

**HOLD**  
 TP: Rs 1,700 | ▲ 0%

**VOLTAS**

| Consumer Durables

| 30 October 2024

**In-line revenue; margins on the rise**

- **Topline grew 14% YoY in Q2; EBITDA margin expanded 310bps YoY, fueled by better cost efficiencies**
- **UCP volumes jumped 56% YoY in 1H; amid an unseasonal quarter; market share maintained at 21% in Q2; EMP business stayed profitable**
- **Maintain FY25 estimates & hike FY26E/FY27E EPS by 8%/4% as EMP’s EBIT continues to be positive and domestic business healthy. HOLD**

**Arshia Khosla**

research@bobcaps.in

**Strong Q2 performance with margin expansion:** VOLT delivered a strong Q2, with revenue up 14% YoY to Rs 26.2bn, in line with our estimate of Rs 26bn. Gross margin improved by 130bps YoY to 25.8%, while EBITDA surged by 131% YoY to Rs 1.6bn, due to a 7% reduction in other expenses, now constituting 10.6% of consolidated sales compared to 13% in the prior year. This cost efficiency drove an EBITDA margin increase of 310bps YoY to 6.2%, 40bps below our estimate of 6.6%. Key to this margin uplift was the continued positive turnaround in the EMP segment, marking its second consecutive quarter of profitability after losses from Q3FY23 to Q4FY24. PAT reached Rs 1.3bn, surpassing our projection of Rs 1.2bn.

**UCP leads; market share maintained:** In what is traditionally an unseasonal quarter, the UCP segment delivered a standout performance, posting 31% topline growth – outpacing peers like Lloyd, which reported 18.5% YoY growth. UCP sales reached Rs 15.8bn, driven by strong volume expansion, with H1FY25 volumes up a strong 56% YoY. As of Sep’24, VOLT retained its market-leading position with 21% share, maintaining dominance in both split and window room air conditioners (RACs). Despite a modest 40bps YoY contraction in EBIT margins to 7.3%, the segment’s robust growth underscores VOLT’s resilience in a competitive market.

**EMP faces headwinds:** EMP sales dipped by 5% YoY to Rs 8.8bn, primarily due to prolonged rains, yet the segment sustained a solid EBIT margin of 5.2%. Timely project execution and focused initiatives in completion certifications helped achieve positive EBIT for the second consecutive quarter. International growth, particularly in UAE and Saudi Arabia, added resilience to the performance. The Voltas-Beko JV recorded a manageable loss of Rs 323mn, with H1FY25 volume growth surging by 54%, driven by increased market share in refrigerators and washing machines, and marking a positive outlook for the brand’s long-term positioning.

**Maintain HOLD:** Factoring in Q2, we maintain our FY25 estimates and raise FY26E/FY27E by 8%/4%. We believe the EMP segment turning around, margin expansion in the UCP segment and continued growth in VOLTBEK will enhance profitability. We continue valuing VOLT at 49x; upon rollover our TP is Rs 1,700.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	VOLT IN/Rs 1,698
Market cap	US\$ 6.7bn
Free float	70%
3M ADV	US\$ 38.5mn
52wk high/low	Rs 1,945/Rs 811
Promoter/FPI/DII	30%/21%/33%

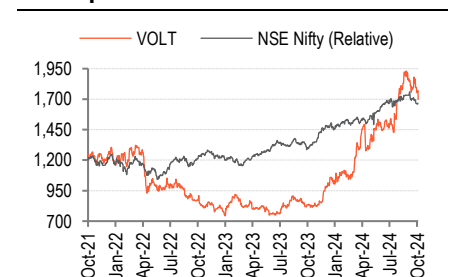
Source: NSE | Price as of 30 Oct 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	124,812	151,355	180,788
EBITDA (Rs mn)	4,746	11,555	15,190
Adj. net profit (Rs mn)	2,520	8,289	10,782
Adj. EPS (Rs)	7.6	25.1	32.6
Consensus EPS (Rs)	7.6	24.5	31.0
Adj. ROAE (%)	4.5	13.5	15.7
Adj. P/E (x)	222.9	67.8	52.1
EV/EBITDA (x)	118.4	48.6	37.0
Adj. EPS growth (%)	(33.5)	228.9	30.1

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance**

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	Q2FY25E	Variance (%)
Revenue	26,191	22,928	14.2	49,210	(46.8)	75,401	56,526	33.4	26,023	0.6
EBITDA	1,622	703	130.8	4,238	(61.7)	5,860	2,556	129.3	1,310	23.8
EBITDA Margin (%)	6.2	3.1	310bps	8.6	(240bps)	7.8	4.5	320bps	6.6	(50bps)
Depreciation	164	117		134		299	229			
Interest	136	115		98		233	216			
Other Income	1,055	710		803		1,857	1,410			
PBT	2,377	1,181	101.2	4,809	(50.6)	7,186	3,521	104.1		
Tax	726	493		1,165		1,891	1,228			
Adjusted PAT	1,328	367	262.1	3,350	(60.3)	4,682	1,660	182.1	1,198	10.9
Exceptional item	-	-		0		-	-			
Reported PAT	1,340	367	265.3	3,342	(59.9)	4,682	1,660	182.1		
Adj. PAT Margin (%)	5.1	1.6	350bps	6.8	(170bps)	6.2	2.9	330bps		
EPS (Rs)	4.0	1.1	265.3	10.1	(59.9)	16	7	130.9		

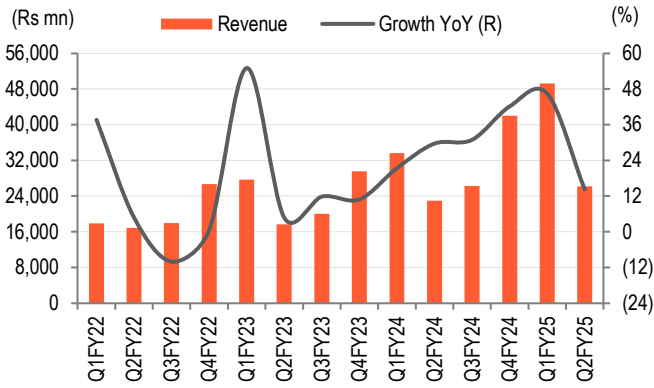
Source: Company, BOBCAPS Research

**Fig 2 – Segmental performance**

(Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
<b>Revenues</b>													
Electro-Mechanical Projects And Services	5,365	5,538	6,918	4,547	5,540	6,484	7,458	6,791	9,242	9,819	10,979	9,491	8,799
YoY growth (%)	(27.9)	(45.5)	(21.0)	(34.0)	3.3	17.1	7.8	49.3	66.8	51.4	47.2	39.8	(4.8)
Engineering Products And Services	1,254	1,247	1,235	1,243	1,374	1,179	1,424	1,423	1,344	1,548	1,564	1,608	1,467
YoY growth (%)	34.4	3.1	26.4	8.1	9.5	(5.4)	15.3	14.5	(2.1)	31.3	9.8	13.0	9.1
Unitary Cooling Products	10,068	10,936	18,184	21,622	10,477	12,160	20,486	25,140	12,088	14,826	29,551	38,022	15,822
YoY growth (%)	34.3	30.3	9.9	124.5	4.1	11.2	12.7	16.3	15.4	21.9	44.2	51.2	30.9
<b>EBIT</b>													
Electro-Mechanical Projects And Services	113	363	476	(125)	143	(461)	(140)	(519)	(490)	(1,200)	(1,077)	675	462
Margin (%)	2.1	6.6	6.9	(2.7)	2.6	(7.1)	(1.9)	(7.6)	(5.3)	(12.2)	(9.8)	7.1	5.2
Engineering Products And Services	392	400	408	508	480	460	559	541	539	499	478	448	396
Margin (%)	31.3	32.1	33.0	40.9	35.0	39.0	39.3	38.0	40.1	32.2	30.6	27.9	27.0
Unitary Cooling Products For Comfort And Commercial Use	1,017	1,017	1,919	1,662	765	895	2,057	2,073	928	1,229	2,704	3,270	1,162
Margin (%)	10.1	9.3	10.6	7.7	7.3	7.4	10.0	8.2	7.7	8.3	9.2	8.6	7.3

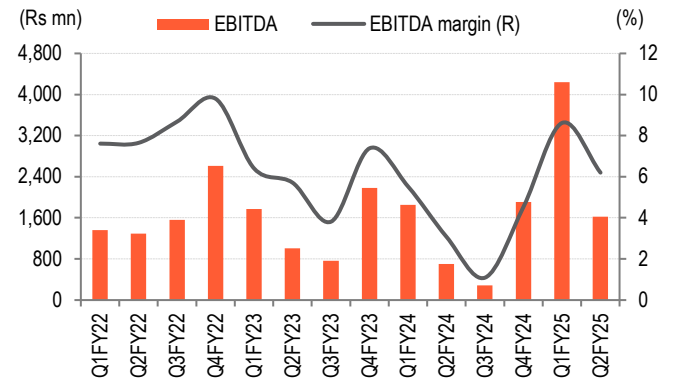
Source: Company, BOBCAPS Research

**Fig 3 – Revenue growth trend**



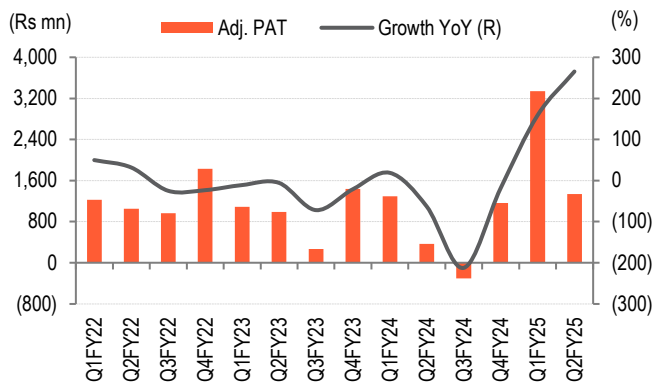
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA growth trend**



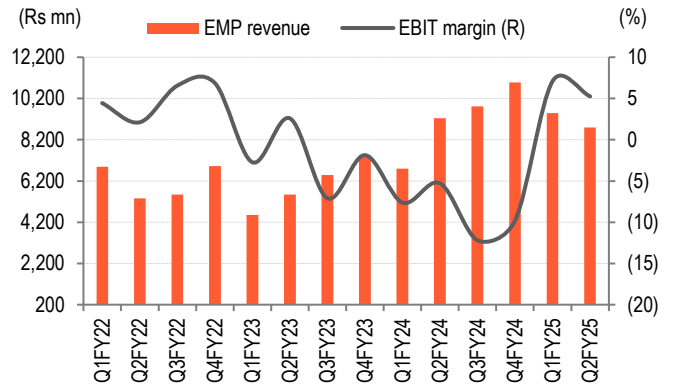
Source: Company, BOBCAPS Research

**Fig 5 – Profit trend**



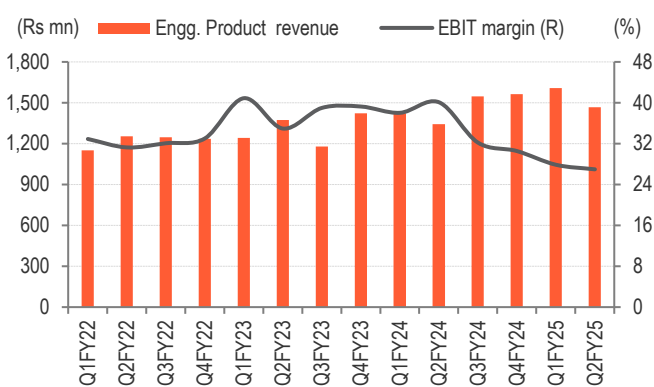
Source: Company, BOBCAPS Research

**Fig 6 – EMP performance**



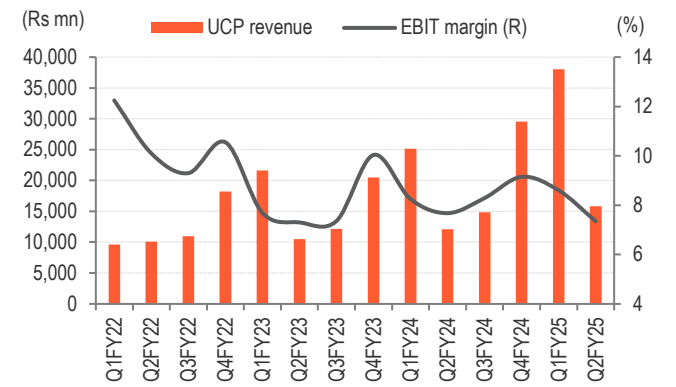
Source: Company, BOBCAPS Research

**Fig 7 – Engineering Products performance**



Source: Company, BOBCAPS Research

**Fig 8 – UCP performance**



Source: Company, BOBCAPS Research

## Earnings call highlights

### Unitary Cooling Products (UCP)

- **Premium AC sales surge amid industry challenges:** VOLT marked a major achievement in CY24, selling 2mn AC units in eight months, with strong demand in the premium 5-star segment. The brand's market share hit 21% by Sep'24. Despite growth, the Commercial Refrigeration sector faces headwinds due to a cooling capex cycle after years of steady expansion.
- **Production ramp-up across new facilities:** Manufacturing at VOLT's Chennai and Waghodia plants is progressing as planned. The Panthagar plant operates at full capacity, producing 1.4mn-1.5mn units, while Chennai's output is scaling up from 1mn to a target of 1.5mn-2mn units by FY26.
- **Balancing costs with consumer value:** With rising raw material costs, VOLT has balanced the impact by passing on some price increases and leveraging value engineering. A recent 3-4% AC price hike in Q2 reflects this approach, helping to manage costs without sacrificing quality or performance.
- **Expanding reach in low-penetration markets:** To tap into low RAC penetration, VOLT is broadening its distribution network, especially in high-growth categories. Current market shares in key areas include 33-35% in freezers, 55% in water dispensers, and 40-45% in water coolers, highlighting strong traction across product lines

### Electro-Mechanical Projects and Services (EMPS)

- **Strategic order wins drive EMPS growth:** EMPS maintained a selective approach to new inflows in Q2, securing high-margin orders, including a significant Rs 10bn contract from Tata Electronics. This strategic focus on quality orders is set to strengthen its profitability.
- **Improved execution expected in H2:** While heavy rains impacted Q2 project execution, EMPS anticipates a stronger performance in the second half of the year, with enhanced execution rates and continued momentum from recent high-value orders.

### Voltas Beko

- **Strong market position in key categories:** Voltas Beko is solidifying its position as a fast-growing home appliances brand, with a current market share of 7.5-8% in washing machines and 5% in refrigerators. The brand has gained healthy traction across all channel partners, demonstrating its momentum in the sector.
- **Targeting profitability milestone:** Aiming for EBITDA break-even within a year, Voltas Beko plans to surpass 8-10% market share in both washing machine and refrigerator categories. Achieving this milestone will require an estimated turnover of around Rs 2.5bn-2.6bn, marking a significant step towards sustainable growth.
- **Strategic capital allocation:** The company has deployed Rs 1.3bn in capital, with VOLT holding a 49% stake. A recent price hike of 2.5-3% in Q2 supported both margin stability and competitive positioning.

- **Healthy gross margins:** Voltas Beko maintains gross margins ranging from 12-18%, supported by effective pricing strategies and growing brand equity, aligning with its profitability goals for the coming fiscal year.

#### Other highlights

- **Strategic financial management amid market challenges:** In H1FY25, a Rs 240mn provision was allocated for the employee long-term incentive scheme, with the full amount booked in Q2, reflecting VOLT's commitment to retain and incentivise key talent. This provision supports the company's focus on building a motivated and resilient workforce in a competitive environment.
- **Textile Machinery headwinds persist:** The Textile Machinery segment faces challenges, particularly from issues in the Bangladesh market. Consequently, margins in the Engineering & Automation Services (EAS) division are expected to stabilise at 27-28% in the near term until the correction in yarn prices provides relief.

## Valuation methodology

**Profit outlook brightens: EPS estimate upgraded, TP increased to Rs 1,700:** 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 maintain our EPS estimate for FY25 and raise them for FY26 by 8% and FY27 by 4%, and continue to value VOLT at 49x, in line with its three-year average. Our revised TP is Rs 1,700 from Rs 1,600. HOLD.

**Fig 9 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	151,355	180,788	209,065	148,986	174,086	201,287	1.6	3.9	3.9
EBITDA	11,555	15,190	17,941	11,533	14,251	17,448	0.2	6.6	2.8
PAT	8,289	10,782	12,598	8,187	10,022	12,166	1.2	7.6	3.6
EPS (Rs)	25.1	32.6	38.1	24.7	30.3	36.8	1.2	7.6	3.6
EBITDA Margin (%)	7.6	8.4	8.6	7.7	8.2	8.7	(10bps)	20bps	(10bps)

Source: Company, BOBCAPS Research

## Key risks

Key upside and downside risks to our estimates are:

- incremental market share despite a competitive environment, and
- unforeseen changes in foreign currency.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>94,988</b>	<b>124,812</b>	<b>151,355</b>	<b>180,788</b>	<b>209,065</b>
EBITDA	5,724	4,746	11,555	15,190	17,941
Depreciation	396	476	514	646	809
EBIT	5,327	4,270	11,041	14,543	17,132
Net interest inc./(exp.)	(296)	(559)	(586)	(672)	(773)
Other inc./(exp.)	1,685	2,533	2,406	2,406	2,406
Exceptional items	0	0	0	0	0
EBT	6,716	6,244	12,861	16,277	18,765
Income taxes	1,709	2,377	3,472	4,395	5,067
Extraordinary items	2,438	0	0	0	0
Min. int./Inc. from assoc.	(1,207)	(1,386)	(1,100)	(1,100)	(1,100)
<b>Reported net profit</b>	<b>1,350</b>	<b>2,520</b>	<b>8,289</b>	<b>10,782</b>	<b>12,598</b>
Adjustments	2,438	0	0	0	0
<b>Adjusted net profit</b>	<b>3,788</b>	<b>2,520</b>	<b>8,289</b>	<b>10,782</b>	<b>12,598</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	30,126	38,557	47,687	59,437	65,870
Other current liabilities	10,029	14,060	18,660	22,289	26,921
Provisions	0	0	0	0	0
Debt funds	6,506	7,436	6,298	7,465	8,585
Other liabilities	1,609	2,099	2,473	2,888	3,288
Equity capital	331	331	331	331	331
Reserves & surplus	54,190	57,874	64,012	72,644	83,092
Shareholders' fund	54,521	58,205	64,343	72,975	83,422
<b>Total liab. and equities</b>	<b>102,790</b>	<b>120,357</b>	<b>139,462</b>	<b>165,054</b>	<b>188,086</b>
Cash and cash eq.	7,084	8,523	9,797	11,354	14,219
Accounts receivables	21,919	25,328	27,783	32,691	33,794
Inventories	15,920	21,354	25,295	30,214	34,940
Other current assets	19,543	22,042	23,652	27,260	31,524
Investments	0	0	0	0	0
Net fixed assets	3,611	3,902	5,387	6,741	7,932
CWIP	983	3,675	4,457	5,323	6,156
Intangible assets	1,142	1,127	1,366	1,632	1,887
Deferred tax assets, net	0	0	0	0	0
Other assets	32,590	34,408	41,725	49,839	57,634
<b>Total assets</b>	<b>102,790</b>	<b>120,357</b>	<b>139,462</b>	<b>165,054</b>	<b>188,086</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>1,594</b>	<b>7,615</b>	<b>14,526</b>	<b>13,372</b>	<b>14,379</b>
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	(7,964)	(8,831)	(8,484)
<b>Cash flow from investing</b>	<b>(816)</b>	<b>(5,224)</b>	<b>(9,964)</b>	<b>(10,831)</b>	<b>(10,484)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	2,728	453	(1,138)	1,166	1,121
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
<b>Cash flow from financing</b>	<b>550</b>	<b>(1,163)</b>	<b>(3,289)</b>	<b>(984)</b>	<b>(1,030)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,328</b>	<b>1,228</b>	<b>1,274</b>	<b>1,557</b>	<b>2,865</b>
<b>Closing cash &amp; cash eq.</b>	<b>7,084</b>	<b>8,523</b>	<b>9,797</b>	<b>11,354</b>	<b>14,219</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	4.1	7.6	25.1	32.6	38.1
Adjusted EPS	11.4	7.6	25.1	32.6	38.1
Dividend per share	4.3	5.5	6.5	6.5	6.5
Book value per share	164.8	175.9	194.5	220.6	252.1

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.9	4.5	3.7	3.1	2.7
EV/EBITDA	98.1	118.4	48.6	37.0	31.3
Adjusted P/E	148.3	222.9	67.8	52.1	44.6
P/BV	10.3	9.7	8.7	7.7	6.7

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	56.4	40.4	64.4	66.2	67.1
Interest burden (PBT/EBIT)	126.1	146.2	116.5	111.9	109.5
EBIT margin (EBIT/Revenue)	5.6	3.4	7.3	8.0	8.2
Asset turnover (Rev./Avg TA)	26.3	32.0	28.1	26.8	26.4
Leverage (Avg TA/Avg Equity)	0.1	0.1	0.1	0.1	0.1
Adjusted ROAE	6.9	4.5	13.5	15.7	16.1

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	19.7	31.4	21.3	19.4	15.6
EBITDA	(16.0)	(17.1)	143.5	31.5	18.1
Adjusted EPS	(24.8)	(33.5)	228.9	30.1	16.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	6.0	3.8	7.6	8.4	8.6
EBIT margin	5.6	3.4	7.3	8.0	8.2
Adjusted profit margin	4.0	2.0	5.5	6.0	6.0
Adjusted ROAE	6.9	4.5	13.5	15.7	16.1
ROCE	6.7	4.5	12.7	14.9	15.2
<b>Working capital days (days)</b>					
Receivables	84	74	67	66	59
Inventory	61	62	61	61	61
Payables	116	113	115	120	115
<b>Ratios (x)</b>					
Gross asset turnover	16.6	17.9	18.1	17.5	16.9
Current ratio	1.4	1.3	1.2	1.1	1.1
Net interest coverage ratio	18.0	7.6	18.8	21.6	22.2
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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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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**BUY** – Expected return >+15%

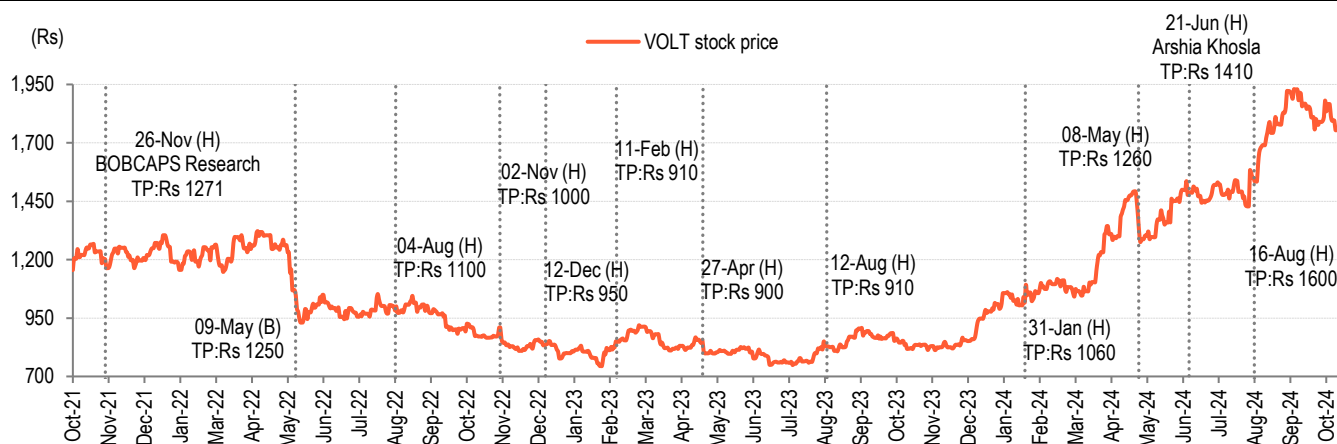
**HOLD** – Expected return from -6% to +15%

**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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