ▼ 3%

**VOLTAS**

| Consumer Durables

| 31 January 2024

**UCP improving, Qatar business a dampener**

- Q3 revenue growth strong at 31% YoY but challenges in international EMP business cause net loss of Rs 304mn
- RAC business grew above industry at 27% YoY and earned higher margins; summer demand outlook upbeat
- FY24/FY25/FY26 earnings revised -16%/+5%/+7% to bake in Q3, leading to new TP of Rs 1,060 (vs. Rs 910); maintain HOLD

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**Strong topline but posts net loss:** VOLT posted 31% YoY topline growth to Rs 26.2bn in Q3FY24. However, its EBITDA margin contracted 270bps YoY to 1.1% due to higher losses in the electro-mechanical projects (EMP) segment, which also resulted in a net loss of Rs 304mn during the quarter.

**RAC business gearing up for summer:** The unitary cooling products (UCP) segment grew 21% YoY on the back of 27% volume growth in room air conditioners (RAC). This compares well with industry RAC growth of 20-22%, giving VOLT an exit market share of ~19% for the quarter. The growth can be attributed to key festivals and wedding season demand. Segmental EBIT margin expanded 90bps YoY due to a higher share of RACs in the product mix, outperforming BLSTR which saw 30bps contraction in its UCP margin and Lloyd which saw continued losses. Management is expanding channel partners rapidly and expects strong summer demand.

**EMP losses continue:** The EMP segment reported a loss of Rs 1.2bn in Q3 due to a Rs 1.4bn provisional loss recognised in the international business (Qatar), while domestic business delivered YoY profit growth. VOLT has a positive outlook on India business given rising infrastructure spending. In Qatar, challenges are likely to persist medium term due to delays in receivables due and timeline extensions, leading to cost overruns. The company has booked a Rs 3bn-4bn provisional loss on international operations in FY24 YTD.

**Beko remains resilient:** Voltbek’s cumulative volumes crossed 4.5mn units and volume growth for Q3/9MFY24 stood at 65%/55% YoY aided by festive demand. Market share stood at 3.3% for refrigerators (+100bps YoY), 5.5% for washing machines (+210bps) and 12.2% for semi-automatic washing machines. Loss per unit has reduced significantly during the quarter.

**Maintain HOLD:** We continue to value the stock at 40x P/E (11% premium to long-term avg.) and roll valuations over to Dec’25E, while revising FY24/FY25/FY26 EPS estimates by -16%/+5%/+7% given ongoing uncertainty in international EMP business and strong growth in other segments. Our TP rises to Rs 1,060 (vs. Rs 910) – HOLD.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	VOLT IN/Rs 1,093
Market cap	US\$ 4.4bn
Free float	70%
3M ADV	US\$ 19.8mn
52wk high/low	Rs 1,101/Rs 745
Promoter/FPI/DII	30%/21%/33%

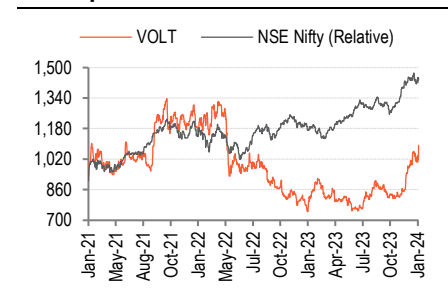
Source: NSE | Price as of 31 Jan 2024

**Key financials**

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	94,988	1,17,076	1,36,553
EBITDA (Rs mn)	5,724	6,276	10,591
Adj. net profit (Rs mn)	3,788	4,452	7,501
Adj. EPS (Rs)	11.4	13.5	22.7
Consensus EPS (Rs)	11.4	14.4	22.4
Adj. ROAE (%)	6.9	8.1	12.8
Adj. P/E (x)	95.4	81.2	48.2
EV/EBITDA (x)	63.2	57.6	34.1
Adj. EPS growth (%)	(24.8)	17.5	68.5

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	26,257	20,056	30.9	22,928	14.5	82,783	65,420	26.5
EBITDA	284	764	(62.8)	703	(59.6)	2,840	3,542	(19.8)
EBITDA Margin (%)	1.1	3.8	(270bps)	3.1	(200bps)	3.4	8.6	(520bps)
Depreciation	128	111		117		358	292	
Interest	135	64		115		351	172	
Other Income	579	307		710		1,988	1,218	
PBT	599	895	(33.1)	1,181	(49.3)	4,120	4,296	(4.1)
Tax	515	300		493		1,743	1,003	
Adjusted PAT	(276)	270	(202.2)	357	(177.4)	1,356	2,349	(42.3)
Exceptional item	-	1,374		0		-	2,438	
Reported PAT	(304)	(1,104)	(72.4)	367	(182.9)	1,356	(89)	(1,621.4)
Adj. PAT Margin (%)	(1.1)	1.3	(240bps)	1.6	(260bps)	1.6	3.6	(200bps)
EPS (Rs)	(0.9)	(3.3)	(72.4)	1.1	(182.9)	7	10	(27.8)

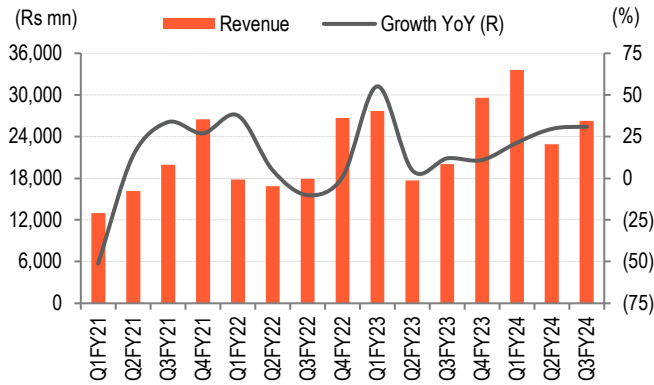
Source: Company, BOBCAPS Research

**Fig 2 – Segmental performance**

Particulars (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Revenues</b>													
Electro-Mechanical Projects and Services	10,167	8,755	6,884	5,365	5,538	6,918	4,547	5,540	6,484	7,458	6,791	9,242	9,819
YoY growth (%)	25.8	8.8	67.2	(27.9)	(45.5)	(21.0)	(34.0)	3.3	17.1	7.8	49.3	66.8	51.4
Engineering Products and Services	1,209	977	1,151	1,254	1,247	1,235	1,243	1,374	1,179	1,424	1,423	1,344	1,548
YoY growth (%)	46.4	3.0	141.7	34.4	3.1	26.4	8.1	9.5	(5.4)	15.3	14.5	(2.1)	31.3
Unitary Cooling Products	8,396	16,547	9,631	10,068	10,936	18,184	21,622	10,477	12,160	20,486	25,140	12,088	14,756
YoY growth (%)	39.8	38.0	18.7	34.3	30.3	9.9	124.5	4.1	11.2	12.7	16.3	15.4	21.4
<b>EBIT</b>													
Electro-Mechanical Projects and Services	322	566	306	113	363	476	(125)	143	(461)	(140)	(519)	(490)	(1,200)
Margin (%)	3.2	6.5	4.4	2.1	6.6	6.9	(2.7)	2.6	(7.1)	(1.9)	(7.6)	(5.3)	(12.2)
Engineering Products and Services	320	338	379	392	400	408	508	480	460	559	541	539	499
Margin (%)	26.5	34.6	32.9	31.3	32.1	33.0	40.9	35.0	39.0	39.3	38.0	40.1	32.2
Unitary Cooling Products	1,046	2,610	1,180	1,017	1,017	1,919	1,662	765	895	2,057	2,073	928	1,229
Margin (%)	12.5	15.8	12.3	10.1	9.3	10.6	7.7	7.3	7.4	10.0	8.2	7.7	8.3

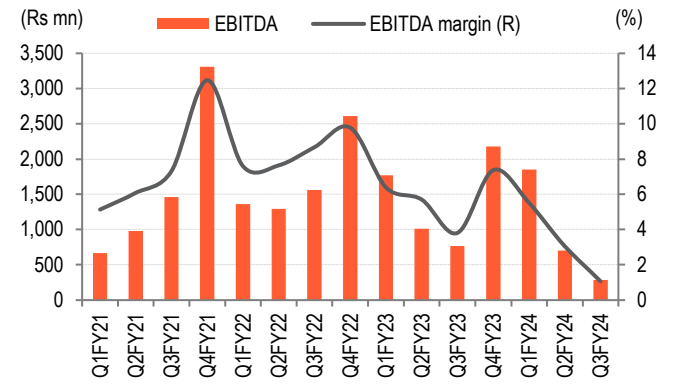
Source: Company, BOBCAPS Research

**Fig 3 – Revenue growth trend**



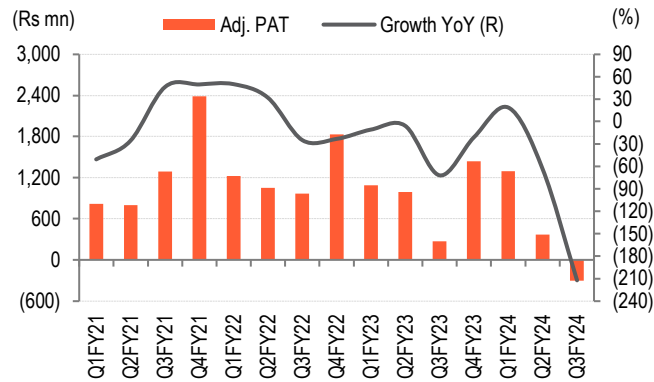
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA growth trend**



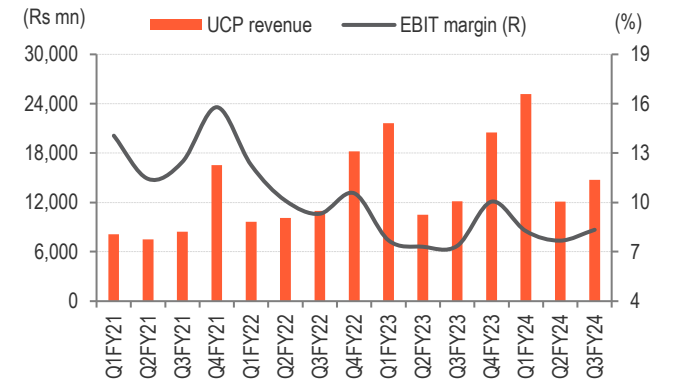
Source: Company, BOBCAPS Research

**Fig 5 – Profit trend**



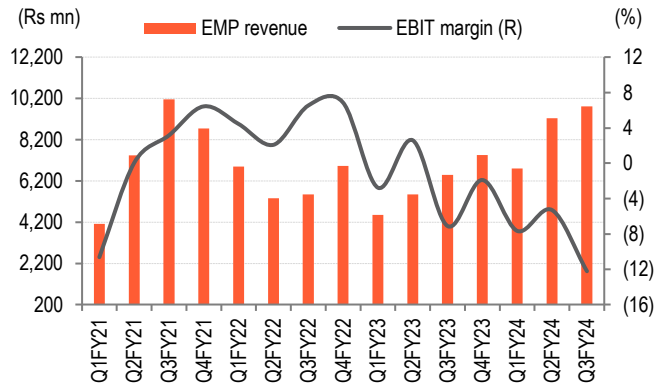
Source: Company, BOBCAPS Research

**Fig 6 – UCP performance**



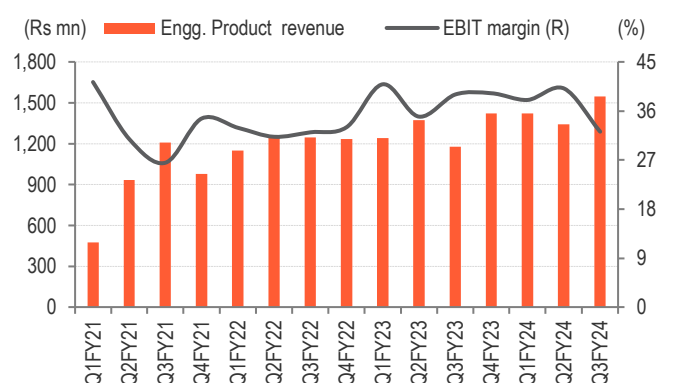
Source: Company, BOBCAPS Research

**Fig 7 – EMP performance**



Source: Company, BOBCAPS Research

**Fig 8 – Engineering products performance**



Source: Company, BOBCAPS Research

## 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 overhang of EMP losses continues, although our outlook on domestic business is positive given the current capex cycle.

We revise our FY24/FY25/FY26 EPS estimates by -16%/+5%/+7% considering ongoing uncertainty in the international EMP business and strong growth in other segments. On rolling valuations over to Dec'25E, we have a new TP of Rs 1,060 (vs. Rs 910), which is set at an unchanged 40x P/E multiple – a 11% premium to the long-term average two-year forward P/E. Our TP offers just 3% upside – maintain HOLD.

**Fig 9 – Revised estimates**

Particulars (Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	1,17,076	1,36,553	1,55,803	1,08,353	1,26,453	1,43,875	8.1	8.0	8.3
EBITDA	6,276	10,591	12,559	7,413	10,057	11,711	(15.3)	5.3	7.2
PAT	4,452	7,501	8,868	5,330	7,140	8,279	(16.5)	5.1	7.1
EPS (Rs)	13.5	22.7	26.8	16.1	21.6	25.0	(16.5)	5.1	7.1
EBITDA Margin (%)	5.4	7.8	8.1	6.8	8.0	8.1	(150bps)	(20bps)	(10bps)

Source: Company, BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- above-expected festive season sales, yielding higher volume growth, and
- incremental market share despite a competitive environment.

Key downside risks to our estimates are:

- continued higher provisioning towards the EMP business, and
- unforeseen foreign currency movement (VOLT maintains a 25% hedge on its foreign exposure).

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Blue Star	BLSTR IN	2.7	1,140	1,300	BUY
Crompton Greaves	CROMPTON IN	2.3	303	330	BUY
Havells India	HAVL IN	9.9	1,294	1,600	BUY
KEI Industries	KEII IN	3.5	3,193	3,120	HOLD
Orient Electric	ORIENTEL IN	0.5	209	240	HOLD
Polycab India	POLYCAB IN	7.9	4,343	5,200	BUY
Syrma SGS	SYRMA IN	1.3	599	560	HOLD
V-Guard Industries	VGRD IN	1.5	292	300	HOLD
Voltas	VOLT IN	4.4	1,093	1,060	HOLD

Source: BOBCAPS Research, NSE | Price as of 31 Jan 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Total revenue</b>	<b>79,345</b>	<b>94,988</b>	<b>1,17,076</b>	<b>1,36,553</b>	<b>1,55,803</b>
EBITDA	6,816	5,724	6,276	10,591	12,559
Depreciation	373	396	469	677	836
EBIT	6,443	5,327	5,806	9,914	11,724
Net interest inc./(exp.)	(259)	(296)	(554)	(719)	(817)
Other inc./(exp.)	1,892	1,685	2,190	2,299	2,414
Exceptional items	0	0	0	0	0
EBT	8,076	6,716	7,442	11,494	13,321
Income taxes	1,913	1,709	1,890	2,893	3,353
Extraordinary items	0	2,438	860	0	0
Min. int./Inc. from assoc.	(1,103)	(1,207)	(1,100)	(1,100)	(1,100)
<b>Reported net profit</b>	<b>5,041</b>	<b>1,350</b>	<b>3,592</b>	<b>7,501</b>	<b>8,868</b>
Adjustments	0	2,438	860	0	0
<b>Adjusted net profit</b>	<b>5,041</b>	<b>3,788</b>	<b>4,452</b>	<b>7,501</b>	<b>8,868</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	29,421	30,126	32,076	39,282	45,674
Other current liabilities	7,707	10,029	11,226	13,094	14,940
Provisions	0	0	0	0	0
Debt funds	3,432	6,506	7,910	8,984	10,208
Other liabilities	1,909	1,609	1,886	2,130	2,372
Equity capital	331	331	331	331	331
Reserves & surplus	54,665	54,190	55,631	60,982	67,700
Shareholders' fund	54,996	54,521	55,962	61,313	68,030
<b>Total liab. and equities</b>	<b>97,463</b>	<b>1,02,790</b>	<b>1,09,060</b>	<b>1,24,803</b>	<b>1,41,224</b>
Cash and cash eq.	5,717	7,084	(2,563)	(4,653)	(4,529)
Accounts receivables	21,097	21,919	24,057	26,937	30,307
Inventories	16,614	15,920	20,528	24,318	26,892
Other current assets	15,365	19,543	18,610	21,332	23,485
Investments	0	0	0	0	0
Net fixed assets	2,305	3,611	5,641	6,964	8,129
CWIP	593	983	1,211	1,412	1,612
Intangible assets	999	1,142	1,407	1,642	1,873
Deferred tax assets, net	0	0	0	0	0
Other assets	34,775	32,590	40,169	46,851	53,456
<b>Total assets</b>	<b>97,463</b>	<b>1,02,790</b>	<b>1,09,060</b>	<b>1,24,803</b>	<b>1,41,224</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Cash flow from operations</b>	<b>5,842</b>	<b>1,594</b>	<b>1,394</b>	<b>7,862</b>	<b>9,843</b>
Capital expenditures	0	(1,774)	(2,500)	(2,000)	(2,000)
Change in investments	(3,910)	253	0	0	0
Other investing cash flows	264	706	(7,795)	(6,874)	(6,793)
<b>Cash flow from investing</b>	<b>(3,646)</b>	<b>(816)</b>	<b>(10,295)</b>	<b>(8,874)</b>	<b>(8,793)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(166)	2,728	1,405	1,073	1,224
Interest expenses	0	0	0	0	0
Dividends paid	(905)	(2,177)	(2,151)	(2,151)	(2,151)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(1,070)</b>	<b>550</b>	<b>(746)</b>	<b>(1,077)</b>	<b>(927)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,126</b>	<b>1,328</b>	<b>(9,647)</b>	<b>(2,089)</b>	<b>123</b>
<b>Closing cash &amp; cash eq.</b>	<b>5,717</b>	<b>7,084</b>	<b>(2,563)</b>	<b>(4,653)</b>	<b>(4,529)</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	15.2	4.1	10.9	22.7	26.8
Adjusted EPS	15.2	11.4	13.5	22.7	26.8
Dividend per share	5.5	4.3	6.5	6.5	6.5
Book value per share	166.2	164.8	169.1	185.3	205.6

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	4.6	3.8	3.1	2.6	2.3
EV/EBITDA	53.0	63.2	57.6	34.1	28.8
Adjusted P/E	71.7	95.4	81.2	48.2	40.8
P/BV	6.6	6.6	6.5	5.9	5.3

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	62.4	56.4	59.8	65.3	66.6
Interest burden (PBT/EBIT)	125.3	126.1	128.2	115.9	113.6
EBIT margin (EBIT/Revenue)	8.1	5.6	5.0	7.3	7.5
Asset turnover (Rev./Avg TA)	34.4	26.3	20.8	19.6	19.2
Leverage (Avg TA/Avg Equity)	0.0	0.1	0.1	0.1	0.1
Adjusted ROAE	9.6	6.9	8.1	12.8	13.7

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	5.0	19.7	23.3	16.6	14.1
EBITDA	6.3	(16.0)	9.6	68.8	18.6
Adjusted EPS	(4.7)	(24.8)	17.5	68.5	18.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	8.6	6.0	5.4	7.8	8.1
EBIT margin	8.1	5.6	5.0	7.3	7.5
Adjusted profit margin	6.4	4.0	3.8	5.5	5.7
Adjusted ROAE	9.6	6.9	8.1	12.8	13.7
ROCE	9.4	6.7	7.7	11.9	12.7
<b>Working capital days (days)</b>					
Receivables	97	84	75	72	71
Inventory	76	61	64	65	63
Payables	135	116	100	105	107
<b>Ratios (x)</b>					
Gross asset turnover	16.2	16.6	14.9	13.5	12.9
Current ratio	1.4	1.4	1.2	1.1	1.1
Net interest coverage ratio	24.9	18.0	10.5	13.8	14.4
Adjusted debt/equity	0.1	0.1	0.1	0.1	0.2

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

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

**BUY** – Expected return >+15%

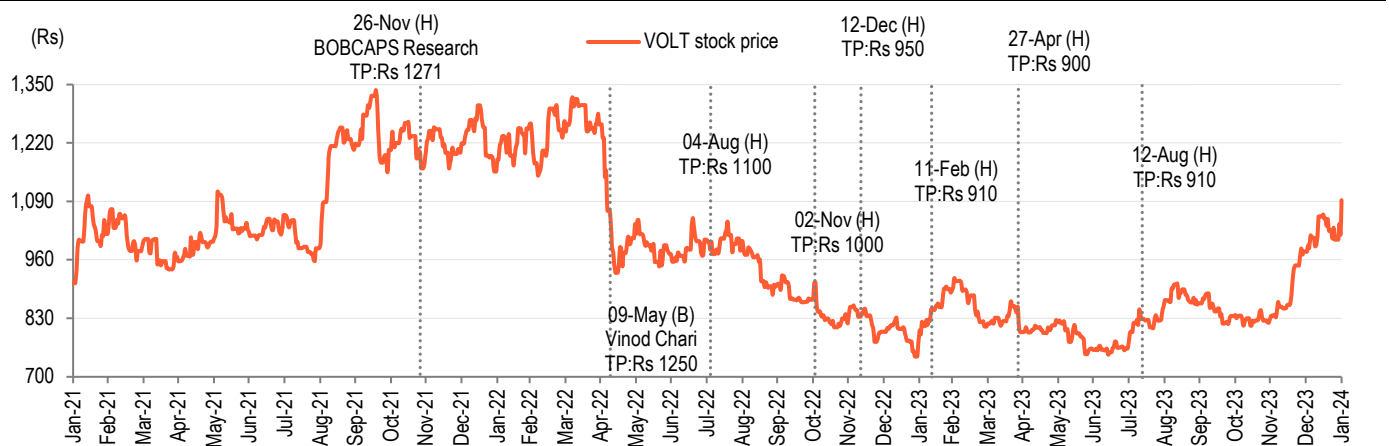
**HOLD** – Expected return from -6% to +15%

**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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