

India

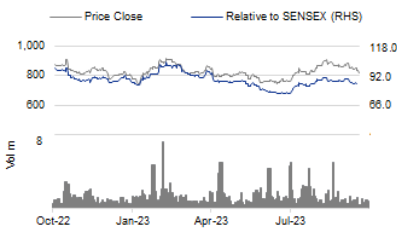
HOLD (previously ADD)

Consensus ratings*:	Buy 20 Hold 15 Sell 9
Current price:	Rs819
Target price:	Rs872
Previous target:	Rs942
Up/downside:	6.5%
InCred Research / Consensus:	-3.4%
Reuters:	VOLT.NS
Bloomberg:	VOLT IN
Market cap:	US\$3,259m Rs270,862m
Average daily turnover:	US\$13.4m Rs1116.4m
Current shares o/s:	330.8m
Free float:	69.7%

*Source: Bloomberg

Key changes in this note

- Raise revenue estimates by 5%/1%.
- Cut earnings estimates by 37%/8%.
- Downgrade our rating on the stock to HOLD (from ADD earlier).



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(6.1)	5.3	(5.8)
Relative (%)	(5.2)	7.4	(14.6)

Major shareholders	% held
Promoter (Tata Sons Ltd)	30.3
Life Insurance Corporation	10.3
HDFC Life	2.5

Analyst(s)



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Voltas Ltd

EMP segment's losses continue in 2Q

- 2Q EBITDA at Rs703m (down 30% YoY) was 41%/51% below our/consensus estimates due to a further provision of Rs860m on delayed collection.
- We cut our earnings estimates by 37%/8% while we raise revenue estimates by 5%/1% for FY24F/25F, respectively.
- We downgrade our rating on the stock to HOLD (ADD earlier) with a lower target price of Rs872, or 36x FY25F EPS, from Rs942 earlier.

Higher costs impact margins

Voltas reported a subdued 2QFY24 EBITDA performance, primarily due to higher other expenses and raw material costs. EBITDA stood at Rs703m, 41% below our estimate (51% lower than consensus estimate). Raw material costs were up 29.4% YoY at Rs17.3bn while other expenses rose 91% YoY to Rs2.98bn, which includes a provision of Rs860m made on account of delayed collection in overseas projects during 2QFY24. Moreover, interest costs saw a sharp jump by 70% YoY to Rs115m while losses from a joint venture or JV rose to Rs332m vs. a loss of Rs289m YoY. The EBITDA margin stood at 3.1%, down 264bp YoY and 284bp below our estimate of 5.9%. PAT stood at Rs357m, down 64% YoY, which was 66% below our estimate and 69% below the consensus estimate due to a higher tax outgo and poor operating performance.

Improved traction in UCP segment

The UCP segment posted a decent performance with revenue at Rs12.1bn, up 15.4% YoY. Revenue was down 52% QoQ, but that was primarily due to the seasonality of the business. EBIT of the UCP segment was up 21.3% YoY at Rs928m while the EBIT margin expanded by 38bp to 7.7%. While the engineering products segment saw a slight dip in revenue by 2.1% YoY, the EBIT of the segment improved by 12% YoY.

Continued weakness in EMP segment

The EMP segment witnessed an EBIT loss of Rs490m as against an EBIT of Rs144m in 2QFY23. There was a provision of Rs860m made on account of delayed collection in overseas projects during the quarter. Carry-forward order book of the EMP segment was at Rs86.8bn vs. Rs55bn in 2QFY23. Domestic project orders stood at Rs6.7bn during the quarter vs. Rs4.8bn YoY. The international share of the order book was at Rs33.7bn, with good traction from the Middle East countries like the UAE and Qatar.

Downgrade rating to HOLD with a lower target price of Rs872

Voltas lost its market share in room air-conditioners from a peak of ~25% to 19.5%. As the EMP segment's losses continued over the past few quarters, we cut earnings estimates by 37%/8% for FY24F/25F, respectively, while we raised revenue estimates by 5%/1% factoring in healthy revenue growth. We downgrade Voltas to HOLD (from ADD) with a lower target price of Rs872 (36x FY25F EPS). Upside risk: Quick margin recovery & strong revenue growth. Downside risk: More EMP segment's losses & market share contraction.

Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	75,558	79,345	94,988	112,602	123,362
Operating EBITDA (Rsm)	6,414	6,816	5,724	5,895	10,585
Net Profit (Rsm)	5,288	5,060	3,781	4,260	8,015
Core EPS (Rs)	16.0	15.3	11.4	12.9	24.2
Core EPS Growth	(7.6%)	(4.3%)	(25.3%)	12.7%	88.1%
FD Core P/E (x)	51.22	53.53	71.65	63.58	33.80
DPS (Rs)	4.0	5.0	5.5	6.0	6.0
Dividend Yield	0.49%	0.61%	0.68%	0.73%	0.73%
EV/EBITDA (x)	37.75	34.64	42.28	41.04	22.60
P/FCFE (x)	108.85	122.31	82.93	148.96	48.39
Net Gearing	(57.9%)	(63.5%)	(53.2%)	(50.1%)	(49.6%)
P/BV (x)	5.42	4.93	4.97	4.66	4.22
ROE	11.4%	9.6%	6.9%	7.6%	13.1%
% Change In Core EPS Estimates					(37.09%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results snapshot

(Rs m)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	InCred Estimates	Diff (%)
Net Sales	22,928	17,684	29.7	33,599	(31.8)	20,261	13.2
Raw Material Costs	17,305	13,375	29.4	26,504	(34.7)		
Employee Costs	1,945	1,748	11.3	1,805	7.7		
Other Expenses	2,975	1,552	91.6	3,436	(13.4)		
Total Expenditure	22,225	16,675	33.3	31,745	(30.0)		
EBITDA	703	1,008	(30.3)	1,854	(62.1)	1,197	(41.3)
Depreciation	117	97	20.4	113	3.7		
EBIT	586	911	(35.7)	1,741	(66.3)		
Interest	115	67	69.9	101	13.3		
Other Income	710	644	10.3	700	1.4		
Extraordinary Income	-	-	NA	-	NA		
Extraordinary Expenses	-	1,064	NA	-	NA		
PBT	1,181	424	178.9	2,340	(49.5)		
PBT Excl. Extraordinary Items	1,181	1,488	(20.6)	2,340	(49.5)		
Total Tax	493	195	153.1	735	(32.9)		
Minority Interest	0	14	(100.0)	1	(100.0)		
Share of Profit of JV	(332)	(289)	14.7	(310)	6.8		
PAT	357	-74	(581.1)	1,293	(72.4)		
Adj. PAT	357	990	(64.0)	1,293	(72.4)	1,052	(66.1)
EPS (Rs)	1.1	3.0	(64.0)	3.9	(72.4)	3.2	(66.1)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin analysis

Margin Analysis	2QFY24	2QFY23	YoY bp	1QFY24	QoQ bps	InCred Estimates	diff (bps)
EBITDA Margin (%)	3.1	5.7	(264)	5.5	(245)	5.9	(284)
EBIT Margin (%)	2.6	5.2	(260)	5.2	(263)	5.3	(278)
PBT Margin (%)	5.2	2.4	276	7.0	(181)	5.3	(19)
NPM	1.6	5.6	(404)	3.8	(229)	5.2	(364)
Effective Tax Rate (%)	41.7	13.1	2865	31.4	1033	32.8	899
Cost Analysis							0
Raw Material (% of Revenue)	75.5	75.6	(16)	78.9	(341)	78.0	(252)
Other Expenses (% of Revenue)	13.0	8.8	420	10.2	275	6.9	611
Personnel (% of Revenue)	8.5	9.9	(140)	5.4	311	9.2	(75)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Conference-call highlights

- The recent geopolitical problems and muted rural demand because of inflation are the major areas of concern. While commodity prices have softened, they remain volatile.,
- On the positive side, Voltas has a healthy cash position and expects an improvement in its business. The festive period, starting post 2Q, is likely to boost the overall business. During the Onam festival in Kerala, the company witnessed strong demand for its appliances.
- Voltas witnessed a subdued quarter, primarily due to higher total costs and a provision of Rs860m made on account of delayed collection in overseas projects. However, management does not expect any such provision in the coming quarters. The company will focus on improving the overall working capital requirement going ahead.
- For the room air-conditioner or RAC business, Voltas continues to be in the No.1 position, with the company's exit market share at 19.5% as of end-Aug 2023, slightly lower than 20.6% in 1QFY24. The commercial refrigeration business reported muted growth due to lower demand for cold beverages, chocolates and ice-creams.
- There was strong demand for air coolers during the quarter, boosted by the increased focus on channel participation and product expansion.
- The company's total carry-forward order book stood at Rs86.8bn. The international share of the order book was at Rs33.7bn and the company received traction from Middle East countries like the UAE and Qatar. For the domestic business, major orders were from sectors like water and urban infrastructure. Management said the international business is expected to remain muted for a few quarters.
- **Voltas Beko:** The brand witnessed a sale of 4m units during the quarter, making it the top brand to achieve this milestone. It witnessed overall volume

growth of 40% YoY. Profits largely remained flat during the quarter. The brand continues to focus on strategic tie-ups with modern e-commerce partners and cost reduction strategies, which are likely to improve profitability going ahead. The company's market share in commercial refrigeration and washing machines stood at 3.3% and 5.4%, respectively.

- The UCP segment posted a 20% volume growth. It was led by products like air cooler and water dispenser. The AC business grew by 15% in both volume and value terms. The engineering products business is likely to witness an uptick in the coming quarters. The customer-oriented approach has improved Mozambique operations.
- Management said the general elections in India next year may slow down the government's capex. However, private capex is expected to rise. Management has given capex guidance of Rs5-6bn for the year after factoring in the AC and commercial refrigeration capacity expansions and the production-linked incentive or PLI scheme of the government.

Quarterly segmental performance

Figure 3: Segmental performance snapshot

Revenue (Rs m)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)
Electro-mechanical Projects	9,242	5,540	66.8	6,791	36.1
Engineering Products	1,344	1,374	(2.1)	1,423	(5.5)
Unitary Cooling Products	12,088	10,477	15.4	25,140	(51.9)
Total Revenue	22,674	17,391	30.4	33,353	(32.0)
EBIT (Rs m)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)
Electro-mechanical Projects	-490	143	(441.5)	-519	(5.6)
Engineering Products	539	480	12.3	541	(0.4)
Unitary Cooling Products	928	765	21.3	2,073	(55.3)
Total	977	1,388	(29.6)	2,096	(53.4)
EBIT Margin (%)	2QFY24	2QFY23	YoY bp	1QFY24	QoQ bp
Electro-mechanical Projects	(5.3)	2.6	(789)	(7.6)	234
Engineering Products	40.1	35.0	515	38.0	208
Unitary Cooling Products	7.7	7.3	38	8.2	(57)
Total EBIT Margin	4.3	8.0	(367)	6.3	(197)

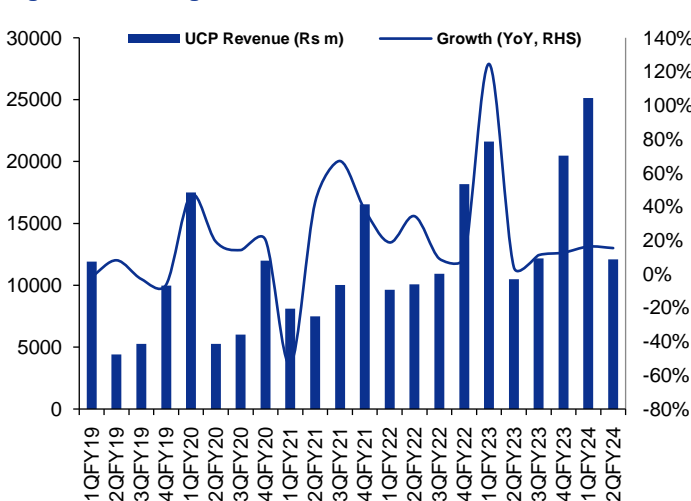
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Our revised earnings estimates

(Rs m)	Old Estimates		New Estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	1,07,402	1,22,136	1,12,602	1,23,362	4.8%	1.0%
EBITDA	9,243	11,448	5,895	10,585	-36.2%	-7.5%
Core PAT	6,771	8,662	4,260	8,015	-37.1%	-7.5%
EPS	20.5	26.2	12.9	24.2	-37.1%	-7.5%

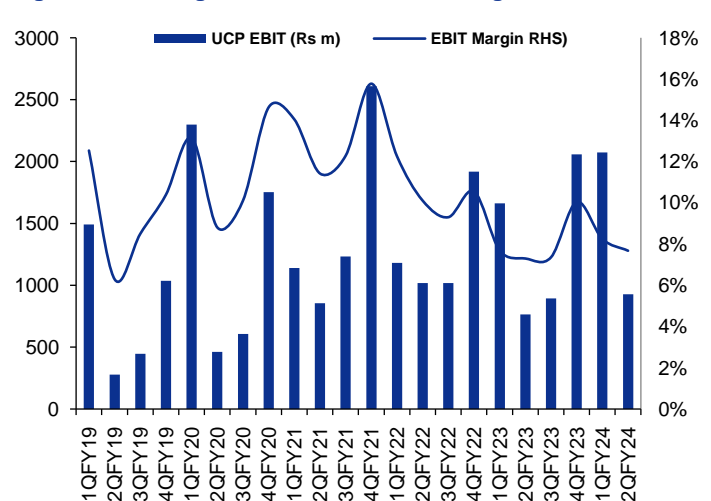
SOURCES: COMPANY REPORTS, INCRED RESEARCH

Figure 5: UCP segment's revenue trend



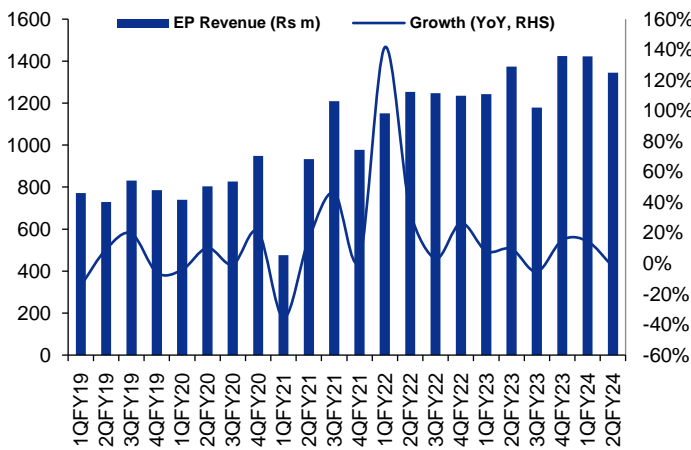
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: UCP segment's EBIT and EBIT margin



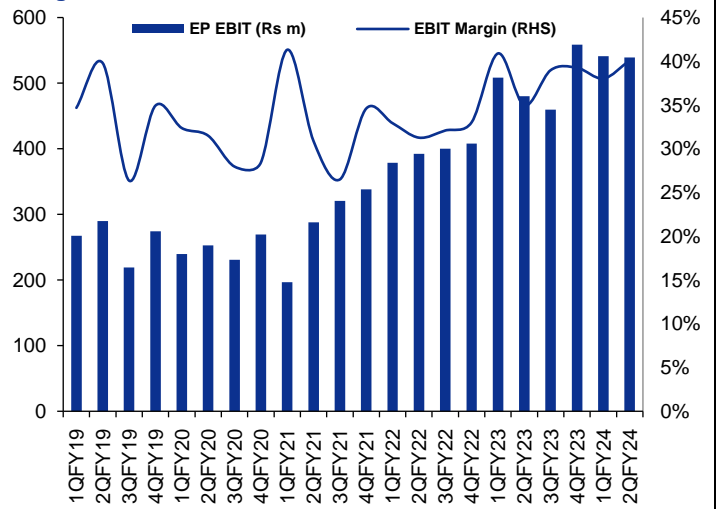
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Engineering products segment's revenue trend



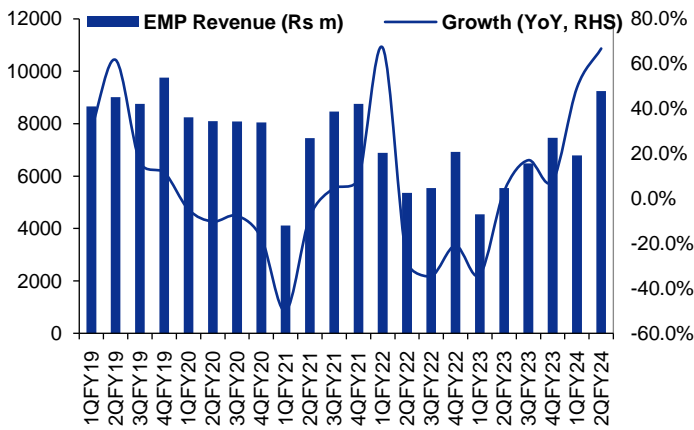
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Engineering products segment's EBIT and EBIT margin



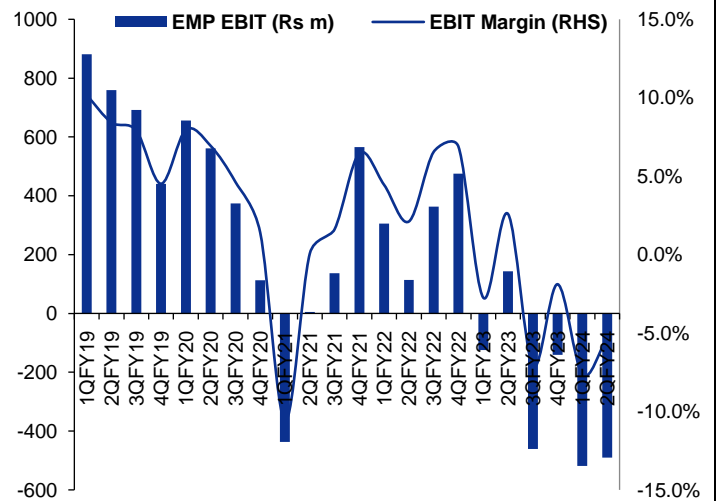
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Electro-mechanical projects segment's EBIT revenue trend



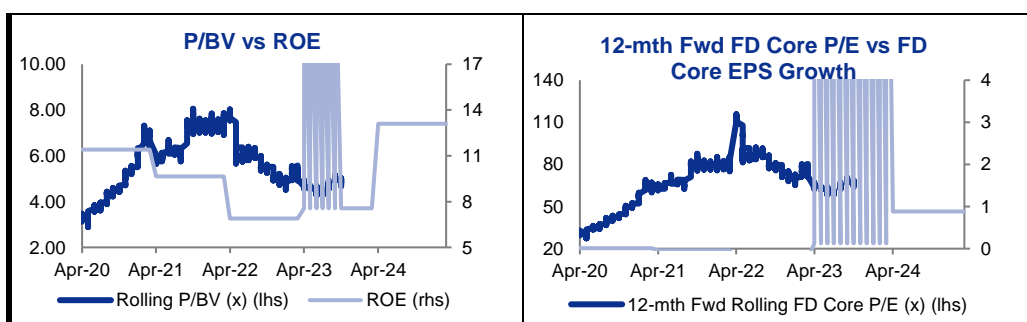
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Electro-mechanical projects segment's EBIT and EBIT margin



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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	112,602	123,362
Gross Profit	19,773	20,378	21,206	26,799	28,867
Operating EBITDA	6,414	6,816	5,724	5,895	10,585
Depreciation And Amortisation	(339)	(373)	(396)	(471)	(552)
Operating EBIT	6,075	6,443	5,328	5,424	10,033
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	7,107	11,913
Exceptional Items					
Pre-tax Profit	7,702	8,076	6,716	7,107	11,913
Taxation	(1,804)	(1,913)	(1,709)	(1,777)	(2,978)
Exceptional Income - post-tax					
Profit After Tax	5,898	6,163	5,007	5,330	8,935
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	4,260	8,015
Recurring Net Profit	5,288	5,060	3,781	4,260	8,015
Fully Diluted Recurring Net Profit	5,288	5,060	3,781	4,260	8,015

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	6,414	6,816	5,724	5,895	10,585
Cash Flow from Invt. & Assoc.	679	158	(92)	1,192	1,308
Change In Working Capital	(1,580)	(438)	(4,140)	(1,731)	(1,637)
(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)	(1,777)	(2,978)
Cashflow From Operations	5,300	5,584	(1,290)	1,994	5,615
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	918			
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)	(1,070)	(2,124)	(2,377)	(2,338)
Total Cash Generated	864	226	1,142	(559)	3,260
Free Cashflow To Equity	2,489	2,215	3,266	1,818	5,598
Free Cashflow To Firm	2,326	1,555	3,562	2,210	5,951

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	34,971	37,105
Total Debtors	18,009	21,097	21,919	26,531	29,066
Inventories	12,796	16,614	15,920	19,982	22,006
Total Other Current Assets	16,172	13,012	16,495	22,555	24,710
Total Current Assets	78,697	89,433	89,799	104,038	112,887
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	37,613	41,423
Other Current Liabilities	9,009	8,984	6,757	13,265	14,533
Total Current Liabilities	33,654	38,405	37,875	50,878	55,956
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	56,532	61,050
Shareholders Equity	49,934	54,996	54,521	58,159	64,188
Minority Interests	361	381	417	417	417
Total Equity	50,295	55,376	54,937	58,575	64,605

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	(1.3%)	5.0%	19.7%	18.5%	9.6%
Operating EBITDA Growth	(6.6%)	6.3%	(16.0%)	3.0%	79.6%
Operating EBITDA Margin	8.5%	8.6%	6.0%	5.2%	8.6%
Net Cash Per Share (Rs)	87.99	106.23	88.37	88.76	96.90
BVPS (Rs)	150.91	166.21	164.77	175.77	193.99
Gross Interest Cover	23.23	24.90	18.01	13.83	28.43
Effective Tax Rate	23.4%	23.7%	25.4%	25.0%	25.0%
Net Dividend Payout Ratio	25.0%	32.8%	48.4%	46.6%	24.8%
Accounts Receivables Days	87.79	89.95	82.65	78.52	82.25
Inventory Days	89.92	91.02	80.47	76.36	81.09
Accounts Payables Days	168.59	167.33	149.74	146.19	152.64
ROIC (%)	26.3%	29.5%	19.0%	15.9%	26.6%
ROCE (%)	12.4%	11.5%	8.9%	8.6%	15.0%
Return On Average Assets	6.5%	5.7%	4.1%	4.3%	6.9%

Key Drivers					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Segmental Revenues (Rs m)					
Electro-mechanical Projects	28,786	24,705	24,029	32,066	31,713
Engineering Products and services	3,595	4,887	5,220	5,630	6,306
Unitary Cooling Products	42,185	48,819	64,745	73,791	84,122
Growth (%)					
Electro-mechanical Projects	(11)	(14)	(3)	33	(1)
Engineering Products and services	8	36	7	8	12
Unitary Cooling Products	4	16	33	14	14

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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