

BUY

TP: Rs 1,250 | ▲ 17%

VOLTAS

| Consumer Durables

| 09 May 2022

Structural story intact

- **Below-expected quarter but strong portfolio and distribution coupled with low market penetration remain key structural drivers**
- **Better positioned than peers to weather RM cost inflation given superior margins and market leadership**
- **We assume coverage with BUY and a TP of Rs 1,250 largely driven by moats in room ACs and best-in-class margins**

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Flat revenue growth and higher RM cost impact bottomline: VOLT's Q4FY22 revenue was flat YoY at Rs 26bn as growth in the UCP (unitary cooling) and engineering product segments was negated by a poor performance in the electromechanical segment. Gross margin declined 307bps YoY to 21.8% as the company failed to pass on higher raw material prices to customers. EBIT margin contracted 305bps YoY to 8.3% primarily due to the lower gross margin and higher employee cost. Net income fell 23% YoY to Rs 1.8bn.

Higher southern sales hit room AC market share: VOLT saw its market share fall to 23.4% in FY22 (vs. 25.2% in FY21) as South India, which has an early summer, had a higher share in the sales mix. While the company ceded some ground to Lloyd, Samsung and LG, it is optimistic of returning to its original market share of 25-26% by the end of summer as sales in northern regions kick in. It has already gained share in the western and eastern markets this season. Also, subsidiary VOLTBEK has sold 1mn units in FY22 and has a market share of 3.5% in refrigerators and 4% in washing machines.

Better positioned to tackle RM inflation: We expect raw material inflation to dampen Covid-led pent-up demand for room ACs (RAC). VOLT, being the market leader in this space with a superior distribution reach, is likely to buck the trend and grow market share. Its above-industry margins should also offer some cushion against cost inflation, even as the company has the scale necessary to source raw materials if supply chain disruptions worsen.

Our preferred pick – BUY, TP Rs 1,250: Rising summer temperatures and pent-up demand augur well for the AC and refrigeration industry as a whole. However, supply chain constraints and rising input costs are expected to sap margins. VOLT enjoys the highest margins among peers and is better positioned to weather the storm, in our view, making it our preferred pick in the AC space. We value the stock at 50x FY24E EPS, a 40% premium to its 5Y average, and assume coverage with BUY for a TP of Rs 1,250. Negative drivers for the stock include weak AC sales in the event of higher product prices or an economic downturn.

Key changes

Target	Rating
▼	▲

Ticker/Price	VOLT IN/Rs 1,069
Market cap	US\$ 4.6bn
Free float	70%
3M ADV	US\$ 21.5mn
52wk high/low	Rs 1,357/Rs 953
Promoter/FPI/DII	30%/26%/28%

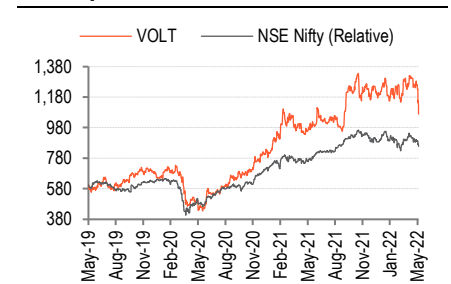
Source: NSE | Price as of 6 May 2022

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)	86.1	57.7	43.1
EV/EBITDA (x)	59.5	41.9	31.7
Adj. EPS growth (%)	(3.6)	49.3	33.9

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

Stock performance



Source: NSE



Fig 1 – Quarterly and annual performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenue (post indirect taxes)	26,337	26,278	0.2	17,721	48.6	78,411	74,566	5.2
Cost of Revenue	(20,588)	(19,735)	4.3	(13,097)	57.2	(58,967)	(55,785)	5.7
Gross Profit	5,750	6,543	(12.1)	4,624	24.4	19,444	18,781	3.5
Gross Margin (%)	21.8	24.9	(307bps)	26.1	(426bps)	24.8	25.2	(39bps)
Employee Benefits Expense	(1,600)	(1,463)	9.4	(1,562)	2.4	(6,176)	(6,017)	2.6
Other Expense	(1,868)	(2,011)	(7.1)	(1,720)	8.6	(7,386)	(7,343)	0.6
Other Income	0	0	-	0	-	0	0	-
EBITDA	2,282	3,069	(25.7)	1,341	70.1	5,882	5,421	8.5
% EBITDA margin	8.7	11.7	(302bps)	7.6	109.5bps	7.5	7.3	23bps
Depreciation & Amortization	(95)	(89)	6.5	(97)	(2.6)	(373)	(339)	9.9
EBIT	2,187	2,980	(26.6)	1,244	75.8	5,509	5,082	8.4
EBIT margin (%)	8.3	11.3	(304bps)	7.0	128bps	7.0	6.8	21bps
Interest Income	372	316	17.8	288	29.4	1,892	1,889	0.2
Interest Expense	(125)	(104)	20.1	(36)	245.6	(259)	(262)	(1.1)
Dividend	0	0	-	0	-	0	0	-
Other Financial Items	329	238	38.0	215	52.6	934	992	(5.9)
Forex	0	0	-	0	-	0	0	-
Total Financials	576	450	27.9	467	23.3	2,567	2,619	(2.0)
Income after financial items	2,763	3,430	(19.5)	1,711	61.5	8,076	7,702	4.9
Margin (%)	10.5	13.1	(256bps)	9.7	84bps	10.3	10.3	(3bps)
Associate Income	(289)	(222)	30.1	(320)	(9.8)	(1,103)	(610)	80.9
Pretax income	2,474	3,209	(22.9)	1,391	77.9	6,973	7,092	(1.7)
Total Non-Recurring	0	0	-	0	-	0	0	-
Reported Pretax	2,474	3,209	(22.9)	1,391	77.9	6,973	7,092	(1.7)
Taxation	0	0	-	0	-	0	0	-
Total	(647)	(821)	(21.2)	(425)	52.2	(1,913)	(1,804)	6.0
% of pretax income before Associates	23	24	(2.2)	25	0.0	95	95	0.0
Net income before minorities	1,827	2,387	(23.5)	966	89.2	5,060	5,288	(4.3)
Minorities	0	(10)	(99.0)	(6)	(98.3)	(19)	(37)	(48.0)
Net income after minorities	1,827	2,377	(23.1)	960	90.4	5,041	5,251	(4.0)
Tax on non-core	0	0	-	0	-	0	0	-
Core net income	1,827	2,377	(23.1)	960	90.4	5,041	5,251	(4.0)
Net margin (%)	6.9	9.0	(211bps)	5.4	152bps	6.4	7.0	(61bps)

Source: Company, BOBCAPS Research

Fig 2 – Segment performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenue								
Electromechanical Products	6,918	8,755	(21.0)	5,538	24.9	24,705	30,537	(19.1)
Unitary Cooling Products	18,184	16,547	9.9	10,936	66.3	48,819	40,501	20.5
Engineering Products and Services	1,235	977	26.4	1,247	(0.9)	4,887	3,595	35.9
Segment Profit								
Electromechanical Products	476	566	(16.0)	363	31.0	1,258	456	175.8
Unitary Cooling Products	1,919	2,610	(26.5)	1,017	88.7	5,134	5,651	(9.2)
Engineering Products and Services	408	338	20.7	400	1.9	1,579	1,143	38.1
Segment Margin (%)								
Electromechanical Products	6.9	6.5	41bps	6.6	32bps	5.1	1.5	360bps
Unitary Cooling Products	10.6	15.8	(522bps)	9.3	125bps	10.5	14.0	(344bps)
Engineering Products and Services	33.0	34.6	(157bps)	32.1	94bps	32.3	31.8	52bps

Source: Company, BOBCAPS Research

Valuation methodology

VOLT's stock price has rallied more than 100% since FY21 but declined by 13.3% since Jan'22 to underperform its closest peer BLSTR. We believe the ongoing inflationary environment will dent the demand recovery, though VOLT's market leadership and robust distribution network could help it buck the trend and grow market share. Further, its superior margins and ability to procure raw materials could enable it to better withstand cost inflation than peers.

We value the stock at 50x FY24E EPS, a 40% premium to its five-year average, and assume coverage with BUY for a TP of Rs 1,250. The stock is our preferred pick in the AC space.

Fig 3 – Estimate Vs. Consensus

(Rs mn)	BOBCAPS		Bloomberg		Variance (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	91.8	110.2	96.7	110.6	(5.1)	(0.3)
EBITDA	8.3	10.9	9.7	11.7	(14.2)	(6.7)
EBIT	7.9	10.5	9.4	11.1	(15.6)	(6.1)
Pretax Income	8.6	11.3	11.1	13.3	(22.8)	(14.7)
Net Income	6.1	8.2	7.9	9.8	(22.3)	(15.9)
EPS (Rs)	18.5	24.8	23.8	29.6	(22.2)	(16.2)

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- demand being impacted by pricing increases due to raw material inflation and/or a potential new Covid wave,
- intense competition, leading to challenges in growing market share in the RAC and water cooler business, and
- delays in infrastructure rollout, leading to slower growth in new orders for the EMP and HVAC businesses.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.6	3,725	3,471	HOLD
Blue Star	BLSTR IN	1.3	1,072	1,200	HOLD
Crompton Greaves	CROMPTON IN	3.0	365	621	BUY
Dixon Technologies	DIXON IN	3.0	3,910	5,431	HOLD
Havells India	HAVL IN	10.1	1,239	1,500	BUY
Orient Electric	ORIENTEL IN	0.9	308	381	HOLD
Polycab India	POLYCAB IN	4.7	2,418	2,401	HOLD
V-Guard Industries	VGRD IN	1.2	207	321	BUY
Voltas	VOLT IN	4.6	1,069	1,250	BUY
Whirlpool India	WHIRL IN	2.6	1,604	2,901	BUY

Source: BOBCAPS Research, NSE | Price as of 6 May 2022

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	4.5	4.6	4.4	3.8	3.1
EV/EBITDA	52.5	63.6	59.5	41.9	31.7
Adjusted P/E	67.6	83.1	86.1	57.7	43.1
P/BV	8.3	7.1	6.4	5.8	5.1

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%

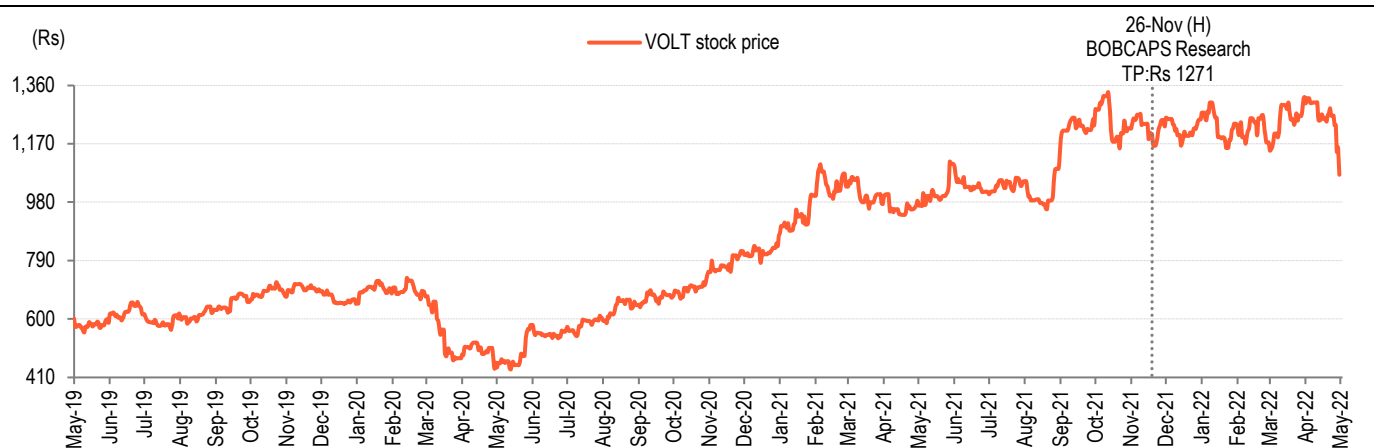
HOLD – Expected return from -6% to +15%

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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