

HOLD
 TP: Rs 1,600 | ▲ 4%

VOLTAS

Consumer Durables

16 August 2024

Strong revenue: UCP leads; EMP turns around

- Topline surged 46.5% YoY in Q1; EBITDA margin expanded 310bps YoY, boosted by nationwide heatwave
- UCP volumes jumped 67% YoY and market share 21.2% in Q1; EMP business turned around
- We raise FY25E/FY26E EPS by 2%/5% as EMP turns positive and domestic business looks promising. Revise TP to Rs 1,600

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Strong revenue outpaces estimates: VOLT delivered a strong performance in Q1, with topline growing 46.5% YoY to Rs 49.2bn, exceeding our estimate of Rs 45.3bn. Despite the robust revenue, gross margin contracted by 20bps, largely attributable to the rise in raw material prices. However, EBITDAM improved 310bps YoY, driven primarily by the strong performance of the Unitary Cooling Products (UCP) segment, where volume grew 67%. The EMP business turned around significantly, reporting bottom-line profits after 6 consecutive quarters of losses. APAT stood at Rs 3.3bn.

UCP leads; results in expanded market share: The UCP segment achieved strong topline growth of 51.2% in Q4, surpassing peers such as Blue Star (+44%) and Lloyd (+47%). The EBIT margin for UCP reached 8.6%, reflecting 40bps YoY expansion. Although this margin remains above Lloyd's 3.3%, it falls slightly short of Blue Star's 9.1%. By the end of Jun'24, UCP's market share in the RAC segment climbed to 21.2%, up from 18.7% in Mar'24. This performance is notable given that UCP sold 1mn units in Q1 alone, compared to 2mn units sold over the entire FY24, highlighting significant volume growth.

EMP segment surges; with strong turnaround: The Electro-Mechanical Projects and Services (EMP) segment rebounded strongly in Q1, with topline growing a notable 39.8%, and turning positive after six consecutive loss-making quarters. EBIT margin improved to 7.1%, reversing the previous EBIT loss of Rs 519mn from Q1FY24. Management has retained its guidance of 4-5% EBIT margin in this business, and expects the domestic business to grow well within this segment. The order book stood at Rs 75bn, of which the domestic business accounted for Rs 47.6bn and international business Rs 27.3bn.

Profit outlook brightens: EPS upgraded, TP increased to Rs 1,600: With the EMP segment turning around, we anticipate sustained profits moving forward. Margin expansion in the UCP segment, continued growth in VOLTBEK, and planned capacity expansions over the next two years could enhance profit visibility, in our view. Hence, we raise our FY25/FY26 EPS estimates by 2%/5%, and continue to value VOLT at 49x, in line with its 3Y average. Our revised TP is Rs 1,600. HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	VOLT IN/Rs 1,535
Market cap	US\$ 6.1bn
Free float	70%
3M ADV	US\$ 27.2mn
52wk high/low	Rs 1,599/Rs 800
Promoter/FPI/DII	30%/21%/33%

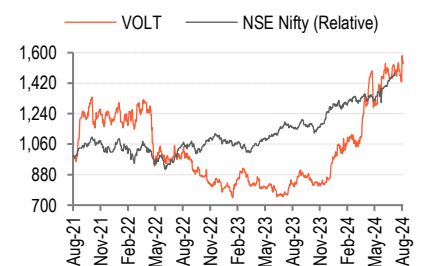
Source: NSE | Price as of 16 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	124,812	148,986	174,086
EBITDA (Rs mn)	4,746	11,533	14,251
Adj. net profit (Rs mn)	2,520	8,187	10,022
Adj. EPS (Rs)	7.6	24.7	30.3
Consensus EPS (Rs)	7.6	24.5	31.0
Adj. ROAE (%)	4.5	13.4	14.7
Adj. P/E (x)	201.6	62.0	50.7
EV/EBITDA (x)	107.0	44.0	35.6
Adj. EPS growth (%)	(33.5)	224.9	22.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Q1FY25E	Variance (%)
Revenue	49,210	33,599	46.5	42,029	17.1	45,358	8.5
EBITDA	4,238	1,854	128.6	1,906	122.4	3,016	40.5
EBITDA Margin (%)	8.6	5.5	310bps	4.5	410bps	6.6	200bps
Depreciation	134	113		118			
Interest	98	101		208			
Other Income	803	700		544			
PBT	4,809	2,340	105.5	2,124	126.4		
Tax	1,165	735		634			
Adjusted PAT	3,350	1,293	159.1	1,106	202.8	2,293	46.1
Exceptional item	-	-		0			
Reported PAT	3,342	1,293	158.5	1,164	187.0		
Adj. PAT Margin (%)	6.8	3.8	300bps	2.6	420bps		
EPS (Rs)	10.1	3.9	158.5	3.5	187.0		

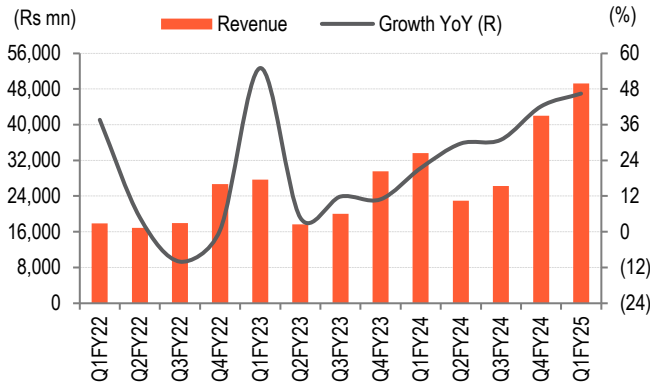
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

Particulars (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Revenues													
Electro- Mechanical Projects And Services	6,884	5,365	5,538	6,918	4,547	5,540	6,484	7,458	6,791	9,242	9,819	10,979	9,491
yoy growth (%)	67.2	(27.9)	(45.5)	(21.0)	(34.0)	3.3	17.1	7.8	49.3	66.8	51.4	47.2	39.8
Engineering Products And Services	1,151	1,254	1,247	1,235	1,243	1,374	1,179	1,424	1,423	1,344	1,548	1,564	1,608
yoy growth (%)	141.7	34.4	3.1	26.4	8.1	9.5	(5.4)	15.3	14.5	(2.1)	31.3	9.8	13.0
Unitary Cooling Products	9,631	10,068	10,936	18,184	21,622	10,477	12,160	20,486	25,140	12,088	14,826	29,551	38,022
yoy growth (%)	18.7	34.3	30.3	9.9	124.5	4.1	11.2	12.7	16.3	15.4	21.9	44.2	51.2
EBIT													
Electro- Mechanical Projects And Services	306	113	363	476	(125)	143	(461)	(140)	(519)	(490)	(1,200)	(1,077)	675
Margin (%)	4.4	2.1	6.6	6.9	(2.7)	2.6	(7.1)	(1.9)	(7.6)	(5.3)	(12.2)	(9.8)	7.1
Engineering Products And Services	379	392	400	408	508	480	460	559	541	539	499	478	448
Margin (%)	32.9	31.3	32.1	33.0	40.9	35.0	39.0	39.3	38.0	40.1	32.2	30.6	27.9
Unitary Cooling Products For Comfort And Commercial Use	1,180	1,017	1,017	1,919	1,662	765	895	2,057	2,073	928	1,229	2,704	3,270
Margin (%)	12.3	10.1	9.3	10.6	7.7	7.3	7.4	10.0	8.2	7.7	8.3	9.2	8.6

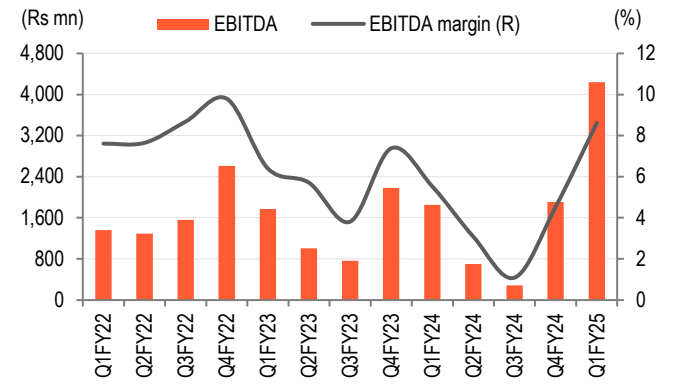
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth trend



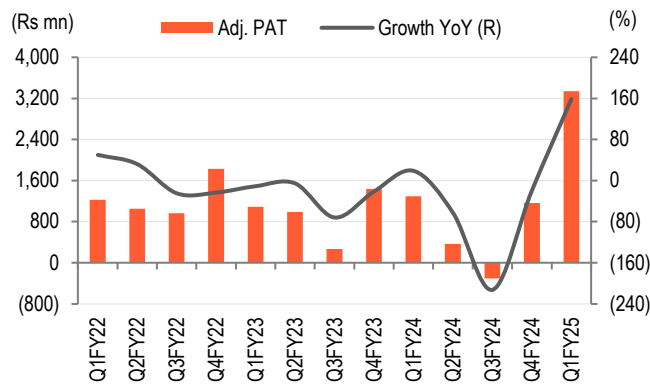
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth trend



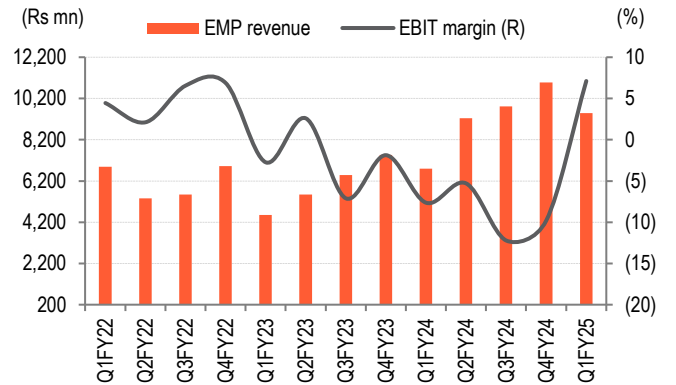
Source: Company, BOBCAPS Research

Fig 5 – Profit trend



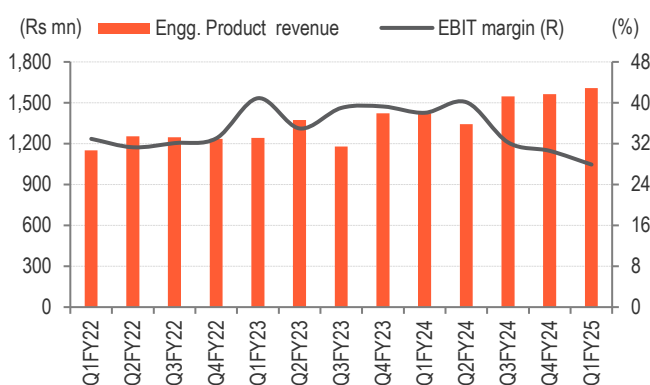
Source: Company, BOBCAPS Research

Fig 6 – EMP performance



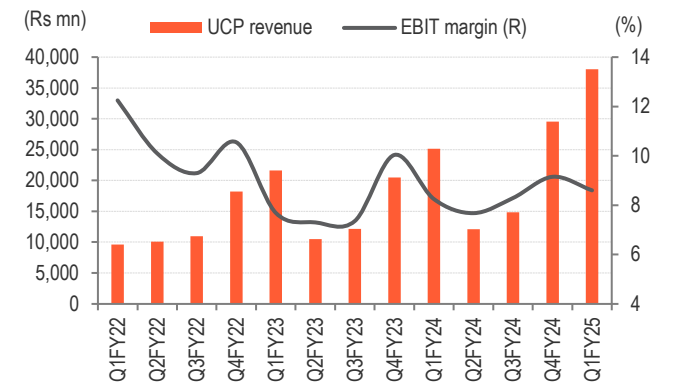
Source: Company, BOBCAPS Research

Fig 7 – Engineering products performance



Source: Company, BOBCAPS Research

Fig 8 – UCP performance



Source: Company, BOBCAPS Research

Earnings call highlights

Unitary Cooling products

- **Segment performance:** The UCP segment's topline grew 51.2% in Q1. This was largely due to strong sales in the RAC product category, having sold over 1mn units during the quarter. VOLT has an exit market share of 21.2% in the RAC segment, and achieved 67% volume growth on a YoY basis in the UCP segment.
- **Profitability:** EBIT margin for the UCP segment was 8.6% for Q1FY25, up 40bps YoY.
- **Split RAC:** VOLT experienced ~65% growth in split air conditioners with demand coming from across the country.
- **Commercial air-conditioning (CAC):** The CAC business saw steady performance for the quarter. Products like VRF, Cathode ACs and ducted ACs drove the topline and bottomline of this segment. Also, management maintains a positive outlook on this product category going forward.

Electro-Mechanical Projects and Services (EMP)

- **Segment performance:** The EMP business grew ~40% in Q1 on topline and turned positive after six consecutive loss-making quarters. EBIT margins improved to 7.1%, reversing the previous EBIT loss of Rs 519mn from Q1FY24.
- **International business:** In the past, this segment has faced multiple headwinds. According to management, these headwinds are sorted now and projects in the United Arab Emirates (UAE) and Saudi Arabia continue to deliver good performance and drive revenue growth for the business.
- **Order book:** The order book stood at Rs 75bn, of which the domestic business accounted for Rs 47.6bn, and international business for Rs 27.3bn.
- **Domestic business:** Management is bullish on the domestic business in this segment, which has shown 50% revenue growth for Q1FY25. Management is more bullish on the domestic business within this segment, but was prudent about taking orders in Q1 due to the election phase.
- **Profitability:** Management retained its previous guidance of a 4-5% EBIT margin in this business for upcoming years.

Engineering Products and Services

- **Engineering Products and Services segment revenue:** The segment reported improved performance for the quarter compared to the previous year, with revenue at Rs 1.51bn and EBIT Rs 450mn. The mining and construction vertical demonstrated positive momentum, sustaining business activities through sales of power screen machines. Despite this, margin reductions and ancillary overhead costs hindered the ability to translate topline growth into EBIT effectively. Looking ahead, management expects robust growth prospects in Mozambique and India to support continued business momentum throughout the year.

- **Textile industry performance:** The textile industry faced challenges due to fluctuations in cotton and yarn exports, leading to decreased capital expenditure sector-wide. This downturn resulted in lower utilisation levels for spinners and a subsequent drop in demand and margins for agency businesses. The after-sales and post-spinning sectors showed positive performance, mitigating some of the negative impact experienced in the broader industry.

Voltas Beko (Voltbek)

- **Product performance and market position:** The company increased volume by over 50% compared to the same period last year. Despite the increased volume, VOLT is steadily reducing losses per unit, working towards reaching EBITDA breakeven in the near future. By mid-2024, Voltas Beko secured its position among the top three brands in the semi-automatic washing machine category with a 14% market share and captured 7.8% of the overall washing machine market. The refrigerator segment experienced over 50% growth, with a market share of 5.2% YTD ending in Jun'24.
- **Strategic objectives and market expansion:** VOLT remains committed to achieving its dual objectives of expanding market presence and attaining profitability. The company's strategy includes deploying tailored approaches for market penetration, enhancing distribution reach, and employing channel-specific tactics to strengthen its market position in key regions. This approach encompasses expanding retail and distribution channels and focusing on e-commerce and omnichannel development to bolster overall business performance. The improved performance in segments such as dishwashers and microwaves highlight the effectiveness of these strategic initiatives.

Valuation methodology

With the Electro-Mechanical Products segment showing a turnaround, we anticipate sustained profits moving forward. Margin expansion in the Unitary Cooling Products segment, continued growth in Voltas Beko, and planned capacity expansions over the next two years enhance profit visibility. Consequently, we raise our FY25 and FY26 EPS estimates by 2%/5%, while maintaining a valuation of 49x Jun FY26E P/E, consistent with the stock's three-year average. Upon rollover to Jun'26 our revised TP is Rs 1,600 (earlier Rs 1,410). We maintain a HOLD rating.

Fig 9 – Revised estimates

Particulars (Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	148,986	174,086	201,287	144,906	165,272	NA	2.8	5.3	NA
EBITDA	11,533	14,251	17,448	11,264	13,513	NA	2.4	5.5	NA
PAT	8,187	10,022	12,166	8,001	9,507	NA	2.3	5.4	NA
EPS (Rs)	24.7	30.3	36.8	24.2	28.7	NA	2.3	5.4	NA
EBITDA Margin (%)	7.7	8.2	8.7	7.8	8.2	NA	0bps	0bps	NA

Source: BOBCAPS Research

Key risks

Key upside and downside risks to our estimates are:

- Incremental market share despite a competitive environment.
- Unforeseen foreign currency movements (VOLT maintains a 25% hedge on its foreign exposure).

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.7	4,144	4,200	HOLD
Blue Star	BLSTR IN	3.9	1,719	1,870	BUY
Crompton Greaves	CROMPTON IN	3.3	440	520	BUY
Dixon Technologies	DIXON IN	8.8	12,375	13,800	BUY
Havells India	HAVL IN	14.0	1,876	1,900	HOLD
KEI Industries	KEII IN	4.6	4,298	4,100	HOLD
Orient Electric	ORIENTEL IN	0.7	270	300	HOLD
Polycab India	POLYCAB IN	11.9	6,674	7,100	HOLD
Syrma SGS	SYRMA IN	0.9	411	450	HOLD
V-Guard Industries	VGRD IN	2.7	524	440	HOLD
Voltas	VOLT IN	6.1	1,535	1,600	HOLD

Source: BOBCAPS Research, NSE | Price as of 16 Aug 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	94,988	124,812	148,986	174,086	201,287
EBITDA	5,724	4,746	11,533	14,251	17,448
Depreciation	396	476	514	646	809
EBIT	5,327	4,270	11,019	13,605	16,639
Net interest inc./(exp.)	(296)	(559)	(577)	(648)	(745)
Other inc./(exp.)	1,685	2,533	2,279	2,279	2,279
Exceptional items	0	0	0	0	0
EBT	6,716	6,244	12,721	15,236	18,173
Income taxes	1,709	2,377	3,435	4,114	4,907
Extraordinary items	2,438	0	0	0	0
Min. int./Inc. from assoc.	(1,207)	(1,386)	(1,100)	(1,100)	(1,100)
Reported net profit	1,350	2,520	8,187	10,022	12,166
Adjustments	2,438	0	0	0	0
Adjusted net profit	3,788	2,520	8,187	10,022	12,166

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	30,126	38,557	46,941	57,234	63,419
Other current liabilities	10,029	14,060	18,368	21,463	25,919
Provisions	0	0	0	0	0
Debt funds	6,506	7,436	6,204	7,199	8,277
Other liabilities	1,609	2,099	2,440	2,794	3,178
Equity capital	331	331	331	331	331
Reserves & surplus	54,190	57,874	63,910	71,782	81,798
Shareholders' fund	54,521	58,205	64,241	72,113	82,128
Total liab. and equities	102,790	120,357	138,194	160,802	182,921
Cash and cash eq.	7,084	8,523	10,475	12,551	15,228
Accounts receivables	21,919	25,328	27,348	31,478	32,537
Inventories	15,920	21,354	24,899	29,094	33,640
Other current assets	19,543	22,042	23,282	26,250	30,351
Investments	0	0	0	0	0
Net fixed assets	3,611	3,902	5,387	6,741	7,932
CWIP	983	3,675	4,387	5,126	5,927
Intangible assets	1,142	1,127	1,345	1,571	1,817
Deferred tax assets, net	0	0	0	0	0
Other assets	32,590	34,408	41,072	47,991	55,490
Total assets	102,790	120,357	138,194	160,802	182,921

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	1,594	7,615	14,587	12,763	13,911
Capital expenditures	(1,774)	(2,883)	(2,000)	(2,000)	(2,000)
Change in investments	253	(3,938)	0	0	0
Other investing cash flows	706	1,597	(7,253)	(7,531)	(8,161)
Cash flow from investing	(816)	(5,224)	(9,253)	(9,531)	(10,161)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	2,728	453	(1,232)	995	1,078
Interest expenses	0	0	0	0	0
Dividends paid	(2,177)	(1,616)	(2,151)	(2,151)	(2,151)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	550	(1,163)	(3,382)	(1,156)	(1,073)
Chg in cash & cash eq.	1,328	1,228	1,951	2,076	2,678
Closing cash & cash eq.	7,084	8,523	10,475	12,551	15,228

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	4.1	7.6	24.7	30.3	36.8
Adjusted EPS	11.4	7.6	24.7	30.3	36.8
Dividend per share	4.3	5.5	6.5	6.5	6.5
Book value per share	164.8	175.9	194.2	217.9	248.2

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.3	4.1	3.4	2.9	2.5
EV/EBITDA	88.7	107.0	44.0	35.6	29.1
Adjusted P/E	134.1	201.6	62.0	50.7	41.7
P/BV	9.3	8.7	7.9	7.0	6.2

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	56.4	40.4	64.4	65.8	66.9
Interest burden (PBT/EBIT)	126.1	146.2	115.4	112.0	109.2
EBIT margin (EBIT/Revenue)	5.6	3.4	7.4	7.8	8.3
Asset turnover (Rev./Avg TA)	26.3	32.0	27.7	25.8	25.4
Leverage (Avg TA/Avg Equity)	0.1	0.1	0.1	0.1	0.1
Adjusted ROAE	6.9	4.5	13.4	14.7	15.8

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	19.7	31.4	19.4	16.8	15.6
EBITDA	(16.0)	(17.1)	143.0	23.6	22.4
Adjusted EPS	(24.8)	(33.5)	224.9	22.4	21.4
Profitability & Return ratios (%)					
EBITDA margin	6.0	3.8	7.7	8.2	8.7
EBIT margin	5.6	3.4	7.4	7.8	8.3
Adjusted profit margin	4.0	2.0	5.5	5.8	6.0
Adjusted ROAE	6.9	4.5	13.4	14.7	15.8
ROCE	6.7	4.5	12.6	14.0	14.9
Working capital days (days)					
Receivables	84	74	67	66	59
Inventory	61	62	61	61	61
Payables	116	113	115	120	115
Ratios (x)					
Gross asset turnover	16.6	17.9	17.8	16.8	16.3
Current ratio	1.4	1.3	1.2	1.2	1.1
Net interest coverage ratio	18.0	7.6	19.1	21.0	22.3
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%

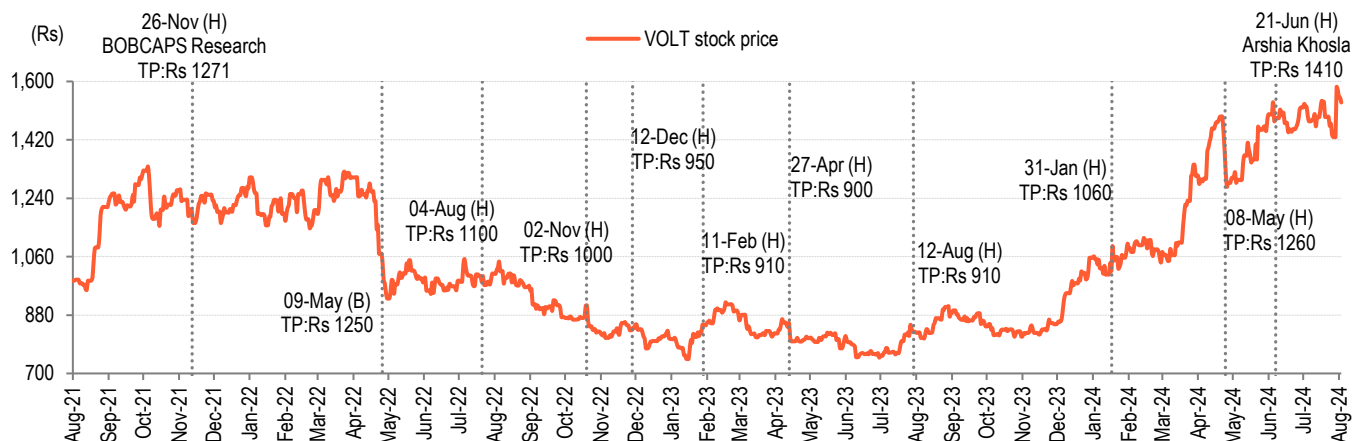
HOLD – Expected return from -6% to +15%

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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