

India

**HOLD** (no change)

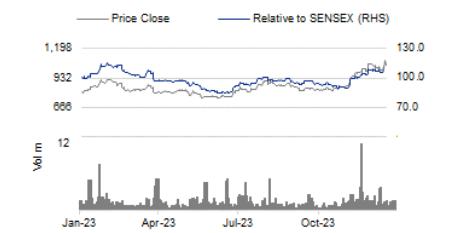
Consensus ratings\*: Buy 19 Hold 15 Sell 10

Current price:	Rs1,049
Target price:	Rs1,115 ▲
Previous target:	Rs872
Up/downside:	6.3%
InCred Research / Consensus:	2.4%
Reuters:	VOLT.NS
Bloomberg:	VOLT IN
Market cap:	US\$4,182m Rs347,015m
Average daily turnover:	US\$17.6m Rs1463.3m
Current shares o/s:	330.8m
Free float:	69.7%

\*Source: Bloomberg

**Key changes in this note**

- ▶ We cut PAT estimates by 3%/4% for FY24F/25F.
- ▶ We raised revenue estimates by 5%/8%.
- ▶ We introduced FY26F EPS of Rs31.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	7.2	26.3	32.0
Relative (%)	7.6	13.0	10.4

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

**Research Analyst(s)**



**Arafat SAIYED**

T (91) 22 4161 1542  
E arafat.saiyed@incredcapital.com

**Anirvan DIVAKERA**

T (91) 02241611548  
E anirvan.divakera@incredresearch.com

# Voltas Ltd

## Losses continue in EMP segment

- 3QFY24 EBITDA was at Rs284m, (down 63% YoY) 83%/75% below our/consensus estimates, respectively, due to further losses in the EMP segment.
- We cut FY24F/25F earnings estimates by 3%/4% while we raised revenue estimates by 5%/8%, respectively. We have introduced FY26F EPS of Rs31.
- Moving our valuation to FY26F, we retain our HOLD rating on the stock with a higher target price of Rs1,115 (from Rs872), valuing it at 36x FY26F EPS.

### Higher costs impact margins

Voltas reported a subdued 3QFY24 EBITDA performance, primarily due to continued losses in the international EMP segment. EBITDA stood at Rs284m, down 63% YoY, 82% below our estimate (75% below consensus estimate). Moreover, interest costs saw a sharp jump by 110% YoY to Rs135m while losses from a joint venture or JV rose to Rs361m from a loss of Rs326m YoY. The EBITDA margin stood at a mere 1.1%, down 273bp YoY. It reported a net loss of Rs276m vs. a PAT of Rs269m YoY. Volume growth in the room air-conditioner or RAC business stood at 27% YoY while the industry grew by 22% in the same period even as the market share remains under stress.

### Improved traction in UCP segment

The UCP segment posted a decent performance with revenue at Rs14.8bn, up 21.4% YoY and 22% QoQ. EBIT of the UCP segment was up 37% YoY at Rs1.2bn while its EBIT margin rose to 8.3%, (+100bp YoY & 60bp QoQ), led by a better product mix and focused margin enhancement by the company. The engineering products segment saw revenue growth of 31% YoY to Rs1.5bn while EBIT of the segment fell by 677bp YoY to 32.2%.

### Healthy order book

The total order book stands at Rs80bn, of which Rs55-60bn is for domestic projects. The order inflow for domestic business was at Rs4.8bn. A few projects (especially in Qatar) are under stress due to the unreasonable delay in receivables, and the long execution timeline which led to cost overrun. The company is focusing on recovery of the receivables due.

### Retain HOLD rating on the stock with a higher target price of Rs1,115

Voltas lost its market share in room air-conditioners from a peak of ~25% to 19%. As the EMP segment's losses continued over the past few quarters, we have cut earnings estimates by 3%/4% for FY24F/25F, respectively, while we raised revenue estimates by 5%/8% factoring in healthy revenue growth. We have introduced FY26F EPS of Rs31, moving our valuation to FY26F. We retain HOLD rating on the stock with a higher target price of Rs1,115 (Rs872 earlier), valuing it at 36x FY26F EPS. Upside risks: Quick margin recovery & strong revenue growth. Downside risks: More losses in the EMP segment & market share contraction.

### Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	79,345	94,988	117,882	132,806	155,171
Operating EBITDA (Rsm)	6,816	5,724	5,094	10,131	13,536
Net Profit (Rsm)	5,060	3,480	3,424	7,673	10,238
Core EPS (Rs)	15.3	10.5	10.3	23.2	30.9
Core EPS Growth	(4.3%)	(31.2%)	(1.6%)	124.1%	33.4%
FD Core P/E (x)	68.58	99.71	101.36	45.22	33.90
DPS (Rs)	5.0	5.5	6.0	6.0	6.0
Dividend Yield	0.48%	0.53%	0.57%	0.57%	0.57%
EV/EBITDA (x)	45.81	55.59	62.72	31.43	23.29
P/FCFE (x)	156.70	117.00	877.59	85.99	57.73
Net Gearing	(63.5%)	(53.2%)	(48.6%)	(46.0%)	(45.1%)
P/BV (x)	6.31	6.36	6.09	5.53	4.89
ROE	9.6%	6.4%	6.1%	12.8%	15.3%
% Change In Core EPS Estimates			(2.79%)		
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## 3QFY24 conference-call highlights

- Voltas reported a healthy revenue growth of 32% YoY but witnessed margin pressure during the quarter and EBIT losses in the EMPS segment, mainly on account of headwinds in the international projects business. The company has availed a term loan to finance the capex for both air-conditioner and commercial refrigeration businesses along with investments directed towards the production-linked incentive or PLI scheme. For the RAC segment, the company witnessed a volume growth of 27%, which is higher than the industry's growth of 20-22%. However, the growth in commercial refrigeration and air cooler business was slightly lower. The overall UCP margin expansion was primarily on account of RAC. For window Acs, the company has a market share of ~35-50% while in the case of split ACs it is ~18-20%.
- **Unitary Cooling Products:** The segment saw an overall volume growth of 22% YoY, while RAC alone grew 27%. Voltas continues to be a market leader in split as well as window air-conditioners, with a YTD market share of 19% as of Dec 2023-end. The company aims at improving its product mix with a focus on the inverter category and margin enhancement, which led to EBIT growth of 37%. The growth in commercial refrigeration remains healthy with increased demand for cold beverages, chocolates, and ice-creams. Air coolers continued to be in the second position in market share, with an exit market share of 8.9% as of Nov 2023-end, an increase of 170bp over Mar 2023. The company also witnessed an increased demand for the newly launched water heaters. There was robust growth in chillers, variable refrigerant flow, and ducted & packaged ACs, both from retail and healthcare sectors.
- **Electro-mechanical projects and services:** While domestic projects, which are primarily in mechanical electrical & plumbing, water and electrical infrastructure segments, have grown by 83% YoY led by timely execution, the international projects business continues to face headwinds. A few projects (especially in Qatar) are under stress due to the unreasonable delay in receivables and a long execution timeline which led to cost overrun. The company is focusing on recovery of the receivables due. Order inflow for the domestic business stood at Rs4.8bn. The total order book stands at Rs80bn, of which Rs55-60bn is accounted for by domestic projects.
- **Engineering products and services:** The segment continued to show an improved performance on the back of strong order backlog and healthy execution. The revenue for the quarter was Rs1.6bn while EBITDA was higher at Rs500m compared to Rs460m YoY. Investments in the textile sector led by initiatives of the government, like PLI schemes, textile costs, and revival of export demand will augur well for the company, in our view.
- **Voltas Beko:** The company's home appliances business topped a cumulative volume of 4.5m units since the commencement of commercial sales, thereby becoming the fastest brand to achieve this milestone. The overall volume growth was 65%+ YoY. Robust festival demand, improved consumer sentiment, rising presence in organized retail and e-commerce platforms and product management led to healthy performance. The market share stood at 3.3% for refrigerators and 5.5% for washing machines, registering an increase of 1% and 2.1%, respectively, YoY. In the semi-automatic washing machine category, the company reported a market share of 12.2% in Dec 2023.

Figure 1: Quarterly results snapshot

(Rs m)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	9MFY24	9MFY23	YoY (%)	InCred Est.	diff (%)	Consensus	Consensus Diff
<b>Net Sales</b>	<b>26,257</b>	<b>20,056</b>	<b>30.9</b>	<b>22,928</b>	<b>14.5</b>	<b>82,783</b>	<b>65,420</b>	<b>26.5</b>	24,642	6.6	24,140	8.8
Raw Material Costs	20,605	15,232	35.3	17,305	19.1	64,414	50,600	27.3				
Employee Costs	2,046	1,742	17.5	1,945	5.2	5,796	4,994	16.1				
Other Expenses	3,322	2,319	43.3	2,975	11.7	9,734	6,284	54.9				
Total Expenditure	25,973	19,292	34.6	22,225	16.9	79,943	61,878	29.2				
<b>EBITDA</b>	<b>284</b>	<b>764</b>	<b>(62.8)</b>	<b>703</b>	<b>(59.6)</b>	<b>2,840</b>	<b>3,542</b>	<b>(19.8)</b>	1,598	(82.2)	1,127	(74.8)
Depreciation	128	111	16.2	117	9.9	358	292	22.4				
EBIT	156	653	(76.2)	586	(73.4)	2,483	3,250	(23.6)				
Interest	135	64	110.4	115	18.2	351	172	104.6				
Other Income	579	307	88.8	710	(18.4)	1,988	1,218	63.3				
Extraordinary Income	-	-	NA	-	NA	-	-	NA				
Extraordinary Expenses	-	1,374	NA	-	NA	-	2,438	NA				
PBT	599	-478	NA	1,181	(49.3)	4,120	1,858	121.7				
PBT Excl. Extraordinary Items	599	896	NA	1,181	(49.3)	4,120	4,296	(4.1)				
Total Tax	515	300	71.3	493	4.3	1,743	1,003	73.7				
Minority Interest	0	0		0		1	20	(93.5)				
Share of Profit of JV	(361)	(326)	10.6	(332)	8.8	(642)	(599)	7.3				
<b>PAT</b>	<b>-276</b>	<b>-1,105</b>	<b>NA</b>	<b>357</b>	<b>NA</b>	<b>1,734</b>	<b>236</b>	<b>634.3</b>				
<b>Adj. PAT</b>	<b>-276</b>	<b>269</b>	<b>NA</b>	<b>357</b>	<b>NA</b>	<b>1,734</b>	<b>5,113</b>	<b>(66.1)</b>	945	NA	841	NA

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Cost and margin analysis

Margin Analysis	3QFY24	3QFY23	YoY bp	2QFY24	QoQ bp	9MFY24	9MFY23	YoY bp
EBITDA Margin (%)	1.1	3.8	(273)	3.1	(198)	3.4	5.4	(198)
EBIT Margin (%)	0.6	3.3	(266)	2.6	(196)	3.0	5.0	(197)
PBT Margin (%)	2.3	-2.4	467	5.2	(287)	5.0	2.8	214
NPM	-1.1	1.3	(239)	1.6	(261)	2.1	7.8	(572)
Effective Tax Rate (%)	85.8	33.5	5231	41.7	4409	42.3	54.0	(1170)
Cost Analysis	3QFY24	3QFY23	YoY bp	2QFY24	QoQ bp	9MFY24	9MFY23	YoY bp
Raw Material Costs (% of revenue)	78.5	75.9	253	75.5	300	77.8	77.3	46
Other Expenses (% of revenue)	12.7	11.6	109	13.0	(32)	11.8	9.6	215
Personnel Costs (% of revenue)	7.8	8.7	(89)	8.5	(69)	7.0	7.6	(63)

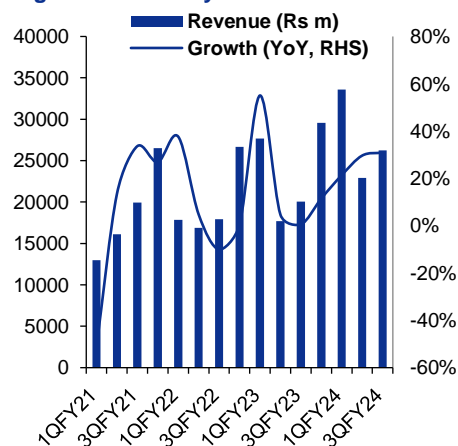
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Segmental performance

Revenue (Rs m)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Electro-mechanical	9,819	6,484	51.4	9,242	6.2	25,851	16,571	56.0
Engineering Products	1,548	1,179	31.3	1,344	15.1	4,316	3,796	13.7
Unitary Cooling Products	14,756	12,160	21.4	12,088	22.1	51,984	44,259	17.5
<b>Total</b>	<b>26,123</b>	<b>19,823</b>	<b>31.8</b>	<b>22,674</b>	<b>15.2</b>	<b>82,151</b>	<b>64,626</b>	<b>27.1</b>
EBIT (Rs m)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Electro-mechanical	-1,200	-461	160.3	-490	145.0	-2,208	-442	399.3
Engineering Products	499	460	8.5	539	(7.5)	1,579	1,448	9.0
Unitary Cooling Products	1,229	895	37.4	928	32.5	4,230	3,322	27.4
<b>Total</b>	<b>528</b>	<b>893</b>	<b>(40.9)</b>	<b>977</b>	<b>(46.0)</b>	<b>3,601</b>	<b>4,328</b>	<b>(16.8)</b>
EBIT Margin (%)	3QFY24	3QFY23	YoY bps	2QFY24	QoQ bps	9MFY24	9MFY23	YoY bps
Electro-mechanical	(12.2)	(7.1)	(511)	(5.3)	(692)	(8.5)	(2.7)	(587)
Engineering Products	32.2	39.0	(677)	40.1	(789)	36.6	38.2	(156)
Unitary Cooling Products	8.3	7.4	97	7.7	65	8.1	7.5	63
<b>Total EBIT margin</b>	<b>2.0</b>	<b>4.5</b>	<b>(248)</b>	<b>4.3</b>	<b>(229)</b>	<b>4.4</b>	<b>6.7</b>	<b>(231)</b>

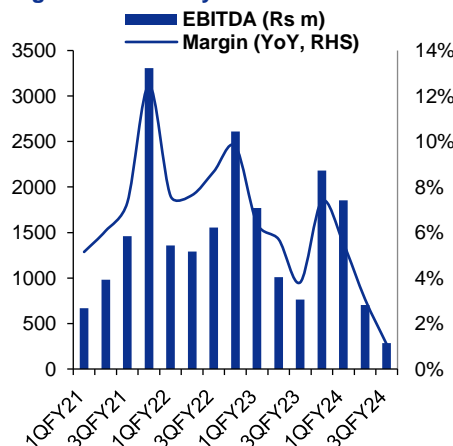
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Quarterly revenue trend



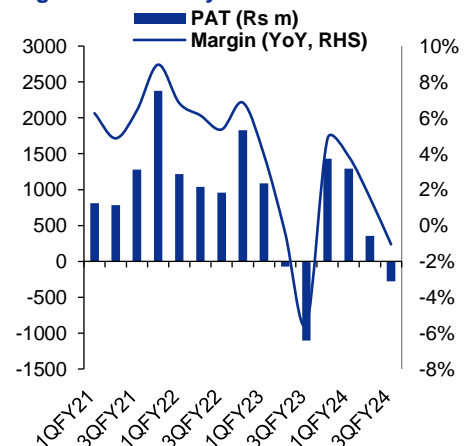
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Quarterly EBITDA trend



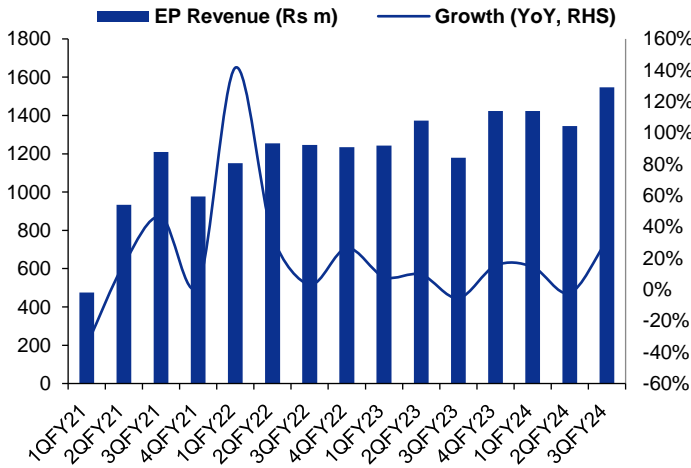
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Quarterly PAT trend



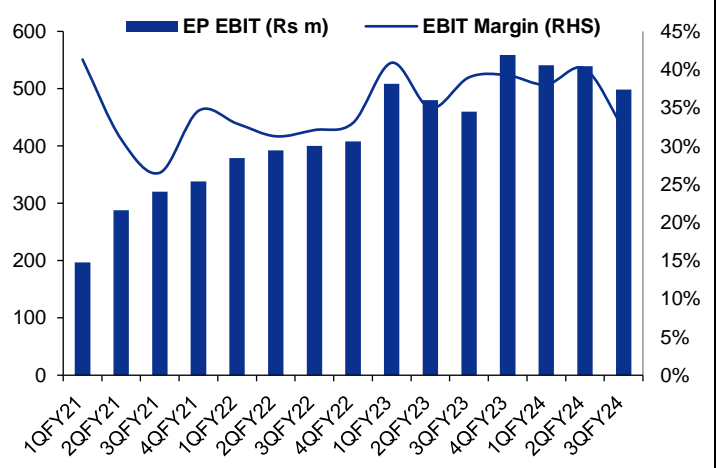
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Engineering products - revenue trend



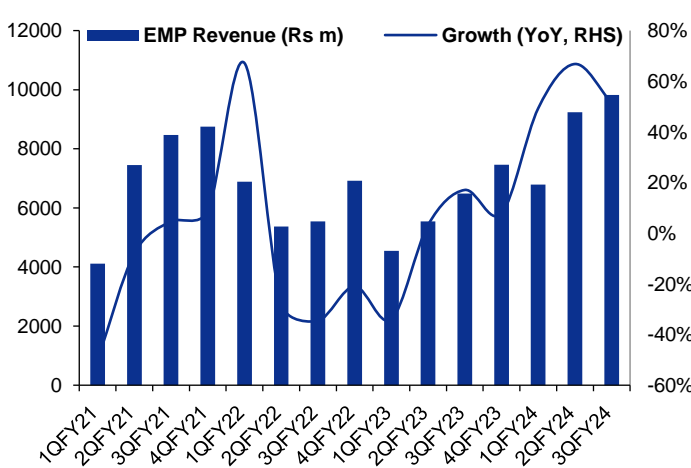
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Engineering products - EBIT trend



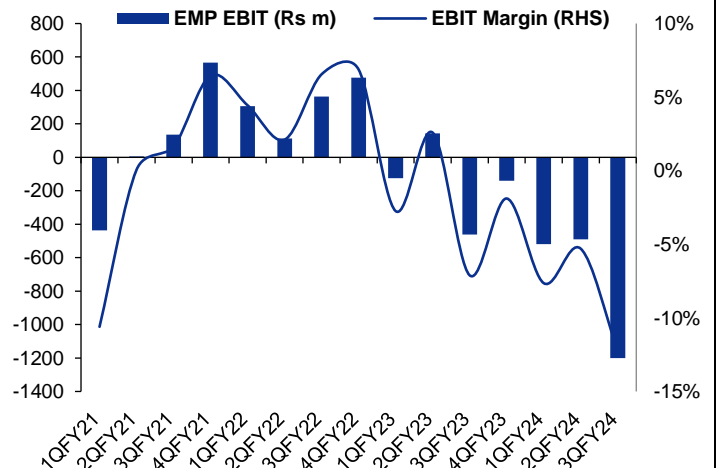
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Projects business - revenue trend



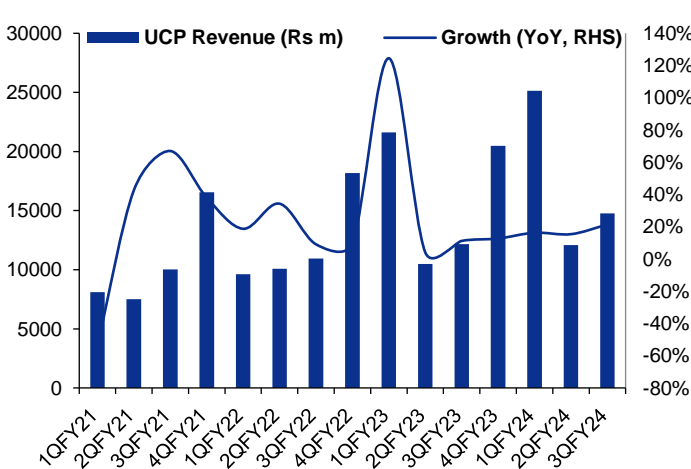
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Projects business - EBIT trend



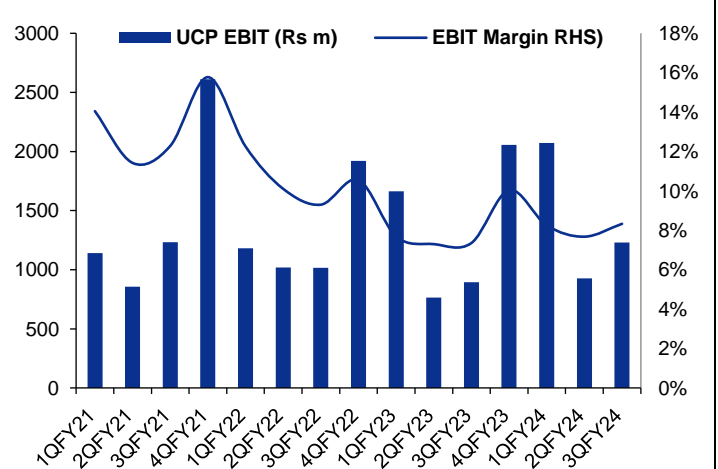
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Cooling products - revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Cooling products - EBIT trend



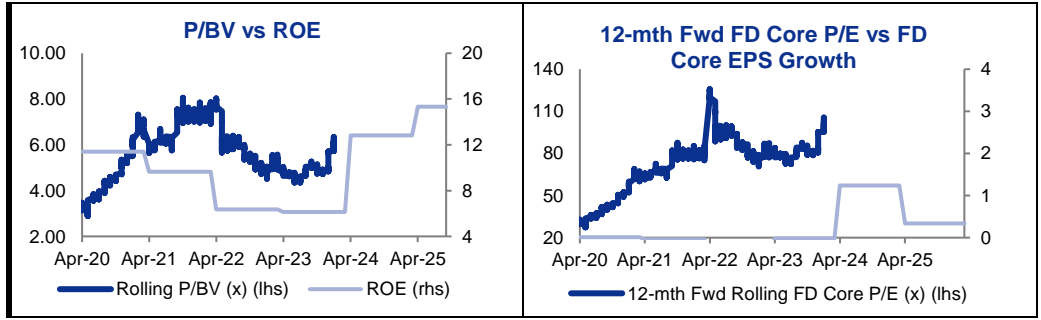
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Our revised earnings estimates

(Rs m)	Old Estimates		New Estimates		Change (%)		Introduced
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	
Revenue	1,12,602	1,23,362	1,17,882	1,32,806	4.7%	7.7%	1,55,171
EBITDA	5,895	10,585	5,094	10,131	-13.6%	-4.3%	13,536
Core PAT	4,260	8,015	4,141	7,673	-2.8%	-4.3%	10,238

SOURCE: COMPANY REPORTS, INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>79,345</b>	<b>94,988</b>	<b>117,882</b>	<b>132,806</b>	<b>155,171</b>
<b>Gross Profit</b>	<b>20,378</b>	<b>21,206</b>	<b>25,565</b>	<b>31,342</b>	<b>36,310</b>
<b>Operating EBITDA</b>	<b>6,816</b>	<b>5,724</b>	<b>5,094</b>	<b>10,131</b>	<b>13,536</b>
Depreciation And Amortisation	(373)	(396)	(499)	(562)	(644)
<b>Operating EBIT</b>	<b>6,443</b>	<b>5,328</b>	<b>4,595</b>	<b>9,569</b>	<b>12,892</b>
Financial Income/(Expense)	(259)	(296)	(500)	(353)	(318)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,892	1,685	2,478	2,233	2,294
<b>Profit Before Tax (pre-EI)</b>	<b>8,076</b>	<b>6,716</b>	<b>6,574</b>	<b>11,448</b>	<b>14,868</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>8,076</b>	<b>6,716</b>	<b>6,574</b>	<b>11,448</b>	<b>14,868</b>
Taxation	(1,913)	(2,010)	(2,361)	(2,862)	(3,717)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>6,163</b>	<b>4,707</b>	<b>4,213</b>	<b>8,586</b>	<b>11,151</b>
Minority Interests		(20)	(13)	(13)	(13)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	(1,103)	(1,207)	(776)	(900)	(900)
<b>Net Profit</b>	<b>5,060</b>	<b>3,480</b>	<b>3,424</b>	<b>7,673</b>	<b>10,238</b>
Recurring Net Profit	5,060	3,480	3,424	7,673	10,238
<b>Fully Diluted Recurring Net Profit</b>	<b>5,060</b>	<b>3,480</b>	<b>3,424</b>	<b>7,673</b>	<b>10,238</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>6,816</b>	<b>5,724</b>	<b>5,094</b>	<b>10,131</b>	<b>13,536</b>
Cash Flow from Invt. & Assoc.	158	(92)	1,466	1,305	1,318
Change In Working Capital	(438)	(4,140)	(2,072)	(2,868)	(3,540)
(Incr)/Decr in Total Provisions	837	17	18	18	18
Other Non-Cash (Income)/Expense	373	396	499	562	644
Other Operating Cashflow	267	(1,389)	(1,979)	(1,880)	(1,976)
Net Interest (Paid)/Received	(259)	(296)	(500)	(353)	(318)
Tax Paid	(2,169)	(1,811)	(2,361)	(2,862)	(3,717)
<b>Cashflow From Operations</b>	<b>5,584</b>	<b>(1,590)</b>	<b>167</b>	<b>4,053</b>	<b>5,967</b>
Capex	(482)	(1,702)	(1,500)	(1,500)	(1,500)
Disposals Of FAs/subsidiaries	7,141				
Acq. Of Subsidiaries/investments	(11,038)	4,573	(750)	(750)	(750)
Other Investing Cashflow	92	1,685	2,478	2,233	2,294
<b>Cash Flow From Investing</b>	<b>(4,287)</b>	<b>4,556</b>	<b>228</b>	<b>(17)</b>	<b>44</b>
Debt Raised/(repaid)	918				
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,676)	(1,829)	(1,985)	(1,985)	(1,985)
Preferred Dividends					
Other Financing Cashflow	(312)	(296)	(500)	(353)	(318)
<b>Cash Flow From Financing</b>	<b>(1,070)</b>	<b>(2,124)</b>	<b>(2,485)</b>	<b>(2,338)</b>	<b>(2,302)</b>
Total Cash Generated	226	842	(2,089)	1,698	3,708
<b>Free Cashflow To Equity</b>	<b>2,215</b>	<b>2,966</b>	<b>395</b>	<b>4,035</b>	<b>6,011</b>
<b>Free Cashflow To Firm</b>	<b>1,555</b>	<b>3,262</b>	<b>895</b>	<b>4,388</b>	<b>6,328</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	38,710	35,465	33,521	34,093	36,697
Total Debtors	21,097	21,919	27,775	31,291	36,561
Inventories	16,614	15,920	21,499	23,629	27,680
Total Other Current Assets	13,012	16,495	23,612	26,602	31,081
<b>Total Current Assets</b>	<b>89,433</b>	<b>89,799</b>	<b>106,407</b>	<b>115,615</b>	<b>132,019</b>
Fixed Assets	3,707	5,012	6,013	6,951	7,807
Total Investments	3,161	3,199	3,949	4,699	5,449
Intangible Assets	723	723	723	723	723
Total Other Non-Current Assets	440	356	356	356	356
<b>Total Non-current Assets</b>	<b>8,030</b>	<b>9,290</b>	<b>11,041</b>	<b>12,729</b>	<b>14,335</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	29,421	31,118	40,468	44,478	52,104
Other Current Liabilities	8,984	6,757	13,888	15,646	18,280
<b>Total Current Liabilities</b>	<b>38,405</b>	<b>37,875</b>	<b>54,356</b>	<b>60,123</b>	<b>70,384</b>
Total Long-term Debt	3,559	6,224	5,601	5,041	4,537
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>3,559</b>	<b>6,224</b>	<b>5,601</b>	<b>5,041</b>	<b>4,537</b>
Total Provisions	124	53	53	53	53
<b>Total Liabilities</b>	<b>42,087</b>	<b>44,152</b>	<b>60,010</b>	<b>65,217</b>	<b>74,974</b>
Shareholders Equity	54,996	54,521	57,022	62,710	70,963
Minority Interests	381	417	417	417	417
<b>Total Equity</b>	<b>55,376</b>	<b>54,937</b>	<b>57,438</b>	<b>63,127</b>	<b>71,380</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	5.0%	19.7%	24.1%	12.7%	16.8%
Operating EBITDA Growth	6.3%	(16.0%)	(11.0%)	98.9%	33.6%
Operating EBITDA Margin	8.6%	6.0%	4.3%	7.6%	8.7%
Net Cash Per Share (Rs)	106.23	88.37	84.38	87.80	97.19
BVPS (Rs)	166.21	164.77	172.33	189.52	214.46
Gross Interest Cover	24.90	18.01	9.20	27.12	40.59
Effective Tax Rate	23.7%	29.9%	35.9%	25.0%	25.0%
Net Dividend Payout Ratio	32.8%	52.5%	58.0%	25.9%	19.4%
Accounts Receivables Days	89.95	82.65	76.93	81.17	79.80
Inventory Days	91.02	80.47	73.97	81.17	78.78
Accounts Payables Days	167.33	149.74	141.52	152.79	148.29
ROIC (%)	29.5%	17.6%	13.3%	24.1%	28.2%
ROCE (%)	11.5%	8.9%	7.4%	14.6%	17.9%
Return On Average Assets	5.7%	3.8%	3.5%	6.5%	7.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



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