

RESEARCH

BOB ECONOMICS RESEARCH | WPI

WPI at 7.5 year low

VOLTAS | TARGET: Rs 900 | +10% | HOLD

Management meet takeaways – Trying times

SUMMARY

INDIA ECONOMICS: WPI

WPI inflation continued to remain in deflation in May'23 as it fell to (-) 3.5% from (-) 0.9% in Apr'23, thus dropping to its 7.5 year low. All three sub-indices continued to ease further. Both food and fuel entered deflation for the first time since Jan'21.

While drop in food inflation was helped by significant decline in vegetable prices, cereal inflation also moderated. However, upside pressures were visible in prices of paddy, fruits, and pulses. Fuel and power inflation was supported by broad-based decline in sub-indices, led by mineral oil index. Continued decline in international oil prices and favourable base effect also helped.

[Click here for the full report.](#)

VOLTAS

- Q1FY24 growth likely to fall short of expectations as unseasonal showers dampened summer demand
- Unwillingness to hike prices due to intense competition point to continuation of subdued single-digit UCP EBIT margin
- Room AC segment remains under pressure but project business outlook looks positive; maintain HOLD, TP Rs 900

[Click here for the full report.](#)

Daily macro indicators

Ticker	12-Jun	13-Jun	Chg (%)
US 10Y yield (%)	3.74	3.81	8bps
India 10Y yield (%)	7.02	7.00	(2bps)
USD/INR	82.43	82.38	0.1
Brent Crude (US\$/bbl)	71.8	74.3	3.4
Dow	34,066	34,212	0.4
Hang Seng	19,404	19,521	0.6
Sensex	62,725	63,143	0.7
India FII (US\$ mn)	09-Jun	12-Jun	Chg (\$ mn)
FII-D	12.3	28.5	16.2
FII-E	(16.2)	(72.1)	(55.9)

Source: Bank of Baroda Economics Research



WPI

14 June 2023

WPI at 7.5 year low

WPI inflation continued to remain in deflation in May'23 as it fell to (-) 3.5% from (-) 0.9% in Apr'23, thus dropping to its 7.5 year low. All three sub-indices continued to ease further. Both food and fuel entered deflation for the first time since Jan'21. While drop in food inflation was helped by significant decline in vegetable prices, cereal inflation also moderated. However, upside pressures were visible in prices of paddy, fruits, and pulses. Fuel and power inflation was supported by broad-based decline in sub-indices, led by mineral oil index. Continued decline in international oil prices and favourable base effect also helped.

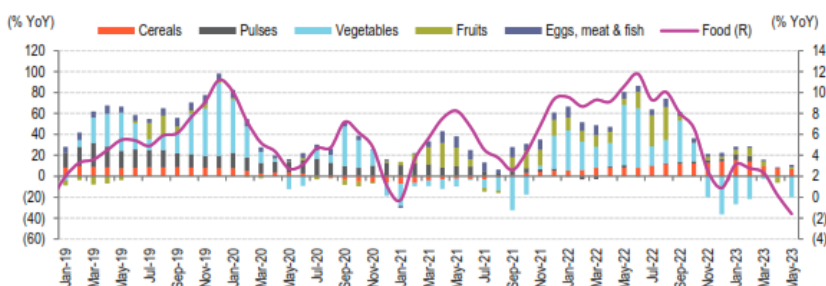
Sonal Badhan
Economist

Core WPI also fell (-2.2% versus -1.8%). Manufactured product inflation cooled off further in May'23, however, international prices show that pace of contraction in prices is easing, which was also reflected in certain domestic commodities (aluminium, copper). Going ahead, while fuel and manufactured product inflation will remain muted, trajectory of monsoon will be critical in determining the course of domestic food inflation.

Food inflation enters deflation:

Headline WPI fell more than expected in May'23. It was down by (-) 3.5% versus our estimate of (-) 1.7% and (-) 0.9% in Apr'23, to reach its lowest point since Dec'15. Food inflation eased considerably and entered deflation in May'23 (-1.6%) for the first time since Jan'21 (-0.3%) and was down from 0.2% in Apr'23. Within food, most significant decline was noted in price index for vegetables (-20.1% versus -1.5%), led by drop in prices of tomato (-62.1% versus -14.9%), cabbage (-29% versus -19.7%), and drumstick (-5.6% versus 7%). In addition, food grain inflation slowed (6.6% versus 7.2%), mainly due to cereals (6.9% versus 7.7%), while inflation in pulses was seen going up (5.8% versus 5.6%). Within cereals, wheat inflation (6.1% versus 7.3%) led the decline, while paddy prices continued to inch up (7.3% versus 7.1%). This is broadly in line with the trend seen in international prices. As indicated by World Bank's pink sheet, paddy prices rose by 11.1% in May'23 following 15.4% increase in Apr'23, while wheat prices declined at a faster pace (-35% versus -29%). On the other hand, within food inflation, upside pressures were seen emerging from prices of fruits (1.9% versus -4.5%), eggs, meat & fish (2.1% versus 0.8%), and spices (14.4% versus 13.8%).

Figure 1: Food inflation dropped in May'23



Source: CEIC, Bank of Baroda Research



HOLD

TP: Rs 900 | ▲ 10%

VOLTAS

Consumer Durables

14 June 2023

Management meet takeaways – Trying times

- Q1FY24 growth likely to fall short of expectations as unseasonal showers dampened summer demand
- Unwillingness to hike prices due to intense competition point to continuation of subdued single-digit UCP EBIT margin
- Room AC segment remains under pressure but project business outlook looks positive; maintain HOLD, TP Rs 900

Vinod Chari | Nilesh Patil
 Swati Jhunjhunwala
 research@bobcaps.in

We interacted with VOLT's management and the following are key takeaways:

Q1FY24 to be tepid for RAC business: Per management, the room air conditioner (RAC) business did well in April, but VOLT saw below-expected volume growth in the key month of May due to unseasonal rain. Sales in the first half of June have been healthy, but the company expects the slowdown in May to weaken the growth rate for Q1FY24 to single digits from double-digit growth anticipated earlier.

Margins likely to remain subdued: Based on cues from summer season demand, VOLT does not expect to take any price hikes in Q1 – making June the 13 straight month without pricing action. The benefit of lower commodity prices will take time to flow in. Also, due to a spillover of high-cost inventory, raw material cost is likely to move up in Q1. The company indicated that SG&A expense will also rise in Q1 as it has stepped up advertising spends. Hence, management is sticking to its guidance of high-single-digit EBIT margins in the unitary cooling product (UCP) segment despite a 10% exit margin in FY23.

Brands carrying higher inventory: Inventory in the system is currently running at 45-50 days, in line with the normal stock for summer, but dealers are not placing many orders given the unseasonal rains in May. This has resulted in lower primary sales and inventory of 90 days with companies.

Balancing market share and margins: VOLT ended FY23 with 21.3% market share but has begun taking a conscious approach to balance growth and margins. Thus, market share in March and April was ~18% lower than the FY23 average. The objective is to hold onto share and also protect margins as far as possible.

Project business steady: VOLT's project business has a Rs 81.5bn order book, and management's outlook remains positive.

Maintain HOLD: Given market share bleed amid intensifying competition in the RAC business, we retain HOLD. Our TP remains at Rs 900 as we continue to value the stock at 40x FY25E EPS, a 11% premium to the long-term average 2Y forward P/E.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	VOLT IN/Rs 815
Market cap	US\$ 3.3bn
Free float	70%
3M ADV	US\$ 11.6mn
52wk high/low	Rs 1,065/Rs 737
Promoter/FPI/DII	30%/21%/33%

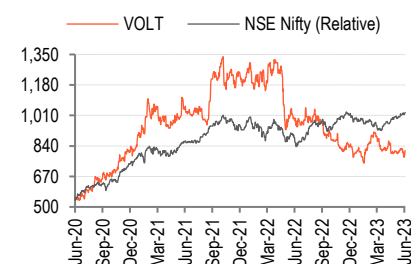
Source: NSE | Price as of 14 Jun 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	94,988	1,07,632	1,27,104
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)	11.4	22.7	27.9
Adj. ROAE (%)	6.9	10.4	12.3
Adj. P/E (x)	71.2	46.0	36.1
EV/EBITDA (x)	47.1	31.3	24.7
Adj. EPS growth (%)	(24.8)	54.9	27.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA (“US”) OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**

Logo:  **BOBCAPS**
 TRUST | INNOVATION | EXCELLENCE

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

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.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "**Losses**") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd ("**MSL**") who is authorised and regulated by the Financial Conduct Authority ("**FCA**") in the United Kingdom (MSL and its affiliates are collectively referred to as "**MAYBANK**"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.