

HOLD
 TP: Rs 1,260 | ▼ 4%

VOLTAS

| Consumer Durables

| 08 May 2024

Margins falter; domestic business promising

- Healthy topline growth of 42.1% in Q4 as summer sets in, but EBITDA margin contracted 280bps in Q4 and 220bps in FY24
- UCP segment saw volume growth of 35% in Q4; market share declined to 18.7%; losses in EMP business continue to drag
- Raise FY25E/FY26E EPS by 7% each as losses in EMP business expected to reduce and arrive at a revised TP of Rs 1,260

Swati Jhunjhunwala | Arshia Khosla
 research@bobcaps.in

Healthy topline; margins drag: VOLT posted a decent quarter, with topline growth of 42.1% during Q4 and 31.4% in FY24. Gross and EBITDA margin both contracted on a quarterly and annual basis largely due to continued provisions in the EMP business, cost increases due to input price escalations and inability to pass on such costs to consumers. Adjusted PAT was Rs 1.1bn for Q4 and Rs 2.5bn for FY24.

UCP performance above peers; market share declines: The Unitary Cooling Products (UCP) segment recorded topline growth of 44.2% during Q4, above peers like Blue Star (+34.8%) and Lloyd (+5.9%). EBIT margin for UCP stood at 9.2%, a contraction of 80bps YoY, though still above its peers Blue Star (8.3%) and Lloyd (2.7%). Market share in the room air-conditioners (RACs) segment was 18.7% at the end of FY24, down from 19% at Dec'23, with a total volume of 2mn units being sold.

EMP segment clouds profits, though domestic business outlook bright: The Electro-Mechanical Products (EMP) segment saw 47.2% topline growth in Q4 and 53.2% in FY24, but reported an EBIT loss of Rs 3.3bn for FY24. This is largely due to provisions taken in the company business in Qatar, which has now largely been provided for. Management has guided for 4-5% EBIT margin in this business, and expects the domestic business to grow well within this segment. Order book stood at Rs 80.5bn, of which domestic business accounted for Rs 50.2bn, and the international business for Rs 30.3bn.

Domestic EMP, UCP and Beko to fuel growth: With most of the provisioning for the Qatar business done, we expect incremental profits in the EMP business to reflect going forward. Further, margin expansion in the UCP segment, continued growth in Voltas Beko and capacity expansions in the next two years provide profit visibility. We raise our FY25E/FY26E EPS by 7% each and value the stock at 44x FY26E P/E (40x earlier), in line with the stock's 2Y average, as volume growth in UCP and Beko yield profits. We arrive at a higher TP of Rs 1,260 (from Rs 1,060). Maintain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	VOLT IN/Rs 1,319
Market cap	US\$ 5.3bn
Free float	70%
3M ADV	US\$ 30.0mn
52wk high/low	Rs 1,502/Rs 745
Promoter/FPI/DII	30%/21%/33%

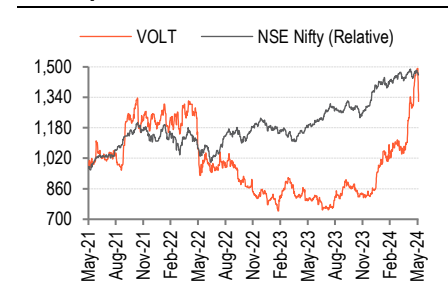
Source: NSE | Price as of 8 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	1,24,812	1,44,906	1,65,272
EBITDA (Rs mn)	4,746	11,264	13,513
Adj. net profit (Rs mn)	2,520	8,001	9,507
Adj. EPS (Rs)	7.6	24.2	28.7
Consensus EPS (Rs)	7.6	23.1	30.0
Adj. ROAE (%)	4.5	13.1	14.0
Adj. P/E (x)	173.2	54.5	45.9
EV/EBITDA (x)	91.9	38.7	32.3
Adj. EPS growth (%)	(33.5)	217.5	18.8

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

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	42,029	29,568	42.1	26,257	60.1	1,24,812	94,988	31.4
EBITDA	1,906	2,182	(12.6)	284	570.6	4,746	5,724	(17.1)
EBITDA Margin (%)	4.5	7.4	(280bps)	1.1	350bps	3.8	6.0	(220bps)
Depreciation	118	104		128		476	396	
Interest	208	124		135		559	296	
Other Income	544	467		579		2,533	1,685	
PBT	2,124	2,420	(12.2)	599	254.4	6,244	6,716	(7.0)
Tax	634	706		515		2,377	1,709	
Adjusted PAT	1,106	1,439	(23.1)	(276)	(500.9)	3,867	5,007	(22.8)
Exceptional item	-	-		0		-	2,438	
Reported PAT	1,164	1,439	(19.1)	(304)	(482.9)	2,520	1,350	86.7
Adj. PAT Margin (%)	2.6	4.9	(220bps)	(1.1)	370bps	3.1	5.3	(220bps)
EPS (Rs)	3.5	4.3	(19.1)	(0.9)	(482.9)	8	11	(33.5)

Source: Company, BOBCAPS Research

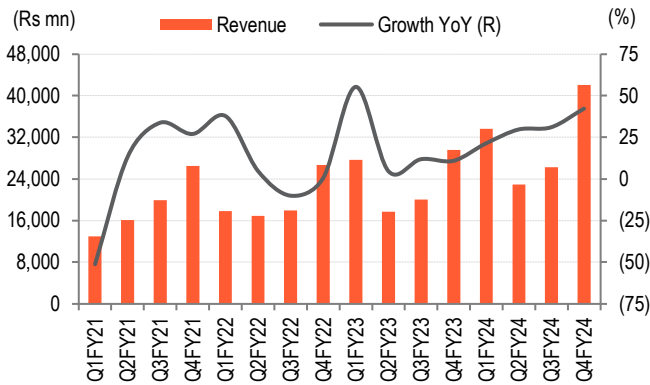
Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
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
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
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
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
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
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
EBIT												
Electro- Mechanical Projects And Services	306	113	363	476	(125)	143	(461)	(140)	(519)	(490)	(1,200)	(1,077)
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)
Engineering Products And Services	379	392	400	408	508	480	460	559	541	539	499	478
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
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
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

Source: Company, BOBCAPS Research

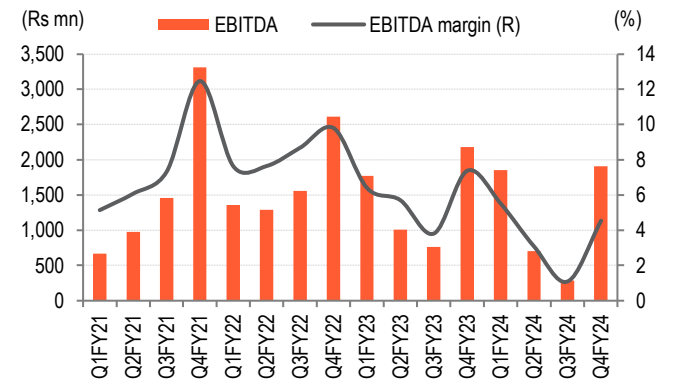
Key metrics – Quarterly

Fig 3 – Revenue growth trend



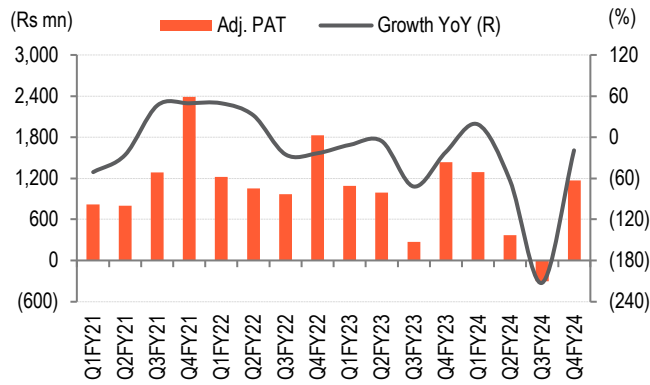
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth trend



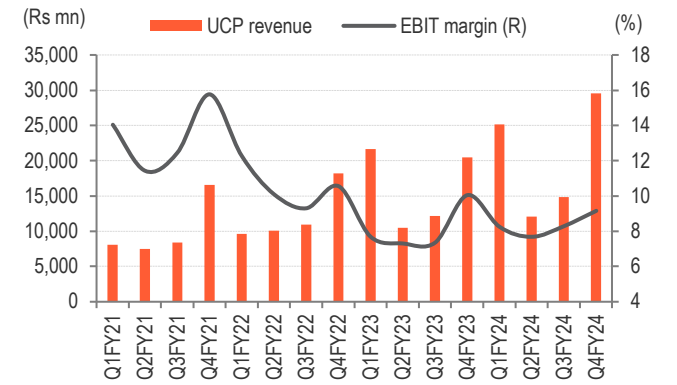
Source: Company, BOBCAPS Research

Fig 5 – Profit trend



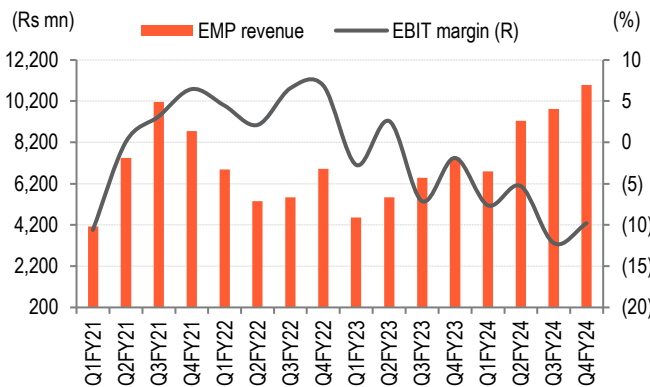
Source: Company, BOBCAPS Research

Fig 6 – UCP performance



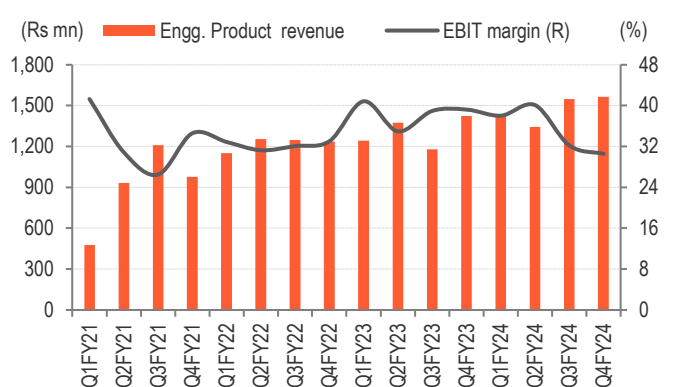
Source: Company, BOBCAPS Research

Fig 7 – EMP performance



Source: Company, BOBCAPS Research

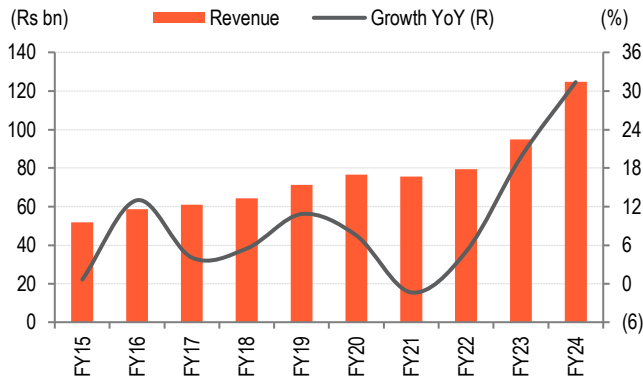
Fig 8 – Engineering products performance



Source: Company, BOBCAPS Research

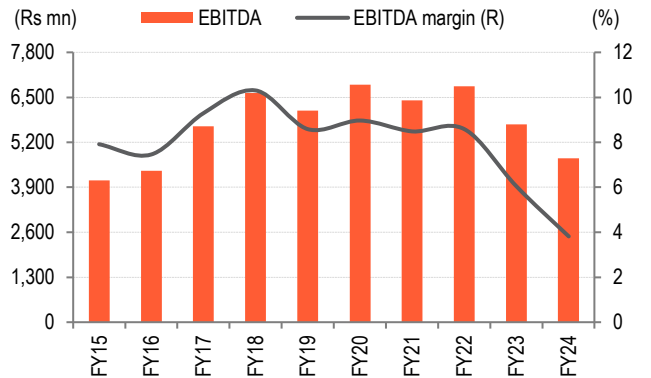
Key metrics – Annual

Fig 9 – Revenue growth trend



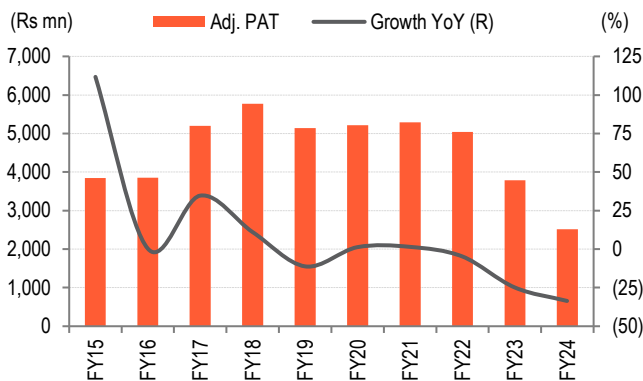
Source: Company, BOBCAPS Research

Fig 10 – EBITDA growth trend



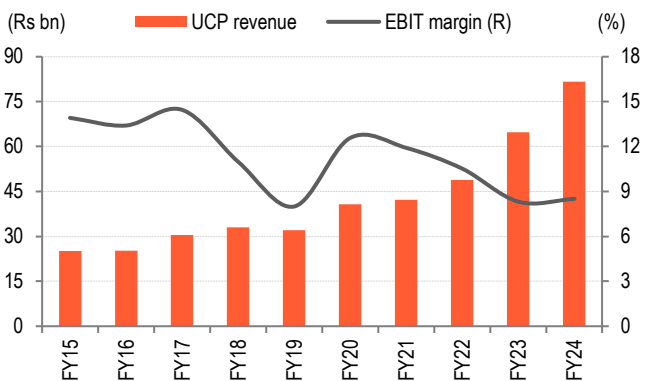
Source: Company, BOBCAPS Research

Fig 11 – Profit trend



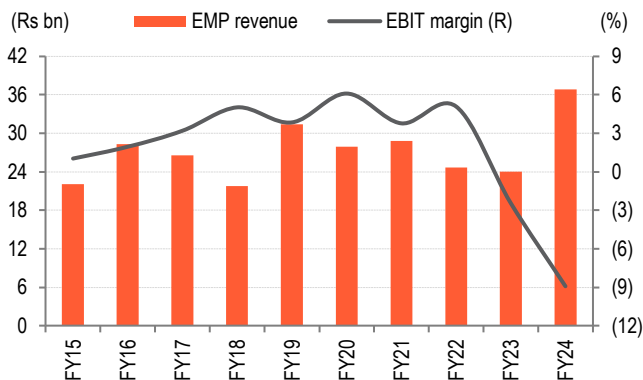
Source: Company, BOBCAPS Research

Fig 12 – UCP performance



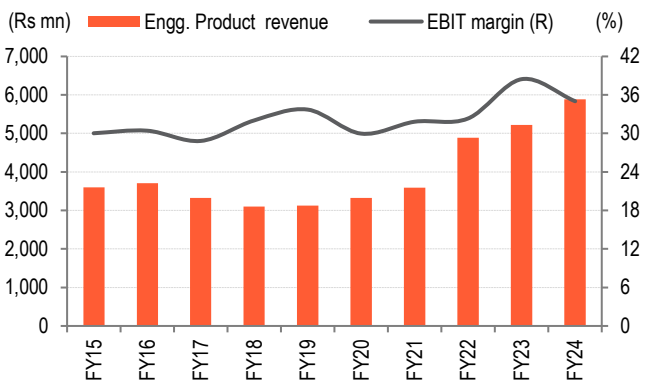
Source: Company, BOBCAPS Research

Fig 13 – EMP performance



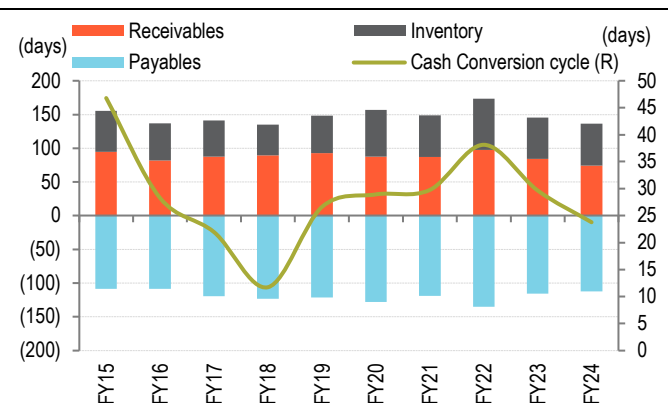
Source: Company, BOBCAPS Research

Fig 14 – Engineering products performance



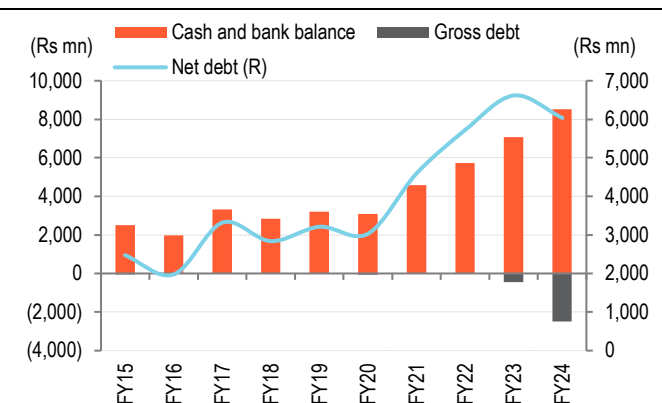
Source: Company, BOBCAPS Research

Fig 15 – Working capital management



Source: Company, BOBCAPS Research

Fig 16 – Liquidity profile



Source: Company, BOBCAPS Research

Earnings call highlights

- **Capex:** VOLT plans to incur ~Rs 4.5bn-5bn capex in FY25, of which ~Rs 2.7bn is allocated to the Chennai factory commissioning and the balance ~Rs 2bn is expected to be incurred in other factory capacity enhancements.
- **Manufacturing capacity:** VOLT currently has 1.3mn-1.5mn units of capacity in its Pantnagar facility, which is expected to increase by 1mn units going forward. With the Chennai facility commissioning, this number will increase to ~3.5mn units of capacity over the next 2 years.

Unitary Cooling Products (UCP)

- **Segment performance:** The UCP segment's topline grew 44.2% during Q4 and 26% in FY24. This was largely due to strong sales in the RAC product category, having sold over 2mn units during the year. VOLT has a market share of 18.7% in the RAC segment, and achieved 35% volume growth on a YoY basis.
- **Profitability:** EBIT margin for the UCP segment was 9.2% for Q4FY24, down 80bps YoY, largely due to input price increases and inability to pass on costs to the consumer. In the RAC segment, VOLT clocked close to 9.5% EBIT margin for Q4 and close to 9% for FY24.
- **Commercial air-conditioning (CAC):** The CAC business saw lower traction during the year, largely due to lower investments mostly in the chocolate industry. However, management maintains a positive outlook on this product category going forward.
- **Revenue composition:** Of the Rs 81.6bn topline clocked in FY24, Rs 10bn pertains to commercial refrigeration, Rs 13bn for the CAC business, and the balance has a major share of RAC products, apart from water heaters and air coolers, which are relatively smaller categories.

Electro-Mechanical Projects and Services (EMP)

- **Segment performance:** The EMP business grew 47% in Q4 and 53.3% in FY24 on topline. Margins remained subdued with an EBIT loss of Rs 3.3bn for FY24.

This was largely due to provisions taken against delay in collection of receivables in the Qatar business.

- **International business:** The international business has faced headwinds in the last few quarters, largely in the Qatar region. Management believes that most of the provisions required have been taken, and these provisions will be written back as and when the company collects its receivables. Apart from that, newer projects in Saudi Arabia, Dubai and other areas are progressing well.
- **Domestic business:** Management is bullish on the domestic business in this segment, which has shown 20% revenue growth for FY24, alongside 30% profit growth. VOLT clocked revenues of Rs 950mn in infrastructure, Rs 1.1bn in textiles and Rs 1bn in mining projects, with market shares in excess of 60% for all three segments. Management is more bullish on the domestic business within this segment, and order book for domestic and international businesses are Rs 50.2bn and Rs 30.3bn respectively.
- **Profitability:** Management has guided for a 4-5% EBIT margin in this business, which was overshadowed by provisions taken in Qatar for FY24.

Voltas Beko (Voltbek)

- **Business performance:** Voltbek performed well during FY24, clocking a revenue of Rs 15.9bn, which exceeded management expectations of Rs 15bn. This is 45.7% growth compared to Rs 10.9bn revenue in FY23. Voltbek achieved 50% volume growth during the year. Voltbek is one of the fastest-growing Indian consumer durables brands, crossing 5mn in appliance sales over the last 5 years.
- **Guidance:** Management maintained its guidance of EBITDA break-even in this business by FY25 end, with a 10% market share. Voltbek is expanding its reach in South and West India, and currently has over 12,500 channel partners across the country.

Valuation methodology

VOLT faced challenges during FY24 but reported topline growth in all segments, with margin improvement on the way. The overhang of EMP losses seems lower, and our outlook on domestic business is positive given the current capex cycle.

With most of the provisioning for Qatar business done, we expect incremental profits in the EMP business to reflect going forward. Further, margin expansion in the UCP segment and continued growth in Voltas Beko along with capacity expansions in the next two years provide profit visibility. We raise our FY25E/FY26E EPS by 7% each and value the stock at 44x FY26E P/E (from 40x), in line with the stock's 2Y average, as volume growth in UCPO and Beko yield profits. We arrive at a higher TP of Rs 1,260 (previously Rs 1,060). Maintain HOLD.

Fig 17 – Revised Estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	1,44,906	1,65,272	1,36,553	1,55,803	6.1	6.1
EBITDA	11,264	13,513	10,591	12,559	6.4	7.6
PAT	8,001	9,507	7,501	8,868	6.7	7.2
EPS (Rs)	24.2	28.7	22.7	26.8	6.7	7.2
EBITDA Margin (%)	7.8	8.2	7.8	8.1	0bps	10bps

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- stability and provision write-back in the EMP business, and
- incremental market share despite a competitive environment.

Key downside risks to our estimates are:

- continued provisioning in the EMP business, and
- unforeseen foreign currency movement (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	1.6	3,904	3,200	SELL
Blue Star	BLSTR IN	3.4	1,435	1,670	BUY
Havells India	HAVL IN	12.9	1,691	1,780	HOLD
KEI Industries	KEII IN	4.1	3,773	3,680	HOLD
Orient Electric	ORIENTEL IN	0.6	230	240	HOLD
Syrma SGS	SYRMA IN	1.0	480	550	HOLD
V-Guard Industries	VGRD IN	1.9	354	310	HOLD
Voltas	VOLT IN	5.3	1,319	1,260	HOLD

Source: BOBCAPS Research, NSE | Price as of 8 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	79,345	94,988	1,24,812	1,44,906	1,65,272
EBITDA	6,816	5,724	4,746	11,264	13,513
Depreciation	373	396	476	514	646
EBIT	6,443	5,327	4,270	10,750	12,867
Net interest inc./(exp.)	(259)	(296)	(559)	(562)	(616)
Other inc./(exp.)	1,892	1,685	2,533	2,279	2,279
Exceptional items	0	0	0	0	0
EBT	8,076	6,716	6,244	12,467	14,530
Income taxes	1,913	1,709	2,377	3,366	3,923
Extraordinary items	0	2,438	0	0	0
Min. int./Inc. from assoc.	(1,103)	(1,207)	(1,386)	(1,100)	(1,100)
Reported net profit	5,041	1,350	2,520	8,001	9,507
Adjustments	0	2,438	0	0	0
Adjusted net profit	5,041	3,788	2,520	8,001	9,507

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	29,421	30,126	38,557	41,685	48,450
Other current liabilities	7,707	10,029	14,060	13,895	15,848
Provisions	0	0	0	0	0
Debt funds	3,432	6,506	7,436	6,043	6,850
Other liabilities	1,909	1,609	2,099	2,382	2,669
Equity capital	331	331	331	331	331
Reserves & surplus	54,665	54,190	57,874	63,725	71,081
Shareholders' fund	54,996	54,521	58,205	64,055	71,411
Total liab. and equities	97,463	1,02,790	1,20,357	1,28,061	1,45,228
Cash and cash eq.	5,717	7,084	8,523	118	972
Accounts receivables	21,097	21,919	25,328	28,584	32,149
Inventories	16,614	15,920	21,354	25,805	28,526
Other current assets	15,365	19,543	22,042	22,644	24,921
Investments	0	0	0	0	0
Net fixed assets	2,305	3,611	3,902	5,387	6,741
CWIP	593	983	3,675	4,267	4,866
Intangible assets	999	1,142	1,127	1,308	1,492
Deferred tax assets, net	0	0	0	0	0
Other assets	34,775	32,590	34,408	39,947	45,561
Total assets	97,463	1,02,790	1,20,357	1,28,061	1,45,228

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	5,842	1,594	7,615	3,168	10,308
Capital expenditures	0	(1,774)	(2,883)	(2,000)	(2,000)
Change in investments	(3,910)	253	(3,938)	0	0
Other investing cash flows	264	706	1,597	(6,029)	(6,111)
Cash flow from investing	(3,646)	(816)	(5,224)	(8,029)	(8,111)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(166)	2,728	453	(1,394)	807
Interest expenses	0	0	0	0	0
Dividends paid	(905)	(2,177)	(1,616)	(2,151)	(2,151)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(1,070)	550	(1,163)	(3,544)	(1,344)
Chg in cash & cash eq.	1,126	1,328	1,228	(8,405)	853
Closing cash & cash eq.	5,717	7,084	8,523	118	972

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	15.2	4.1	7.6	24.2	28.7
Adjusted EPS	15.2	11.4	7.6	24.2	28.7
Dividend per share	5.5	4.3	5.5	6.5	6.5
Book value per share	166.2	164.8	175.9	193.6	215.8

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	5.5	4.6	3.5	3.0	2.6
EV/EBITDA	64.0	76.2	91.9	38.7	32.3
Adjusted P/E	86.6	115.2	173.2	54.5	45.9
P/BV	7.9	8.0	7.5	6.8	6.1

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	62.4	56.4	40.4	64.2	65.4
Interest burden (PBT/EBIT)	125.3	126.1	146.2	116.0	112.9
EBIT margin (EBIT/Revenue)	8.1	5.6	3.4	7.4	7.8
Asset turnover (Rev./Avg TA)	34.4	26.3	32.0	26.9	24.5
Leverage (Avg TA/Avg Equity)	0.0	0.1	0.1	0.1	0.1
Adjusted ROAE	9.6	6.9	4.5	13.1	14.0

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	5.0	19.7	31.4	16.1	14.1
EBITDA	6.3	(16.0)	(17.1)	137.3	20.0
Adjusted EPS	(4.7)	(24.8)	(33.5)	217.5	18.8
Profitability & Return ratios (%)					
EBITDA margin	8.6	6.0	3.8	7.8	8.2
EBIT margin	8.1	5.6	3.4	7.4	7.8
Adjusted profit margin	6.4	4.0	2.0	5.5	5.8
Adjusted ROAE	9.6	6.9	4.5	13.1	14.0
ROCE	9.4	6.7	4.5	12.3	13.4
Working capital days (days)					
Receivables	97	84	74	72	71
Inventory	76	61	62	65	63
Payables	135	116	113	105	107
Ratios (x)					
Gross asset turnover	16.2	16.6	17.9	17.4	16.0
Current ratio	1.4	1.4	1.3	1.3	1.2
Net interest coverage ratio	24.9	18.0	7.6	19.1	20.9
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**

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

Brand Name: **BOBCAPS**

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

CIN: **U65999MH1996GOI098009**



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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%

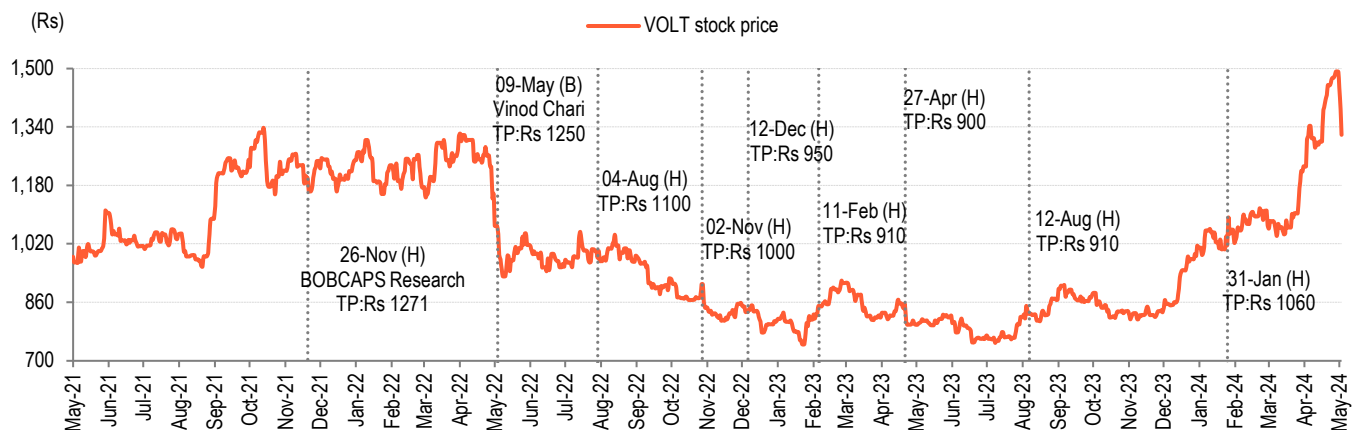
HOLD – Expected return from -6% to +15%

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.

Ratings and Target Price (3-year history): VOLTAS (VOLT IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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