

HOLD

TP: Rs 910 | ▲ 11%

VOLTAS

| Consumer Durables

| 21 October 2023

UCP upbeat but EMP plays spoilsport

- Q2 mixed with UCP performing well (+ 15% YoY) but EMP continuing to post losses due to collection disputes
- Medium-term outlook remains positive due to low AC penetration, product diversification via Voltbek and good prospects for EMP business
- We cut FY24/FY25 EPS by 9%/4% but retain our TP of Rs 910 on rollover – maintain HOLD given rising competitive headwinds

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UCP does well, EMP losses continue: VOLT posted 30% YoY topline growth to Rs 22.9bn and 10bps YoY gross margin expansion to 24.5% in Q2FY24. However, EBITDA margin contracted 260bps YoY to 3.1% due to higher promotion spends and employee costs. Revenue from the electro-mechanical projects (EMP) business grew 67% YoY to Rs 9.2bn, though losses continued due to provisions of Rs 860mn made on account of delayed collections in overseas projects. This caused adj. PAT to fall 64% YoY to Rs 357mn.

Room AC business lags peer HAVL: VOLT's unitary cooling products (UCP) revenue grew 15% YoY to Rs 12.1bn vs. 19% growth for rival HAVL (Lloyd). The segment's EBIT margin was up 40bps YoY to 7.7% and VOLT's exit market share stood at 19.5% (vs. 20.6% in Jun'22), with an average share of 19.2% for the last nine months.

Outlook remains positive: While competition is a key monitorable, our medium-term outlook on VOLT remains positive as the company looks to expand its footprint beyond room air conditioners (RAC) with Beko products. In the four years till FY23, Voltbek has sold an impressive 3.3mn units of refrigerators and washing machines. Similarly, in the domestic market, VOLT is targeting EMP business from solar, underground cabling and rural electrification projects. Water management is another focus area where it can handle the entire water treatment process.

EMP troubles to persist: VOLT's EMP business is currently incurring losses (Rs 490mn in Q2) due to disagreements with customers overseas, which has led to delayed collections. Management expects resolution over the next 3-4 quarters and indicated that it is being more selective in taking on projects to prevent such difficulties.

Maintain HOLD: Given market share concerns amid intensifying competition, we retain our HOLD rating on the stock. Following the Q2 results, we pare our FY24/FY25 EPS estimates by 9%/4% while retaining our TP at Rs 910 upon rolling valuations forward to Sep'25E. We continue to value the stock at a target P/E multiple of 40x, an 11% premium to the long-term average 2Y forward P/E.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	VOLT IN/Rs 819
Market cap	US\$ 3.3bn
Free float	70%
3M ADV	US\$ 12.5mn
52wk high/low	Rs 934/Rs 737
Promoter/FPI/DII	30%/21%/33%

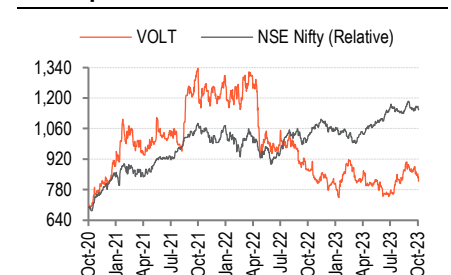
Source: NSE | Price as of 20 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	94,988	1,08,353	1,26,453
EBITDA (Rs mn)	5,724	7,413	10,057
Adj. net profit (Rs mn)	3,788	5,330	7,140
Adj. EPS (Rs)	11.4	16.1	21.6
Consensus EPS (Rs)	11.4	17.0	23.0
Adj. ROAE (%)	6.9	9.6	12.0
Adj. P/E (x)	71.5	50.8	37.9
EV/EBITDA (x)	47.3	36.5	26.9
Adj. EPS growth (%)	(24.8)	40.7	34.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Revenue	22,928	17,684	29.7	33,599	(31.8)	56,526	45,364	24.6
EBITDA	703	1,008	(30.3)	1,854	(62.1)	2,556	2,778	(8.0)
EBITDA Margin (%)	3.1	5.7	(260bps)	5.5	(250bps)	4.5	8.6	(410bps)
Depreciation	117	97		113		229	182	
Interest	115	67		101		216	107	
Other Income	710	644		700		1,410	911	
PBT	1,181	1,488	(20.6)	2,340	(49.5)	3,521	3,401	3.5
Tax	493	195		735		1,228	703	
Adjusted PAT	357	990	(64.0)	1,293	(72.4)	1,649	2,079	(20.7)
Exceptional item		1,064				-	1,064	
Reported PAT	357	(74)	(581.1)	1,293	(72.4)	1,649	1,015	62.6
Adj. PAT Margin (%)	1.6	5.6	(400bps)	3.8	(230bps)	2.9	4.6	(170bps)
EPS (Rs)	2.1	3.9	(46.8)	4.8	(57.1)	15.1	18.6	(18.8)

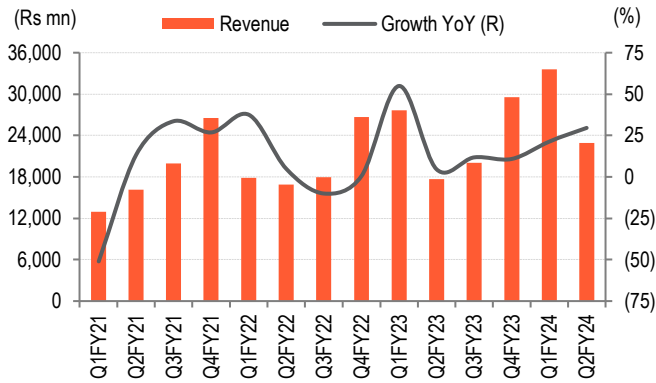
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

Particulars (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
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	9,242
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	66.8
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	1,344
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	(2.1)
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	12,088
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	15.4
EBIT														
Electro-Mechanical Projects and Services	(437)	5	322	566	306	113	363	476	(125)	143	(461)	(140)	(519)	(490)
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)	(5.3)
Engineering Products and Services	197	288	320	338	379	392	400	408	508	480	460	559	541	539
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	40.1
Unitary Cooling Products	1,140	856	1,046	2,610	1,180	1,017	1,017	1,919	1,662	765	895	2,057	2,073	928
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	7.7

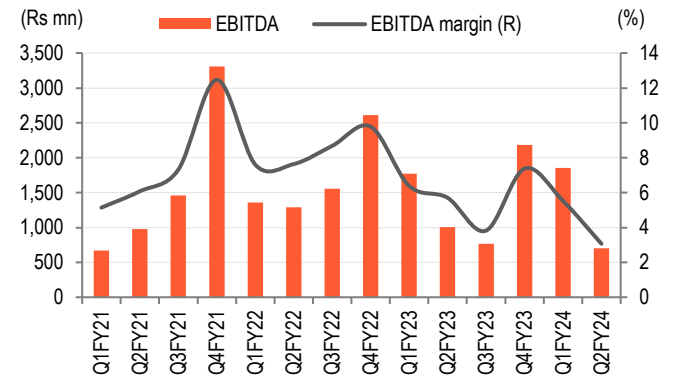
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth trend



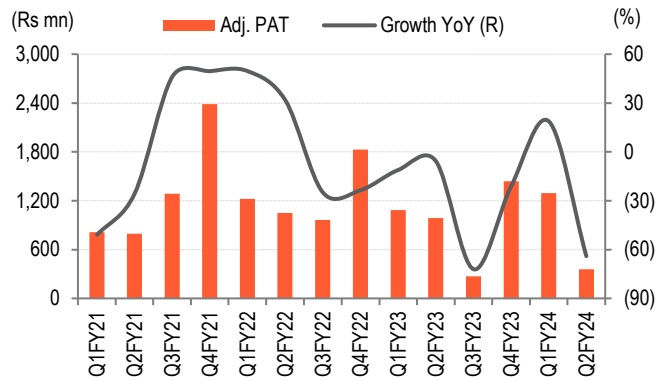
Source: Company, BOBCAPS Research

Fig 4 – EBITDA trend



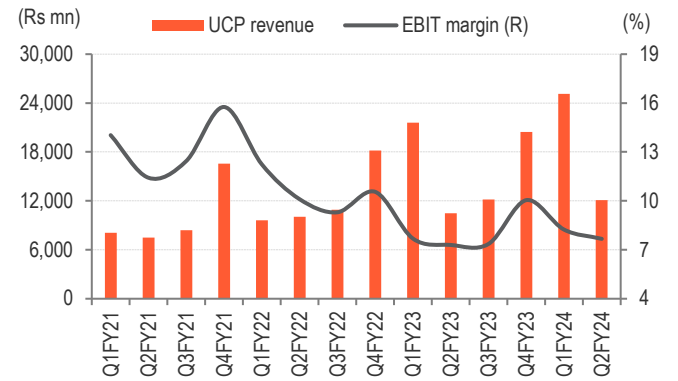
Source: Company, BOBCAPS Research

Fig 5 – Profit trend



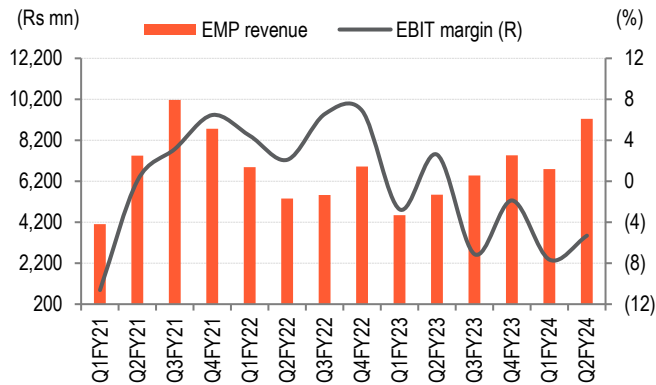
Source: Company, BOBCAPS Research

Fig 6 – UCP performance



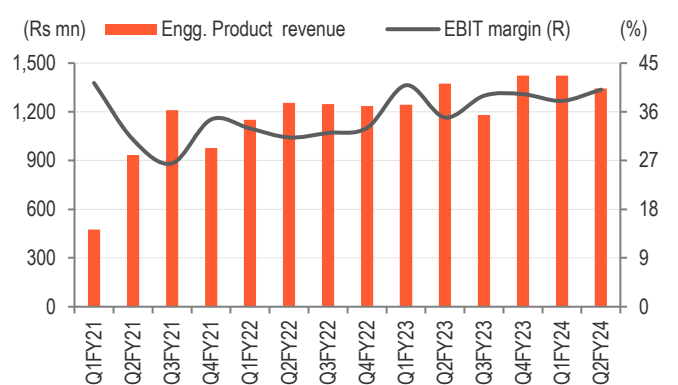
Source: Company, BOBCAPS Research

Fig 7 – EMP performance



Source: Company, BOBCAPS Research

Fig 8 – Engineering products and services performance



Source: Company, BOBCAPS Research

Earnings call highlights

Cash position and Capex

- **Balance sheet:** VOLT's balance sheet remains healthy with net cash of ~Rs 31bn as of Sep'23.
- **Capex:** The company plans to incur Rs 5bn-6bn in capex for FY24, largely toward its AC and refrigerator business. For Voltbek, it expects to incur only marginal capex during the year, which could rise in FY25 due to a localisation push.

Unitary cooling products (UCP)

- **Competition:** The market for cooling products is fragmented with 7-8 top players fighting for dominance, which explains the market intensity.
- **Product mix:** RACs contributed 80% of VOLT's UCP sales in Q2FY24, while commercial refrigeration and air coolers contributed 17-18% and 2-3% respectively.
- **Volumes:** Segmental volumes grew 20% YoY led by ACs and air coolers, with over 50% growth in air coolers.
- **Commercial refrigerators:** The category saw muted growth due to lower B2B investments because of slow demand for cold beverages, chocolates and ice creams.
- **Air coolers:** The vertical witnessed strong demand in East and South India, which resulted in more than 50% volume growth over the previous year with an exit market share of 7.7% for VOLT as of July.
- **Raw material cost:** Management expects the supply of aluminium and copper to exceed demand, aiding a further cooling of commodity prices.
- **Commercial air conditioning:** VOLT saw good demand for chillers and packaged air conditioners during the quarter.

Electro-Mechanical Projects and Services (EMP)

- **Order book:** The EMP segment ended the quarter with an order book of Rs 86.8bn vs. Rs 55bn at the end of Q2FY23. Domestic project order intake stood at Rs 6.7bn, largely in the electrical and MEP category, as compared to Rs 4.8bn during the previous quarter.
- **Profitability:** The EMP segment continued to record losses, at Rs 490mn in Q2, due to provisioning of Rs 860mn made on account of delayed collections in overseas projects due to disagreements with customers.
- **Project outlook:** Management is confident of its order intake given the capex upcycle in India and overseas. It is now exercising greater caution when taking on orders and expects newer projects to have a similar or better margin profile than existing ones.

Engineering Products and Services (EPS)

- **Revenue and margins:** The EPS segment forms a small part of VOLT's business and was flatish YoY at Rs 1.3bn with an EBIT margin of 40.1% in Q2. The strong performance can be largely attributed to Mozambique operations and an increased focus on the sale of accessories.

Voltas Beko (Voltbek)

- **Volume growth:** Voltbek's volumes grew more than 40% YoY in Q2 against muted growth for the industry. During the quarter, the company crossed cumulative volumes of 4mn units since the launch of commercial sales, becoming the fastest brand to achieve this milestone.
- **Premiumisation:** In line with the company's premiumisation efforts, the overall revenue share of frost-free refrigerators and automatic washing machines has increased over the previous year.
- **Market share:** Voltbek's market share stood at 3.3% for refrigerators and 5.4% for washing machines in Q2.

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 this segment is positive given the current capex cycle.

Considering market share concerns amid intensifying competition, we retain our HOLD rating on the stock. Following the Q2 results, we pare our FY24/FY25 EPS estimates by 9%/4% while retaining our TP at Rs 910 upon rolling valuations forward to Sep'25E. We continue to value the stock at a target P/E multiple of 40x, an 11% premium to the long-term average two-year forward P/E multiple.

Fig 9 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	1,08,353	1,26,453	1,07,632	1,27,104	0.7	(0.5)
EBITDA	7,413	10,057	8,631	10,941	(14.1)	(8.1)
PAT	5,330	7,140	5,866	7,471	(9.1)	(4.4)
EPS (Rs)	16.1	21.6	17.7	22.6	(9.1)	(4.4)
EBITDA Margin (%)	6.8	8.0	8.0	8.6	(120bps)	(70bps)

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 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
Crompton Greaves	CROMPTON IN	2.2	286	360	BUY
Havells India	HAVL IN	9.9	1,293	1,600	BUY
KEI Industries	KEII IN	2.9	2,629	2,300	HOLD
Orient Electric	ORIENTEL IN	0.6	221	250	HOLD
Polycab India	POLYCAB IN	9.5	5,227	6,100	BUY
V-Guard Industries	VGRD IN	1.6	309	290	HOLD
Voltas	VOLT IN	3.3	819	910	HOLD

Source: BOBCAPS Research, NSE | Price as of 20 Oct 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	79,345	94,988	1,08,353	1,26,453	1,43,875
EBITDA	6,816	5,724	7,413	10,057	11,711
Depreciation	373	396	469	677	836
EBIT	6,443	5,327	6,944	9,380	10,875
Net interest inc./(exp.)	(259)	(296)	(515)	(667)	(756)
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	8,619	11,012	12,534
Income taxes	1,913	1,709	2,189	2,772	3,155
Extraordinary items	0	2,438	860	0	0
Min. int./Inc. from assoc.	(1,103)	(1,207)	(1,100)	(1,100)	(1,100)
Reported net profit	5,041	1,350	4,470	7,140	8,279
Adjustments	0	2,438	860	0	0
Adjusted net profit	5,041	3,788	5,330	7,140	8,279

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	29,421	30,126	29,686	36,377	42,177
Other current liabilities	7,707	10,029	10,390	12,126	13,796
Provisions	0	0	0	0	0
Debt funds	3,432	6,506	7,356	8,341	9,449
Other liabilities	1,909	1,609	1,776	2,003	2,222
Equity capital	331	331	331	331	331
Reserves & surplus	54,665	54,190	56,509	61,498	67,627
Shareholders' fund	54,996	54,521	56,840	61,829	67,958
Total liab. and equities	97,463	1,02,790	1,06,047	1,20,677	1,35,602
Cash and cash eq.	5,717	7,084	2,321	281	386
Accounts receivables	21,097	21,919	22,264	24,944	27,987
Inventories	16,614	15,920	18,999	22,519	24,833
Other current assets	15,365	19,543	17,223	19,754	21,687
Investments	0	0	0	0	0
Net fixed assets	2,305	3,611	5,641	6,964	8,129
CWIP	593	983	1,121	1,308	1,488
Intangible assets	999	1,142	1,303	1,520	1,730
Deferred tax assets, net	0	0	0	0	0
Other assets	34,775	32,590	37,176	43,386	49,363
Total assets	97,463	1,02,790	1,06,047	1,20,677	1,35,602

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	5,842	1,594	3,754	7,513	9,296
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	(4,717)	(6,388)	(6,148)
Cash flow from investing	(3,646)	(816)	(7,217)	(8,388)	(8,148)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(166)	2,728	850	986	1,108
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
Cash flow from financing	(1,070)	550	(1,301)	(1,165)	(1,043)
Chg in cash & cash eq.	1,126	1,328	(4,763)	(2,040)	104
Closing cash & cash eq.	5,717	7,084	2,321	281	386

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	15.2	4.1	13.5	21.6	25.0
Adjusted EPS	15.2	11.4	16.1	21.6	25.0
Dividend per share	5.5	4.3	6.5	6.5	6.5
Book value per share	166.2	164.8	171.8	186.9	205.4

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.4	2.9	2.5	2.1	1.9
EV/EBITDA	39.7	47.3	36.5	26.9	23.1
Adjusted P/E	53.7	71.5	50.8	37.9	32.7
P/BV	4.9	5.0	4.8	4.4	4.0

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	62.4	56.4	61.8	64.8	66.1
Interest burden (PBT/EBIT)	125.3	126.1	124.1	117.4	115.2
EBIT margin (EBIT/Revenue)	8.1	5.6	6.4	7.4	7.6
Asset turnover (Rev./Avg TA)	34.4	26.3	19.2	18.2	17.7
Leverage (Avg TA/Avg Equity)	0.0	0.1	0.1	0.1	0.1
Adjusted ROAE	9.6	6.9	9.6	12.0	12.8

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	5.0	19.7	14.1	16.7	13.8
EBITDA	6.3	(16.0)	29.5	35.7	16.4
Adjusted EPS	(4.7)	(24.8)	40.7	34.0	15.9
Profitability & Return ratios (%)					
EBITDA margin	8.6	6.0	6.8	8.0	8.1
EBIT margin	8.1	5.6	6.4	7.4	7.6
Adjusted profit margin	6.4	4.0	4.9	5.6	5.8
Adjusted ROAE	9.6	6.9	9.6	12.0	12.8
ROCE	9.4	6.7	9.1	11.3	11.9
Working capital days (days)					
Receivables	97	84	75	72	71
Inventory	76	61	64	65	63
Payables	135	116	100	105	107
Ratios (x)					
Gross asset turnover	16.2	16.6	13.8	12.5	11.9
Current ratio	1.4	1.4	1.3	1.2	1.2
Net interest coverage ratio	24.9	18.0	13.5	14.1	14.4
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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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

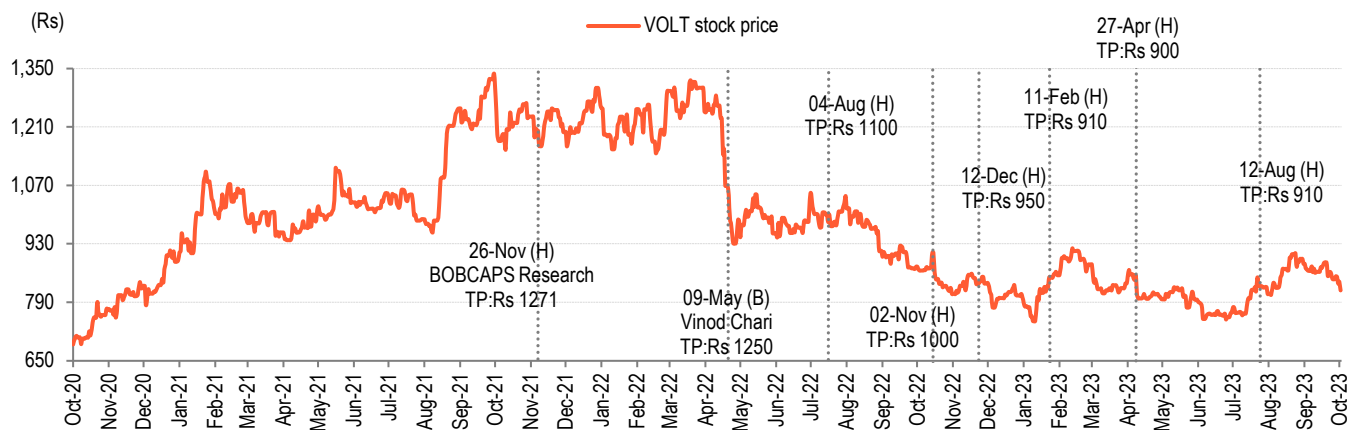
HOLD – Expected return from -6% to +15%

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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