

India

ADD (no change)

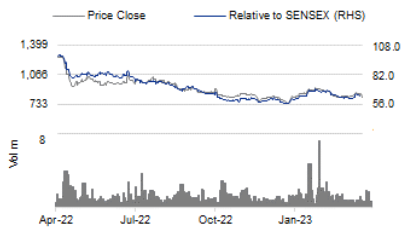
Consensus ratings*: Buy 23 Hold 15 Sell 7

Current price:	Rs808
Target price:	Rs942
Previous target:	Rs1,032
Up/downside:	16.6%
InCred Research / Consensus:	-0.7%
Reuters:	VOLT.NS
Bloomberg:	VOLT IN
Market cap:	US\$3,268m Rs267,487m
Average daily turnover:	US\$14.0m Rs1146.8m
Current shares o/s:	330.8m
Free float:	69.7%

*Source: Bloomberg

Key changes in this note

- We have cut our FY24F-25F EPS by 10-9%.
- Reduced the target price to Rs942.

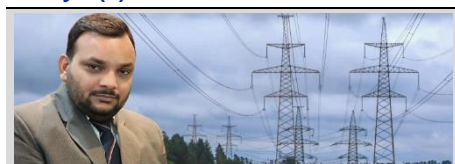


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.5)	8.5	(37.1)
Relative (%)	(5.5)	6.2	(40.4)

Major shareholders	% held
Promoter (Tata Sons Ltd)	30.3
Life Insurance Corporation	9.9
Mirae Asset Mutual Fund	2.5

Analyst(s)



Arafat SAIYED
 T (91) 22 4161 1500
 E arafat.saiyed@incredcapital.com

Voltas Ltd

In-line 4Q revenue; loss in EMP segment hits earnings

- The large EBITDA miss in 4QFY23 was led by a loss in the EMP segment due to cost overrun while double-digit margin was maintained in the UCP segment.
- The management has guided for 5% margins for new orders. Due to near-term competitive and margin pressures, we have cut our FY24F-25F EPS by 10-9%
- Reiterate our ADD rating on the stock with a lower target price of Rs942.

Weak performance of EMP segment

4QFY23 sales at Rs29.6bn (+11% yoy) were 0.4% below our estimate (1% higher than consensus estimate). The UCP segment's sales stood at Rs20.5bn (+13% yoy) while the electromechanical product (EMP) segment's sales were at Rs7.5bn (+8% yoy). EBITDA margin at 7.4% (-240bp yoy) was below our estimate of 10% and consensus estimate of 8.9% due to a decline in gross margin (-120bp yoy). The UCP segment's EBIT margin remains intact at 10% (-56bp yoy, +268bp qoq). The EMP segment reported EBIT loss of Rs141m due to cost overrun. PAT came in at Rs1.43bn (-22% yoy), lower than our estimate of Rs2.1bn and consensus estimate of Rs1.9bn

Gradual recovery in UCP segment's margin

The margin of the UCP segment increased by 268bp qoq with a 130% qoq growth in revenue. Voltas has not taken any price hike in Apr 2023 but is looking at price movement cautiously, and it 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 ACs stood at 21.9% in YTD Feb 2023, which saw a dip on qoq basis vs. 22.5% at the end of 3QFY23, while the market share in Feb 2023 was at 18.2%. Voltas has terminated its JV agreement with Highly International (Hong Kong), which was signed in May 2022 for making inverter compressor of room AC. Aggressive pricing to leverage early summer season sales and garner market share has increased competition in an already fragmented market.

Margin of 5% in new orders likely in EMP segment

The revenue of the EMP segment grew ~8% in 4QFY23 while it declined by ~3% in FY23. The segment reported EBIT loss of Rs583m in FY23 from EBIT of Rs1.3bn in FY22. 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 4-5% margin in FY24F-25F in case of new orders. The order book remains healthy at Rs81.5bn, up 52% YoY, as the company won the single-largest order worth Rs12bn in the electricals space. Voltas witnessed traction across water, rural electrification and urban infra sectors.

Reiterate ADD rating on the stock

We have a positive view on structural growth in ACs as a consumer category over the next few years. Due to near-term competitive and margin pressures, we have cut our FY24F-25F EPS by 10-9% and cut the target price to Rs942 (Rs1,032 earlier) valuing the stock at 38x Mar 2025F EPS). Considering the decent earnings growth, higher volume, and improved business visibility over the medium term, we retain ADD rating on the stock. Historically, Voltas has faced such competitive pressure and made a strong comeback. Intense competition and further erosion in margins 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	11,448
Net Profit (Rsm)	5,288	5,060	3,781	6,771	8,662
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)	50.58	52.86	70.75	39.51	30.88
DPS (Rs)	4.0	5.0	5.5	6.0	6.0
Dividend Yield	0.49%	0.62%	0.68%	0.74%	0.74%
EV/EBITDA (x)	37.22	34.15	41.69	25.45	20.31
P/FCFE (x)	107.49	0.00	0.00	0.00	0.00
Net Gearing	(57.9%)	(63.5%)	(53.2%)	(53.6%)	(52.3%)
P/BV (x)	5.36	4.86	4.91	4.41	3.97
ROE	11.4%	9.6%	6.9%	11.8%	13.5%
% Change In Core EPS Estimates				(10.01%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY23 results

Key conference-call highlights ➤

Unitary cooling products (UCP) segment

- The channel inventory was high during Mar 2023 due to unseasonal rains in most parts of India. Now with a hot weather, most of the channel inventory got cleared with a good summer season expected in the coming months.
- The company has not taken any price hike in Apr 2023 but is looking at price movement cautiously, and it may increase product prices based on competitors' behaviour. With the market stabilizing, it expects to regain market share as well. The company continues to remain the market leader by a huge margin despite some correction in market share.
- Aggressive pricing to leverage early summer sales and garner market share has increased competition in an already fragmented market. While Voltas continues to be the leader in MBO in the overall AC category with a YTD Feb 2023 market share of 21.9%, the market share in Feb 2023 stood at 18.2%.
- The commercial refrigeration category continued its growth during 4QFY23 and FY23, despite a high base, with increased participation from retail chain and OEMs. Within the commercial refrigeration category, higher demand was witnessed in the case of water coolers, water dispensers and coolers.
- Management has given capex guidance of Rs3.5bn-5bn over the next 18 months, largely on expansion towards backward integration under the productivity-linked incentive or PLI scheme for commercial and room ACs. It is looking to double AC capacity to 2m units, while commercial refrigerator capacity to be increased to 0.5m units.
- Competitors Daikin gained market share by ~200 bp and Blue Star gained 50bp with lower prices, while Lloyd lost some market share over the past few quarters.

VoltBek Home Appliances

- In 4QFY23, revenue of VoltBek grew by 26% YoY, while in FY23 it grew by ~16% to Rs10bn. The VoltBek JV has witnessed a strong revival in demand, particularly in Mar 2023. The brand witnessed sales of 3.33m units since its launch. Expansion of distribution reach, and a wider range of value-added products contributed to the growth.

Electro-mechanical project segment

- **Losses:** 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. Management has given guidance of 4-5% margins for FY24F-25F in the case of new orders.
- **Restructuring of business:** It is mainly to increase the focus on projects business where the company sees strong potential.

Figure 1: Consolidated results summary

(Rs m)	4QFY23	4QFY22	yoy % chg	3QFY23	qoq % chg	FY23	FY22	yoy % chg	4QFY23F	change (%)
Net Sales	29,568	26,666	10.9	20,056	47.4	94,988	79,345	19.7	29,681	(0.4)
Raw Material	23,182	20,588	12.6	15,232	52.2	73,782	58,967	25.1	22,854	1.4
Personnel Cost	1,678	1,600	4.9	1,742	(3.6)	6,672	6,176	8.0	1,776	(5.5)
Other Expenses	2,526	1,868	35.2	2,319	8.9	8,810	7,386	19.3	2,056	22.9
Total Expenditure	27,386	24,056	13.8	19,292	42.0	89,264	72,529	23.1	26,687	2.6
EBITDA	2,182	2,610	(16.4)	764	185.6	5,724	6,816	(16.0)	2,994	(27.1)
Less: Depreciation	104	95	9.8	111	(6.1)	396	373	6.3	111	(6.1)
EBIT	2,078	2,516	(17.4)	653	218.0	5,328	6,443	(17.3)	2,883	(27.9)
Less: Interest	124	125	(0.6)	64	93.5	296	259	14.4	65	91.6
Add: Other income	467	372	25.4	307	52.2	1,685	1,892	(11.0)	337	38.4
Profit Before tax	2,420	2,762	(12.4)	-478	(606.1)	4,278	8,076	(47.0)	3,156	(23.3)
PBT excl. extraordinary	2,420	2,762	(12.4)	896	170.2	6,716	8,076	(16.8)	3,156	(23.3)
Less: Total Tax	706	647	9.2	300	135.1	1,709	1,913	(10.7)	726	(2.7)
Share of profit of JV/ associate	(282)	(289)	(2.4)	(326)	(13.6)	(1207)	(1103)	9.4	(346)	(19)
Profit After Tax	1,432	1,827	(21.6)	-1,105	(229.7)	1,342	5,041	(73.4)	2,084	(31.3)
PAT excl. extraordinary items	1,432	1,827	(21.6)	343	317.7	3,781	5,041	(25.0)	2,084	(31.3)
EPS (Rs)	4.3	5.5	(21.6)	1.0	317.7	11.4	15.2	(25.0)	6.3	(31.3)
Margin Analysis			yoy bp chg		qoq bp chg			yoy bp chg		
EBITDA Margin (%)	7.4	9.8	(241)	3.8	357	6.0	8.6	(256)	10.1	
EBIT Margin (%)	7.0	9.4	(241)	3.3	377	5.6	8.1	(251)	9.7	
PBT Margin (%)	8.2	10.4	(217)	-2.4	1,057	4.5	10.2	(567)	10.6	
NPM	4.8	6.9	(201)	1.7	313	4.0	6.4	(237)	7.0	
Effective Tax Rate (%)	29.2	23.4	576	-62.8	9,197	40.0	23.7	1626	23.0	
Cost Analysis										
Raw Material (% of revenue)	78.4	77.2	120	75.9	246	77.7	74.3	336	77.0	
Other Expenses (% of revenue)	8.5	7.0	154	11.6	(302)	9.3	9.3	(3)	6.9	
Personnel (% of revenue)	5.7	6.0	(32)	8.7	(301)	7.0	7.8	(76)	6.0	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Consolidated segmental performance

Revenue (Rs m)	4QFY23	4QFY22	yoy % chg	3QFY23	qoq % chg	FY23	FY22	yoy % chg	2QFY23	yoy % chg
Electro-mechanical	7,458	6,918	7.8	6,484	15.0	24,029	24,705	(2.7)	5,901	26.4
Engineering Products	1,424	1,235	15.3	1,179	20.7	5,220	4,887	6.8	1,405	1.3
Unitary Cooling Products	20,486	18,184	12.7	12,160	68.5	64,745	48,819	32.6	10,773	90.2
Total Revenue	29,368	26,337	11.5	19,823	48.2	94,062	78,359	20.0	18,079	62.4
EBIT (Rs m)			yoy % chg		qoq % chg			yoy % chg		yoy % chg
Electro-mechanical	-141	476	(129.6)	-461	(69.4)	-583	1,258	(146.4)	236	(159.7)
Engineering Products	559	408	37.0	460	21.6	2,007	1,579	27.1	435	28.3
Unitary Cooling Products	2,057	1,919	7.2	895	129.9	5,378	5,134	4.8	862	138.6
Total	2,475	2,803	(11.7)	893	177.0	6,802	7,971	(14.7)	1,533	61.4
EBIT Margin (%)			yoy bp chg		qoq bp chg			yoy bp chg		
Electro-mechanical	(1.9)	6.9	(877)	(7.1)	522	(2.4)	5.1	(752)	4.0	
Engineering Products	39.3	33.0	623	39.0	27	38.5	32.3	614	31.0	
Unitary Cooling Products	10.0	10.6	(52)	7.4	268	8.3	10.5	(221)	8.0	
Total EBIT margin	8.4	10.6	(222)	4.5	392	7.2	10.2	(294)	8.5	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Order book at an all-time high of Rs81.5bn



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Losses continue in EMP segment

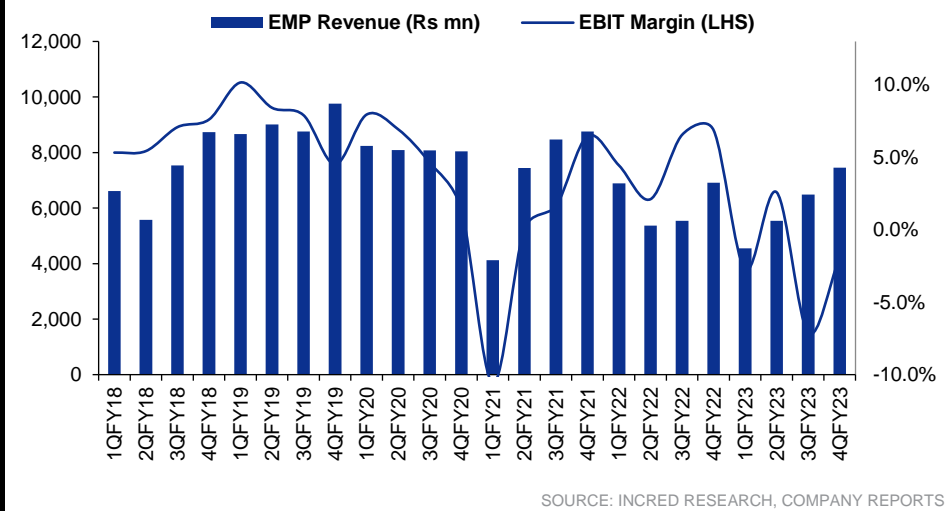


Figure 5: UCP segment's margin back to double-digit

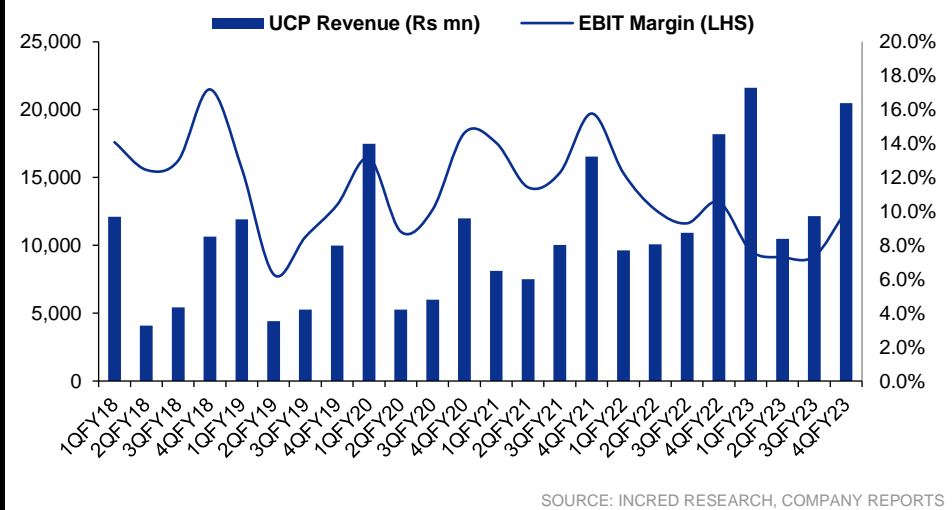


Figure 6: Strong traction in domestic order book

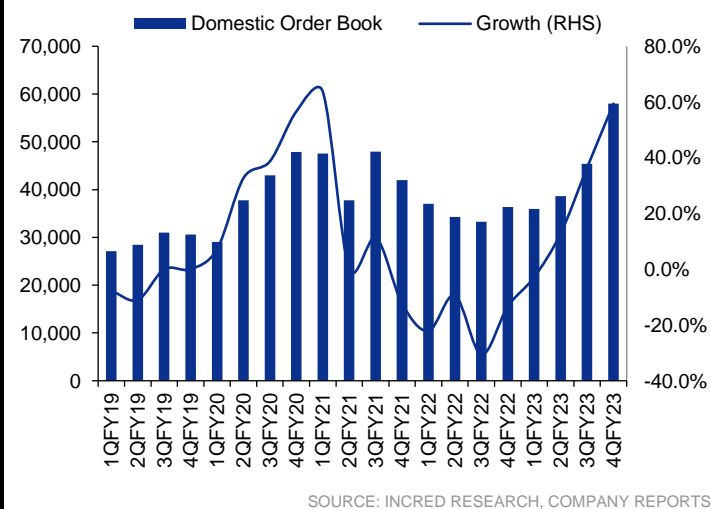


Figure 7: Moderate growth in International order book

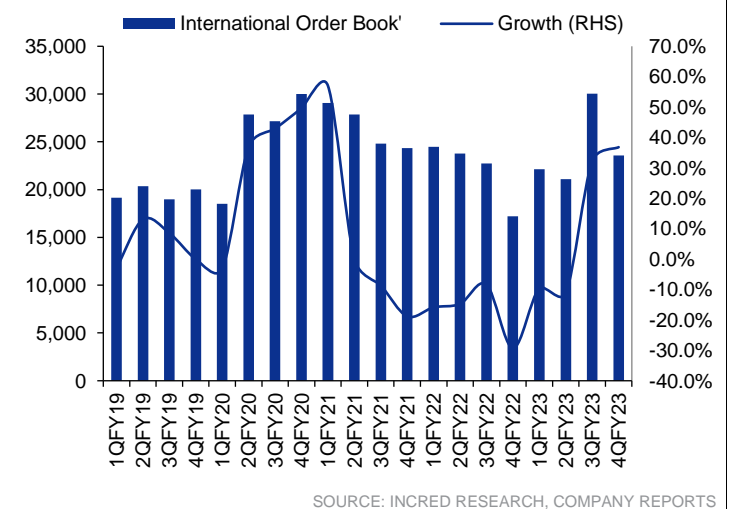
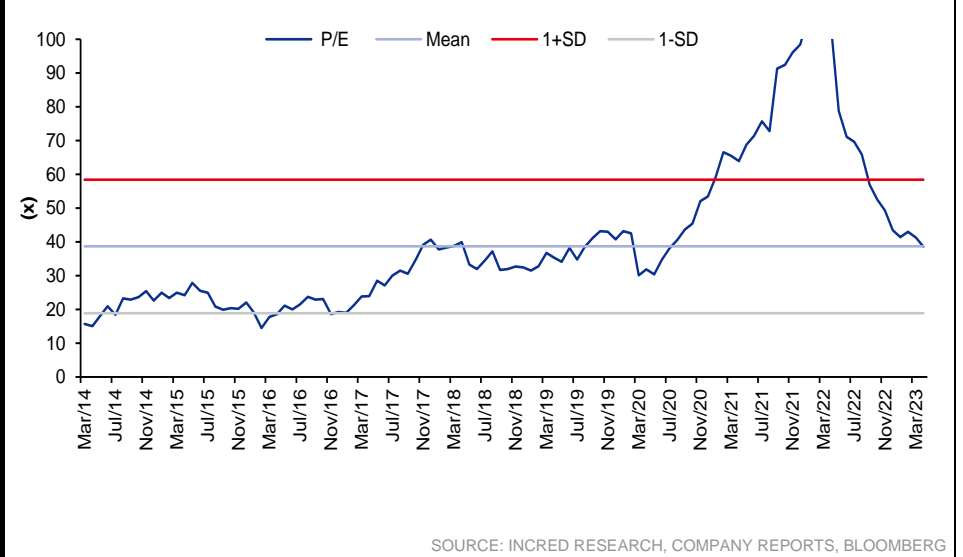


Figure 8: Earnings revision summary

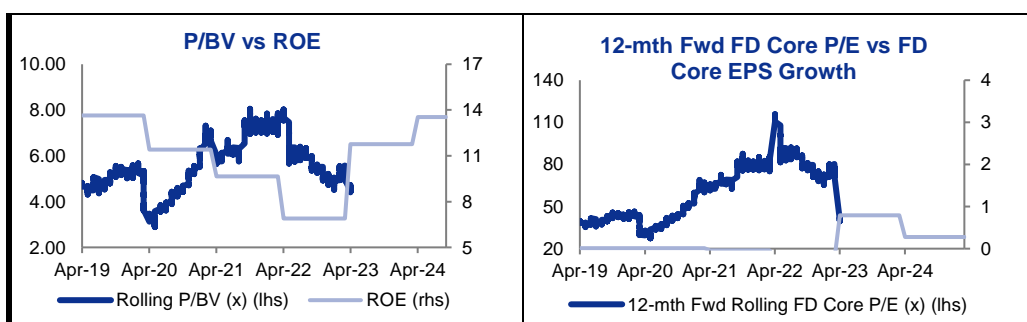
(Rs m)	Old Estimates		New Estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	1,07,193	1,21,899	1,07,402	1,22,136	0.2%	0.2%
EBITDA	10,078	12,397	9,243	11,448	-8.3%	-7.7%
Core PAT	7,524	9,487	6,771	8,662	-10.0%	-8.7%
EPS	22.7	28.7	20.5	26.2	-10.0%	-8.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Voltas trading at its mean level



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	11,448
Depreciation And Amortisation	(339)	(373)	(396)	(471)	(552)
Operating EBIT	6,075	6,443	5,328	8,772	10,896
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	10,454	12,776
Exceptional Items					
Pre-tax Profit	7,702	8,076	6,716	10,454	12,776
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	9,582
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	8,662
Recurring Net Profit	5,288	5,060	3,781	6,771	8,662
Fully Diluted Recurring Net Profit	5,288	5,060	3,781	6,771	8,662

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	6,414	6,816	5,724	9,243	11,448
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)	5,344	5,620
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	5,955

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	38,321	40,461
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	115,489
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	67,347
Minority Interests	361	381	417	417	417
Total Equity	50,295	55,376	54,937	61,086	67,763

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	107.04
BVPS (Rs)	150.91	166.21	164.77	183.35	203.53
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%

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	27,978	31,713
Engineering Products and services	3,595	4,887	5,220	5,846	6,547
Unitary Cooling Products	42,185	48,819	64,745	72,514	82,666
Growth (%)					
Electro-mechanical Projects	(11)	(14)	(3)	16	13
Engineering Products and services	8	36	7	12	12
Unitary Cooling Products	4	16	33	12	14
EBIT margin (%)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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