

**HOLD**

TP: Rs 900 | ▲ 11%

**VOLTAS**

| Consumer Durables

| 27 April 2023

## EMP underperformance overshadows resilient cooling business

- UCP EBIT margin returns to double digits in Q4 after languishing at 7-8% over the first three quarters
- Provisions toward delayed collections resulted in EMP losses even though the segment showed modest topline growth
- FY24/FY25 EBITDA margin estimates cut by 50bps each; maintain HOLD with a revised TP of Rs 900 (vs. Rs 910)

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**Strong topline with lower margins:** VOLT's Q4FY23 topline at Rs 29.6bn came in 9% ahead of our expectations, albeit in line with consensus despite a challenging business environment. EBITDA margin at 7.4% (-240bps YoY) fell short of our/consensus estimates by 90bps/140bps on account of higher raw material cost (+13% YoY) and other expenses (+35%). Adj. PAT stood at Rs 1.4bn (-21% YoY), below our/consensus forecasts of Rs 1.6bn/Rs 1.8bn on weakness in EMP business.

**EMP underperformance continues:** The company reported EMP revenue growth of 8% YoY to Rs 7.5bn despite a high base, bolstered by its carry-forward order book that expanded to Rs 81.5bn from Rs 53.6bn in Q4FY22. Domestic order booking maintained traction, scaling up to Rs 19.1bn against Rs 8.5bn in Q4FY22. However, the business incurred losses to the tune of Rs 140mn on account of provisioning towards collection delays, which dragged down VOLT's overall Q4 performance.

**UCP gaining traction:** UCP revenue was resilient at Rs 20.5bn (+13% YoY) in the face of unseasonal rains and weak consumer sentiments, laying the ground for a strong performance in the seasonally favourable June quarter. UCP EBIT margin climbed back to double digits at 10%. Sustainability at these levels remains a key monitorable. VOLT's UCP market share was at 21.9% YTD as of Feb'23, down 360bps when compared with the 25.4% clocked in Jan'22 (22.5% YTD Dec'22).

**Highly JV called-off:** VOLT has terminated the joint venture agreement with Highly International for compressor manufacturing in India as it did not receive the requisite regulatory approvals.

**Maintain HOLD:** The constant drop in market share amid intensified competition has been a challenge for the company in the recent past. We cut our FY24/FY25 EBITDA margin estimates by 50bps each and EPS by 9%/8% to bake in the FY23 numbers. On rolling valuations over to FY25E, we have a revised TP of Rs 900 (vs. Rs 910), set at an unchanged P/E multiple of 40x – 11% premium to the stock's long-term average 2Y forward P/E. Maintain HOLD.

### Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	VOLT IN/Rs 808
Market cap	US\$ 3.3bn
Free float	70%
3M ADV	US\$ 14.3mn
52wk high/low	Rs 1,299/Rs 737
Promoter/FPI/DII	30%/21%/33%

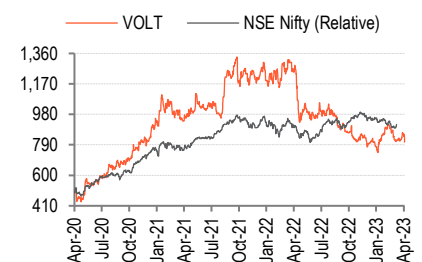
Source: NSE | Price as of 27 Apr 2023

### Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	94,988	107,632	127,104
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)	16.0	22.7	27.9
Adj. ROAE (%)	6.9	10.4	12.3
Adj. P/E (x)	70.6	45.6	35.8
EV/EBITDA (x)	46.7	31.0	24.4
Adj. EPS growth (%)	(24.8)	54.9	27.4

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

### Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue	29,568	26,666	10.9	20,056	47.4	94,988	79,345	19.7
EBITDA	2,182	2,610	(16.4)	764	185.7	5,724	6,816	(16.0)
EBITDA Margin (%)	7.4	9.8	(240bps)	3.8	360bps	6.0	8.6	(260bps)
Depreciation	104	95	-	111	-	396	373	-
Interest	124	125	-	64	-	296	259	-
Other Income	467	372	-	307	-	1,685	1,892	-
PBT	2,420	2,762	(12.4)	895	170.3	6,716	8,076	(16.8)
Tax	706	647	-	300	-	1,709	1,913	-
Adjusted PAT	1,439	1,827	(21.2)	270	432.8	3,788	5,041	(24.8)
Exceptional item	-	-	-	1,374	-	2,438	-	-
Reported PAT	1,439	1,827	(21.2)	(1,104)	(230.4)	1,350	5,041	(73.2)
Adj. PAT Margin (%)	4.9	6.9	(200bps)	1.3	350bps	4.0	6.4	(240bps)
EPS (Rs)	5.2	6.4	(19.0)	1.8	188.0	15.1	18.6	(18.8)

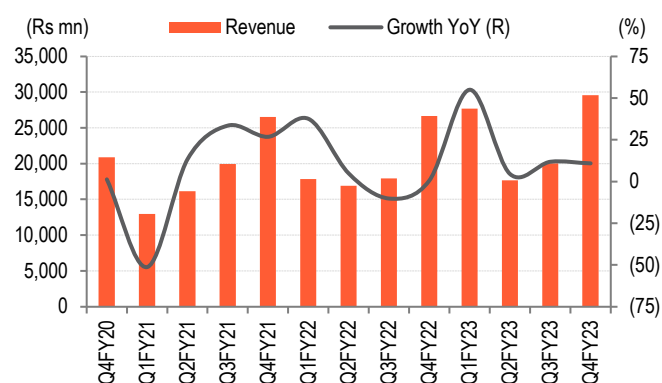
Source: Company, BOBCAPS Research

**Fig 2 – Actual vs. Estimates**

Particulars (Rs mn)	Actual	Estimates	Variance (%)
Revenue	29,568	27,076	9.2
EBITDA	2,182	2,244	(2.8)
EBITDA Margin (%)	7.4	8.3	(90bps)
Adj. PAT	1,439	1,611	(10.7)

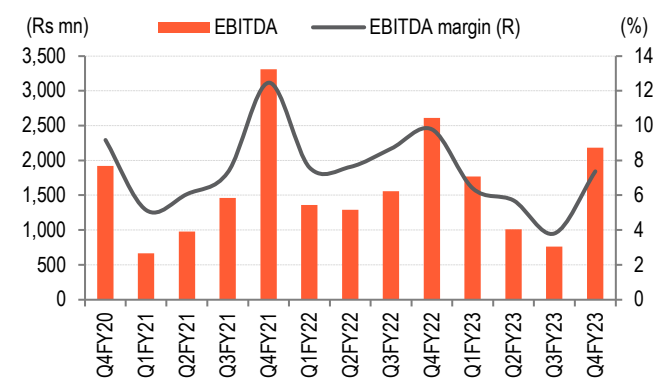
Source: Company, BOBCAPS Research

**Fig 3 – Revenue growth trend**



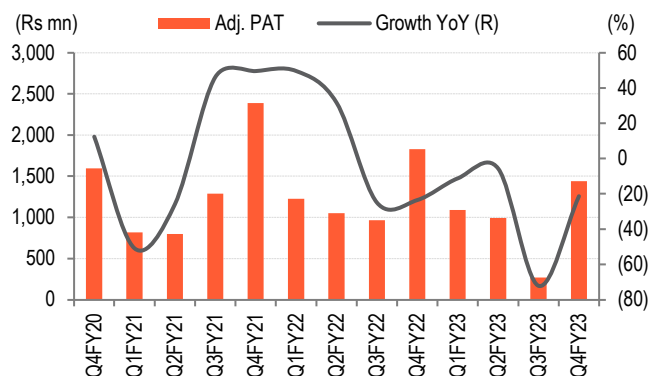
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA growth trend**



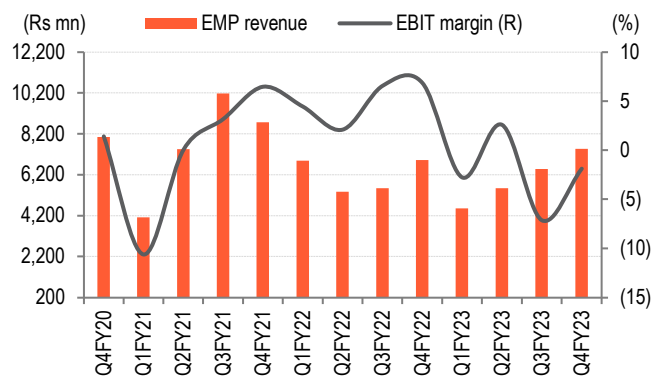
Source: Company, BOBCAPS Research

**Fig 5 – Profitability growth trend**



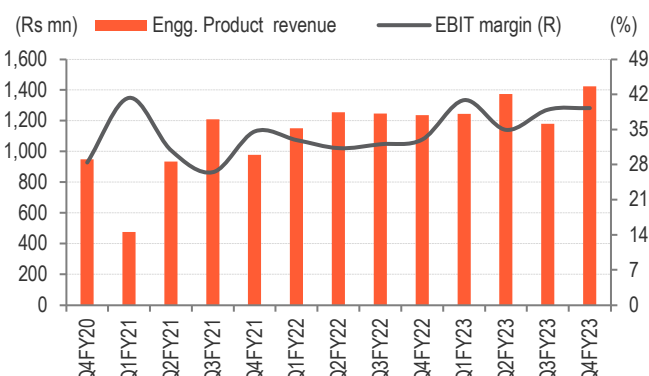
Source: Company, BOBCAPS Research

**Fig 6 – EMP business growth trend**



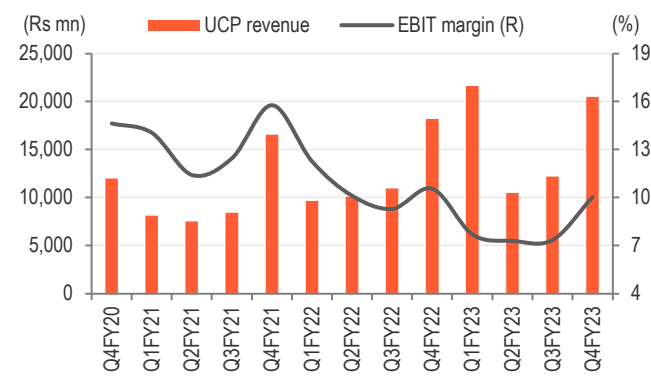
Source: Company, BOBCAPS Research

**Fig 7 – Engg. Product business growth trend**



Source: Company, BOBCAPS Research

**Fig 8 – UCP business growth trend**



Source: Company, BOBCAPS Research

### Earning call highlights

- Unitary cooling products (UCP):** As indicated earlier by management, VOLT did not take any price hikes in the cooling business during April. Competitors have given discounts, but the company does not find it prudent to do so and expects to regain market share once other players return to normal price levels. Inventory at channel partners had piled up during March due to unseasonal rains, but the problem seems to have cleared up now. The company expects some volatility on its high-single-digit margin outlook for the UCP segment.

VOLT posted 18.2% market share for the month of February, registering a steady decline over the last year, with players like Daikin, BLSTR and Lloyd gaining ground. Private retail partners such as Croma also seem to be cannibalising on VOLT’s lower end products. BLSTR is increasingly gaining traction in the northern parts of India.

- Electromechanical products (EMP):** Order booking in the EMP business was up to the mark in Q4FY23, but the company has made provisions during the quarter with respect to certification and collection delays. Provisions made in Q2 and Q3 of FY23 relating to encashment by counterparties are currently under legal action, which management expects will be resolved in 12-24 months. VOLT’s international

order book stood at Rs 23.6bn as of Q4, largely from the UAE and Saudi Arabia. The total order book stood at Rs 81.5bn in FY23 vs. Rs 53.6bn in FY22.

- **Engineering products:** The segment did reasonably well in Q4FY23 due to innovations and original equipment manufacturing, but textile demand was lower.
- **Voltas Beko:** Beko saw healthy volume growth of 26% YoY for Q4 and 15-18% for FY23, with total volumes for the year in excess of 1.4mn units. The company has not taken any pricing action here, but saw a volume-led turnover of Rs 10bn in FY23. It has a market share of 5.3% vs. 4.4% last year, and an 8.9% market share in semiautomatic washing machines.
- **Capex:** VOLT plans on incurring capex of Rs 35mn-45mn on commercial refrigeration, air conditioning products, and the production-linked incentive (PLI) scheme for backward integration at its Chennai project over the next 18 months.
- **JV with Highly International (Hong Kong):** VOLT and Highly have mutually terminated the JV that was created for the manufacture of compressors in India due to a lack of approvals. Without a partner, it might be difficult or cost more to set up manufacturing, though VOLT plans to enter into long-term arrangements to mitigate the same.
- **Backward integration into compressor manufacturing:** China is the largest manufacturer of compressors with ~90% market share globally. Indian manufacturers are producing only enough to meet their internal requirements, as compressor requirements for the domestic AC market alone total ~10mn units.

## Valuation methodology

The constant drop in market share amid intensified competition has been a challenge for VOLT in the recent past. Sustainability of UCP EBIT margin at the higher levels seen in Q4FY23 and smooth execution of EMP orders are other key monitorables.

We bake in the FY23 numbers by cutting our FY24/FY25 EBITDA margin estimates by 50bps each and EPS estimates by 9%/8%. On rolling valuations over to FY25E, we have a revised TP of Rs 900 (vs. Rs 910), set at an unchanged P/E multiple of 40x – 11% premium to the stock's long-term average two-year forward P/E. Maintain HOLD given limited upside potential.

**Fig 9 – Revised estimates**

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	107,632	127,104	107,669	127,359	(0.0)	(0.2)
EBITDA	8,631	10,941	9,143	11,579	(5.6)	(5.5)
PAT	5,866	7,471	6,415	8,078	(8.6)	(7.5)
EPS (Rs)	17.7	22.6	19.4	24.4	(8.6)	(7.5)
EBITDA Margin (%)	8.0	8.6	8.5	9.1	(50bps)	(50bps)

Source: Company, BOBCAPS Research

## Key risks

- Above-expected summer season sales, yielding higher volume growth, and incremental market share despite a competitive environment represent upside risks to our estimates.
- Higher provisioning towards the EMP business is a key downside risk.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.8	1,839	2,100	HOLD
Crompton Greaves	CROMPTON IN	2.0	260	440	BUY
Dixon Technologies	DIXON IN	2.1	2,879	4,100	BUY
Havells India	HAVL IN	9.3	1,221	1,500	BUY
KEI Industries	KEII IN	2.1	1,898	1,900	BUY
Orient Electric	ORIENTEL IN	0.6	220	290	HOLD
Polycab India	POLYCAB IN	5.8	3,189	3,300	BUY
Syrma SGS	SYRMA IN	0.6	295	400	BUY
V-Guard Industries	VGRD IN	1.3	255	260	HOLD
Voltas	VOLT IN	3.3	808	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 27 Apr 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>75,558</b>	<b>79,345</b>	<b>94,988</b>	<b>107,632</b>	<b>127,104</b>
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)
<b>Reported net profit</b>	<b>5,288</b>	<b>5,041</b>	<b>1,350</b>	<b>5,866</b>	<b>7,471</b>
Adjustments	0	0	2,438	0	0
<b>Adjusted net profit</b>	<b>5,288</b>	<b>5,041</b>	<b>3,788</b>	<b>5,866</b>	<b>7,471</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	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
<b>Total liab. and equities</b>	<b>86,555</b>	<b>97,463</b>	<b>102,790</b>	<b>107,123</b>	<b>122,704</b>
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
<b>Total assets</b>	<b>86,555</b>	<b>97,463</b>	<b>102,790</b>	<b>107,123</b>	<b>122,704</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>5,561</b>	<b>5,842</b>	<b>1,594</b>	<b>5,310</b>	<b>7,273</b>
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)
<b>Cash flow from investing</b>	<b>(2,559)</b>	<b>(3,646)</b>	<b>(816)</b>	<b>(6,962)</b>	<b>(8,872)</b>
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
<b>Cash flow from financing</b>	<b>(1,215)</b>	<b>(1,070)</b>	<b>550</b>	<b>(1,347)</b>	<b>(1,078)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,787</b>	<b>1,126</b>	<b>1,328</b>	<b>(2,999)</b>	<b>(2,677)</b>
<b>Closing cash &amp; cash eq.</b>	<b>4,588</b>	<b>5,717</b>	<b>7,084</b>	<b>4,085</b>	<b>1,408</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	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	FY23P	FY24E	FY25E
EV/Sales	3.5	3.4	2.8	2.5	2.1
EV/EBITDA	41.7	39.2	46.7	31.0	24.4
Adjusted P/E	50.6	53.1	70.6	45.6	35.8
P/BV	5.4	4.9	4.9	4.6	4.2

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	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	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
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
<b>Profitability &amp; Return ratios (%)</b>					
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
<b>Working capital days (days)</b>					
Receivables	87	97	84	75	72
Inventory	62	76	61	64	65
Payables	119	135	116	100	105
<b>Ratios (x)</b>					
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

## Disclaimer

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

**BUY** – Expected return >+15%

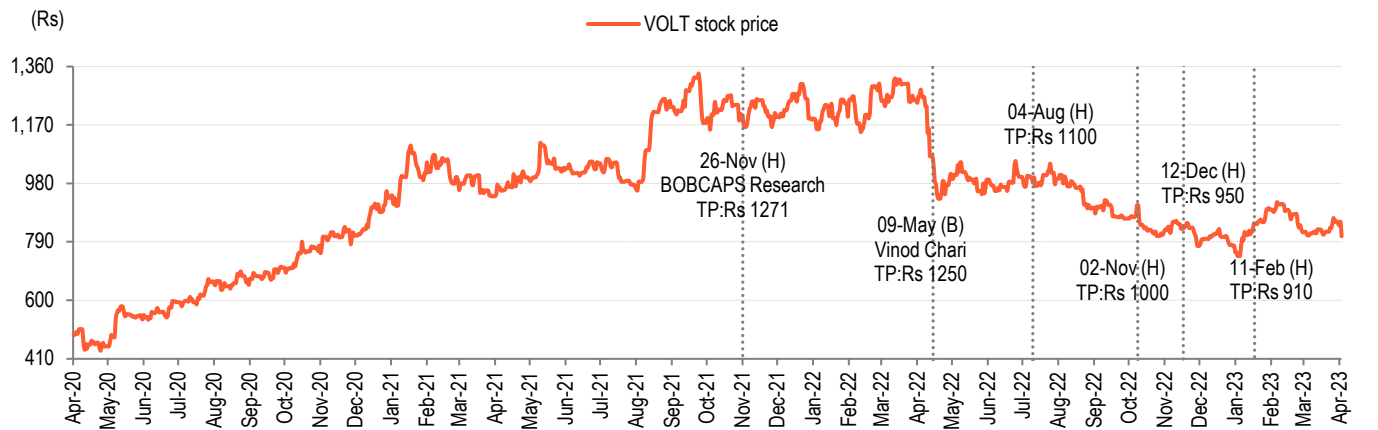
**HOLD** – Expected return from -6% to +15%

**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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