

India

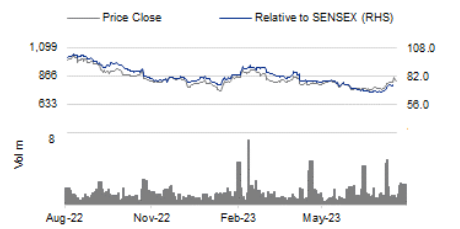
ADD (no change)

Consensus ratings*: Buy 18 Hold 17 Sell 10

| | |
|------------------------------|-------|
| Current price: | Rs829 |
| Target price: | Rs942 |
| Previous target: | Rs942 |
| Up/downside: | 13.6% |
| InCred Research / Consensus: | 11.5% |

| | |
|-------------------------|------------|
| Reuters: | |
| Bloomberg: | VOLT IN |
| Market cap: | US\$3,775m |
| | Rs274,155m |
| Average daily turnover: | US\$17.3m |
| | Rs1257.8m |
| Current shares o/s: | 330.8m |
| Free float: | 69.7% |

*Source: Bloomberg

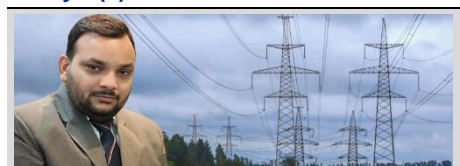


Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|-------|--------|
| Absolute (%) | 9.1 | 1.8 | (16.3) |
| Relative (%) | 10.4 | (3.3) | (23.8) |

| Major shareholders | % held |
|----------------------------|--------|
| Promoter (Tata Sons Ltd) | 30.3 |
| Life Insurance Corporation | 10.3 |
| HDC life | 2.5 |

Analyst(s)



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Voltas Ltd

Higher losses in EMP segment impact earnings

- 1Q EBITDA (+5% yoy) of Voltas missed our estimate by 22% (25% below consensus), largely on account of a higher EBIT loss in the projects business.
- Softening commodity prices, manufacturing efficiency and value engineering initiatives are likely to protect margins in the near term.
- Reiterate our ADD rating on the stock with a target price of Rs942, valuing it at 36x Mar 2025F EPS.

Weak performance of EMP segment

Voltas' 1QFY24 EBITDA (+5% yoy) missed our estimate by 22% (25% below consensus estimate), largely on account of a higher EBIT loss in the projects business. The EBITDA margin was at 5.5% (-88bp yoy) vs. our estimate of 7.9% & consensus estimate of 8.3%. The UCP segment's margin was at 8.2%, up 56bp YoY. The market share of Voltas in room ACs was at 20.6% as of Jun 2023-end vs. 21.6% QoQ. PAT was at Rs1.3bn, up 19% YoY, below our estimate of Rs1.63bn (consensus estimate of Rs1.73bn), mainly due to EBIT loss in the projects business. The order book was healthy at Rs81.6bn, up 40% YoY.

Gradual recovery in UCP segment's margin

Softening commodity prices, manufacturing efficiency and value engineering initiatives helped to protect the company's margins and are likely to continue in the near term. The margin of the UCP segment increased by 56bp yoy, with a 16% yoy growth in revenue and a 25% yoy growth in EBIT. Voltas has not taken any price hike during the quarter, but it is looking at the price movement cautiously and may increase product prices based on competitors' behaviour. With the market stabilizing, it expects to regain market share as well. The market share of Voltas in room air-conditioners or ACs stood at 20.6% in 1QFY24 from 21.9% YTD till Feb 2023. Aggressive pricing to leverage the summer season's sales and garner market share has increased competition in an already fragmented market.

EBIT loss continues in EMP segment

The revenue of the EMP segment grew 49% yoy in 1QFY24, with the EBIT loss rising to Rs519m from loss of a Rs125m yoy. Voltas is likely to recover input cost escalation due to time extension by negotiating with clients and this, in our view, could lead to margin recovery. Management has given guidance of a 4-5% margin for FY24F-25F in the case of new orders. The order book remains healthy at Rs82bn, up 52% YoY. Voltas witnessed traction across the water, rural electrification and urban infrastructure sectors.

Reiterate ADD rating with an unchanged target price of Rs942

The share price of Voltas has corrected by ~20% in the last 12 months and now trades at below its mean P/E due to lower margin and market share coupled with the provision made for the projects business. We have a positive view on structural growth in ACs as a consumer category over the next few years. Considering the decent earnings growth, higher volume, and improved business visibility over the medium term, we have retained ADD rating on the stock with a target price of Rs942, valuing it at 36x Mar 2025F EPS. Historically, Voltas has faced such competitive pressure and made a strong comeback. Intense competition and further erosion in margin are key downside risks.

| Financial Summary | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
|------------------------|---------|---------|---------|---------|---------|
| Revenue (Rsm) | 75,558 | 79,345 | 94,988 | 107,402 | 122,136 |
| Operating EBITDA (Rsm) | 6,414 | 6,816 | 5,724 | 9,243 | 11,450 |
| Net Profit (Rsm) | 5,288 | 5,060 | 3,781 | 6,771 | 8,663 |
| Core EPS (Rs) | 16.0 | 15.3 | 11.4 | 20.5 | 26.2 |
| Core EPS Growth | (7.6%) | (4.3%) | (25.3%) | 79.1% | 27.9% |
| FD Core P/E (x) | 51.85 | 54.18 | 72.52 | 40.49 | 31.65 |
| DPS (Rs) | 4.0 | 5.0 | 5.5 | 6.0 | 6.0 |
| Dividend Yield | 0.48% | 0.61% | 0.67% | 0.72% | 0.72% |
| EV/EBITDA (x) | 38.26 | 35.12 | 42.86 | 26.17 | 20.89 |
| P/FCFE (x) | 110.17 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Gearing | (57.9%) | (63.5%) | (53.2%) | (53.6%) | (52.3%) |
| P/BV (x) | 5.49 | 4.99 | 5.03 | 4.52 | 4.07 |
| ROE | 11.4% | 9.6% | 6.9% | 11.8% | 13.5% |

% Change In Core EPS Estimates
InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY24 results

Key conference-call highlights ➤

Unitary cooling products (UCP) segment

- The volume growth in the UCP segment was at 15% vs. single-digit volume growth for industry, mainly led by strong growth in the southern and eastern regions of the country. Secondary volume growth for the industry during Jan-Jun 2023 stood at 8%.
- Initially, the industry was expecting a healthy 1QFY24 but erratic weather conditions in Apr and May 2023, especially in North and West India, impacted the growth. However, the 15% volume growth during the quarter was led by high-tonnage products and a strong channel coupled with the revival of demand in Jun 2023.
- The wide product portfolio, stock-keeping units or SKUs designed in-house, and competitive pricing have continued to lead to a higher share of contribution i.e., more than 80%, in the case of sales of inverters for room ACs during the quarter. While split ACs witnessed growth, the demand for windows ACs, primarily driven by sales in North India, remained weak.
- The competitors were aggressive on the pricing front, which impacted on the market share and margin of Voltas to some extent.
- Sales growth in commercial refrigeration equipment was lower in 1QFY24 on a higher base. Weather disruption impacted the consumption of cold beverages.

Voltbek home appliances

- Voltas Beko witnessed a healthy 40% YoY growth in revenue led by strong growth across products - refrigerators, washing machines, microwaves and dishwashers. The revenue was also driven by increased tie-ups with organized retailers, improved participation in the e-commerce space and a better product mix.
- The expansion of distribution reach, focus on product placements with existing and evolving sales channels, wider range of product SKUs and in-house manufacturing of higher value-added products continued to support the overall growth.
- The market share of Voltas Beko stood at 5% in the washing machine category, with a 9.6% market share in the sub-segment of semi-automatic washing machines. The company also maintained a 3.5% market share in refrigerators. It is looking to have a wide range of value-added products manufactured in-house to control costs and strengthen the supply chain to improve overall margins.

Electro-mechanical projects (EMP) segment

- Builds up contingencies in projects due to cost escalation and time extensions. Voltas could recover cost escalation due to time extension by negotiations with clients and this, we feel, could lead to margin recovery.
- Order inflow of domestic projects increased to Rs6bn from Rs19bn YoY. All ongoing projects overseas are largely in a nascent stage. The total order inflow in 1QFY23 stood at Rs7.6bn from Rs4.4bn YoY.
- The carry-forward order book in the domestic projects space stands at Rs52bn including orders across the water, HVAC, rural electrification and urban infrastructure segments. The international order book stands at Rs.29.5bn, largely with orders from the UAE, Qatar and Saudi Arabia. The total order book at the end of 1QFY24 was at Rs82bn from Rs54bn.

Figure 1: Results summary

| (Rs m) | 1QFY24 | 1QFY23 | YoY (%) | 4QFY23 | QoQ (%) | FY23 | FY22 | YoY (%) |
|-----------------------|---------------|---------------|-------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 33,599 | 27,680 | 21.4 | 29,568 | 13.6 | 94,988 | 79,345 | 19.7 |
| Raw Material Cost | 26,504 | 21,993 | 20.5 | 23,182 | 14.3 | 73,782 | 58,967 | 25.1 |
| Employee Cost | 1,805 | 1,505 | 19.9 | 1,678 | 7.6 | 6,672 | 6,176 | 8.0 |
| Other Expenses | 3,436 | 2,413 | 42.4 | 2,526 | 36.0 | 8,810 | 7,386 | 19.3 |
| Total Expenditure | 31,745 | 25,910 | 22.5 | 27,386 | 15.9 | 89,264 | 72,529 | 23.1 |
| EBITDA | 1,854 | 1,770 | 4.7 | 2,182 | (15.0) | 5,724 | 6,816 | (16.0) |
| Depreciation | 113 | 85 | 32.6 | 104 | 8.5 | 396 | 373 | 6.3 |
| EBIT | 1,741 | 1,685 | 3.3 | 2,078 | (16.2) | 5,328 | 6,443 | (17.3) |
| Interest | 101 | 40 | 154.0 | 124 | (18.7) | 296 | 259 | 14.4 |
| Other Income | 700 | 268 | 161.6 | 467 | 50.0 | 1,685 | 1,892 | (11.0) |
| PBT | 2,340 | 1,913 | 22.3 | 2,420 | (3.3) | 4,278 | 8,076 | (47.0) |
| Total Tax | 735 | 508 | 44.7 | 706 | 4.1 | 1,709 | 1,913 | (10.7) |
| Minority Interest | 1 | 6 | (79.7) | 0 | #DIV/0! | 20 | 19 | 5.2 |
| Share of Profit of JV | (310) | (310) | 0.3 | (282) | 10.2 | (1207) | (1103) | 9.4 |
| PAT | 1,293 | 1,089 | 18.7 | 1,432 | (9.7) | 1,342 | 5,041 | (73.4) |
| Adj. PAT | 1,293 | 1,089 | 18.7 | 1,432 | (9.7) | 3,781 | 5,041 | (25.0) |
| EPS (Rs) | 3.9 | 3.3 | 18.7 | 4.3 | (9.7) | 11.4 | 15.2 | (25.0) |

| | 1QFY24 | 1QFY23 | YoY (%) | 4QFY23 | QoQ (%) | FY23 | FY22 | YoY (%) |
|----------------------------------|--------|--------|-------------------|--------|-------------------|------|------|-------------------|
| Margin Analysis | | | yoy bp chg | | qoq bp chg | | | yoy bp chg |
| EBITDA Margin (%) | 5.5 | 6.4 | (88) | 7.4 | (186) | 6.0 | 8.6 | (256) |
| EBIT Margin (%) | 5.2 | 6.1 | (91) | 7.0 | (185) | 5.6 | 8.1 | (251) |
| PBT Margin (%) | 7.0 | 6.9 | 5 | 8.2 | (122) | 4.5 | 10.2 | (567) |
| NPM | 3.8 | 3.9 | (9) | 4.8 | (100) | 4.0 | 6.4 | (237) |
| Effective Tax Rate (%) | 31.4 | 26.6 | 485 | 29.2 | 224 | 40.0 | 23.7 | 1626 |
| Cost Analysis | | | | | | | | |
| Raw Material Cost (% of Revenue) | 78.9 | 79.5 | (57) | 78.4 | 48 | 77.7 | 74.3 | 336 |
| Other Expenses (% of Revenue) | 10.2 | 8.7 | 151 | 8.5 | 168 | 9.3 | 9.3 | (3) |
| Personnel Cost (% of Revenue) | 5.4 | 5.4 | (6) | 5.7 | (30) | 7.0 | 7.8 | (76) |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

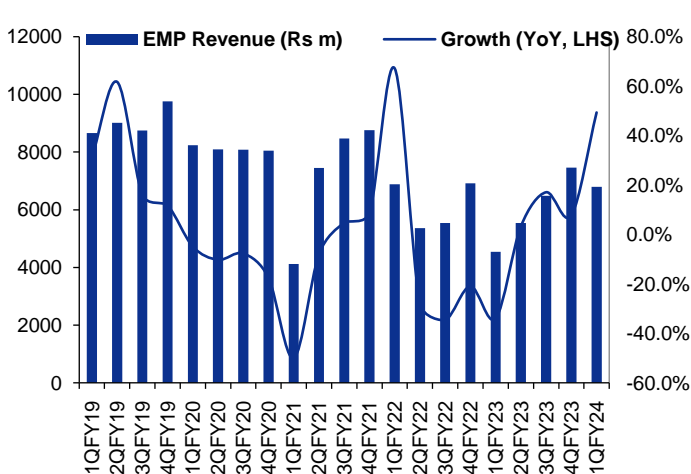
Figure 2: Segmental analysis

| Segmental | 1QFY24 | 1QFY23 | YoY (%) | 4QFY23 | QoQ (%) | FY23 | FY22 | YoY (%) |
|--------------------------|---------------|---------------|----------------|---------------|----------------|---------------|---------------|----------------|
| Revenue (Rs m) | 1QFY24 | 1QFY23 | YoY (%) | 4QFY23 | QoQ (%) | FY23 | FY22 | YoY (%) |
| Electro-mechanical | 6,791 | 4,547 | 49.3 | 7,458 | (8.9) | 24,029 | 24,705 | (2.7) |
| Engineering Products | 1,423 | 1,243 | 14.5 | 1,424 | (0.0) | 5,220 | 4,887 | 6.8 |
| Unitary Cooling Products | 25,140 | 21,622 | 16.3 | 20,486 | 22.7 | 64,745 | 48,819 | 32.6 |
| Less: Inter-segment | 0 | 0 | | 0 | #DIV/0! | | | |
| Total Revenue | 33,353 | 27,412 | 21.7 | 29,368 | 13.6 | 93,994 | 78,411 | 19.9 |
| EBIT (Rs m) | 1QFY24 | 1QFY23 | YoY (%) | 4QFY23 | QoQ (%) | FY23 | FY22 | YoY (%) |
| Electro-mechanical | -519 | -125 | 316.0 | -141 | 268.1 | -583 | 1,258 | (146.4) |
| Engineering Products | 541 | 509 | 6.4 | 559 | (3.1) | 2,007 | 1,579 | 27.1 |
| Unitary Cooling Products | 2,073 | 1,662 | 24.7 | 2,057 | 0.8 | 5,378 | 5,134 | 4.8 |
| Total | 2,096 | 2,046 | 2.4 | 2,475 | (15.3) | 6,802 | 7,971 | (14.7) |

| EBIT Margin (%) | 1QFY24 | 1QFY23 | yoy bp chg | 4QFY23 | qoq bp chg | FY23 | FY22 | yoy bp chg |
|--------------------------|------------|------------|--------------|------------|--------------|------------|-------------|--------------|
| Electro-mechanical | (7.6) | (2.7) | (490) | (1.9) | (575) | (2.4) | 5.1 | (752) |
| Engineering Products | 38.0 | 40.9 | (287) | 39.3 | (123) | 38.5 | 32.3 | 614 |
| Unitary Cooling Products | 8.2 | 7.7 | 56 | 10.0 | (179) | 8.3 | 10.5 | (221) |
| Total EBIT margin | 6.3 | 7.5 | (118) | 8.4 | (214) | 7.2 | 10.2 | (293) |

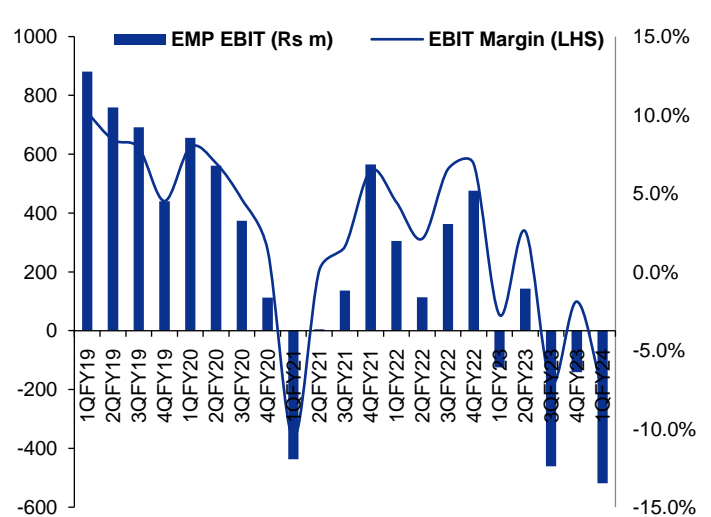
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Healthy revenue growth of EMP segment



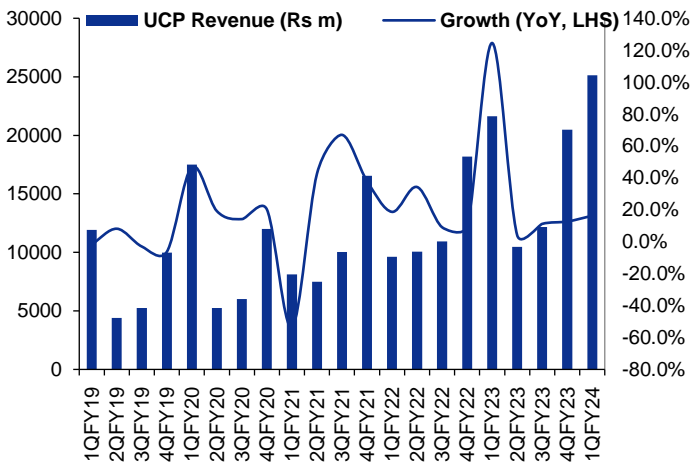
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Losses continue in EMP segment



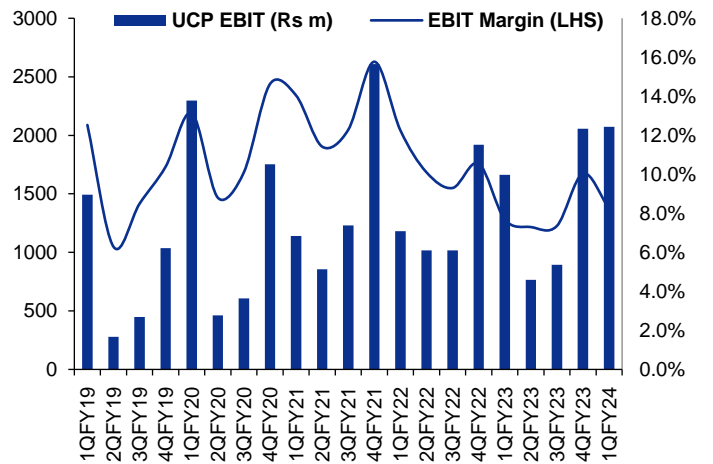
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: UCP segment's revenue grew by 16% YoY



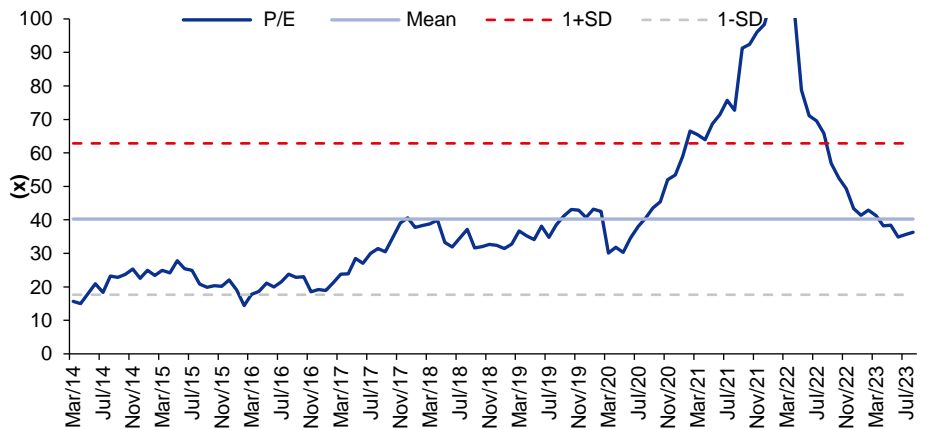
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: The EBIT margin improves by 56bp YoY



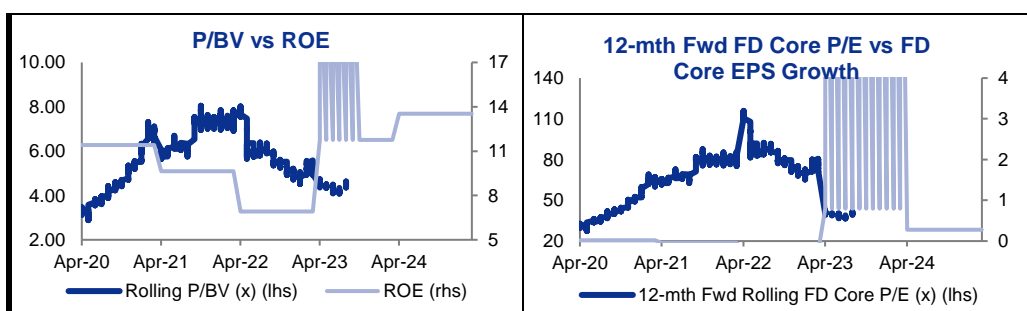
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Voltas currently trades below its mean level



SOURCE: COMPANY REPORTS, INCRED RESEARCH, BLOOMBERG

BY THE NUMBERS



Profit & Loss

| (Rs mn) | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
|---|---------------|---------------|---------------|----------------|----------------|
| Total Net Revenues | 75,558 | 79,345 | 94,988 | 107,402 | 122,136 |
| Gross Profit | 19,773 | 20,378 | 21,206 | 25,562 | 28,580 |
| Operating EBITDA | 6,414 | 6,816 | 5,724 | 9,243 | 11,450 |
| Depreciation And Amortisation | (339) | (373) | (396) | (471) | (552) |
| Operating EBIT | 6,075 | 6,443 | 5,328 | 8,772 | 10,898 |
| Financial Income/(Expense) | (262) | (259) | (296) | (392) | (353) |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Non-Operating Income/(Expense) | 1,889 | 1,892 | 1,685 | 2,075 | 2,233 |
| Profit Before Tax (pre-EI) | 7,702 | 8,076 | 6,716 | 10,455 | 12,778 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 7,702 | 8,076 | 6,716 | 10,455 | 12,778 |
| Taxation | (1,804) | (1,913) | (1,709) | (2,614) | (3,194) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 5,898 | 6,163 | 5,007 | 7,841 | 9,583 |
| Minority Interests | | | (20) | (20) | (20) |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | (610) | (1,103) | (1,207) | (1,050) | (900) |
| Net Profit | 5,288 | 5,060 | 3,781 | 6,771 | 8,663 |
| Recurring Net Profit | 5,288 | 5,060 | 3,781 | 6,771 | 8,663 |
| Fully Diluted Recurring Net Profit | 5,288 | 5,060 | 3,781 | 6,771 | 8,663 |

Cash Flow

| (Rs mn) | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
|----------------------------------|----------------|----------------|----------------|--------------|--------------|
| EBITDA | 6,414 | 6,816 | 5,724 | 9,243 | 11,450 |
| Cash Flow from Invt. & Assoc. | 679 | 158 | (92) | 1,192 | 1,308 |
| Change In Working Capital | (1,580) | (438) | (4,140) | (891) | (2,280) |
| (Incr)/Decr in Total Provisions | 1,204 | 837 | 17 | 18 | 18 |
| Other Non-Cash (Income)/Expense | 339 | 373 | 396 | 471 | 552 |
| Other Operating Cashflow | (801) | 267 | (1,389) | (1,682) | (1,880) |
| Net Interest (Paid)/Received | (262) | (259) | (296) | (392) | (353) |
| Tax Paid | (693) | (2,169) | (1,511) | (2,614) | (3,194) |
| Cashflow From Operations | 5,300 | 5,584 | (1,290) | 5,345 | 5,621 |
| Capex | (208) | (482) | (1,702) | (1,500) | (1,500) |
| Disposals Of FAs/subsidiaries | 8,504 | 7,141 | | | |
| Acq. Of Subsidiaries/investments | (11,739) | (11,038) | 4,573 | (750) | (750) |
| Other Investing Cashflow | 208 | 92 | 1,685 | 2,075 | 2,233 |
| Cash Flow From Investing | (3,236) | (4,287) | 4,556 | (175) | (17) |
| Debt Raised/(repaid) | 425 | | | | |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (1,358) | (1,676) | (1,829) | (1,985) | (1,985) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (267) | (312) | (296) | (392) | (353) |
| Cash Flow From Financing | (1,200) | | | | |
| Total Cash Generated | 864 | | | | |
| Free Cashflow To Equity | 2,489 | | | | |
| Free Cashflow To Firm | 2,326 | 1,555 | 3,562 | 5,561 | 5,956 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

| Balance Sheet | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (Rs mn) | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
| Total Cash And Equivalents | 31,720 | 38,710 | 35,465 | 38,322 | 40,462 |
| Total Debtors | 18,009 | 21,097 | 21,919 | 25,306 | 28,777 |
| Inventories | 12,796 | 16,614 | 15,920 | 19,059 | 21,787 |
| Total Other Current Assets | 16,172 | 13,012 | 16,495 | 21,513 | 24,464 |
| Total Current Assets | 78,697 | 89,433 | 89,799 | 104,199 | 115,491 |
| Fixed Assets | 3,245 | 3,707 | 5,012 | 6,041 | 6,989 |
| Total Investments | 3,332 | 3,161 | 3,199 | 3,949 | 4,699 |
| Intangible Assets | 723 | 723 | 723 | 723 | 723 |
| Total Other Non-Current Assets | 558 | 440 | 356 | 356 | 356 |
| Total Non-current Assets | 7,857 | 8,030 | 9,290 | 11,069 | 12,767 |
| Short-term Debt | | | | | |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 24,645 | 29,421 | 31,118 | 35,876 | 41,011 |
| Other Current Liabilities | 9,009 | 8,984 | 6,757 | 12,653 | 14,389 |
| Total Current Liabilities | 33,654 | 38,405 | 37,875 | 48,528 | 55,400 |
| Total Long-term Debt | 2,606 | 3,559 | 6,224 | 5,601 | 5,041 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | | | | | |
| Total Non-current Liabilities | 2,606 | 3,559 | 6,224 | 5,601 | 5,041 |
| Total Provisions | | 124 | 53 | 53 | 53 |
| Total Liabilities | 36,260 | 42,087 | 44,152 | 54,183 | 60,494 |
| Shareholders Equity | 49,934 | 54,996 | 54,521 | 60,669 | 67,348 |
| Minority Interests | 361 | 381 | 417 | 417 | 417 |
| Total Equity | 50,295 | 55,376 | 54,937 | 61,086 | 67,764 |

| Key Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
| Revenue Growth | (1.3%) | 5.0% | 19.7% | 13.1% | 13.7% |
| Operating EBITDA Growth | (6.6%) | 6.3% | (16.0%) | 61.5% | 23.9% |
| Operating EBITDA Margin | 8.5% | 8.6% | 6.0% | 8.6% | 9.4% |
| Net Cash Per Share (Rs) | 87.99 | 106.23 | 88.37 | 98.89 | 107.05 |
| BVPS (Rs) | 150.91 | 166.21 | 164.77 | 183.36 | 203.54 |
| Gross Interest Cover | 23.23 | 24.90 | 18.01 | 22.37 | 30.88 |
| Effective Tax Rate | 23.4% | 23.7% | 25.4% | 25.0% | 25.0% |
| Net Dividend Payout Ratio | 25.0% | 32.8% | 48.4% | 29.3% | 22.9% |
| Accounts Receivables Days | 87.79 | 89.95 | 82.65 | 80.24 | 80.81 |
| Inventory Days | 89.92 | 91.02 | 80.47 | 78.00 | 79.68 |
| Accounts Payables Days | 168.59 | 167.33 | 149.74 | 149.39 | 149.98 |
| ROIC (%) | 26.3% | 29.5% | 19.0% | 26.5% | 29.1% |
| ROCE (%) | 12.4% | 11.5% | 8.9% | 13.7% | 15.6% |
| Return On Average Assets | 6.5% | 5.7% | 4.1% | 6.6% | 7.3% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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