

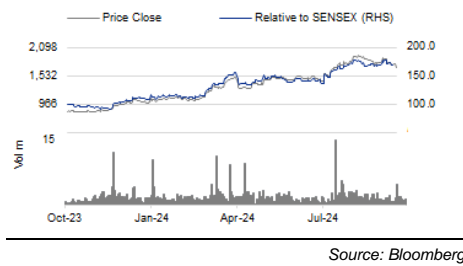
India

HOLD (no change)

Consensus ratings*: Buy 20 Hold 10 Sell 9	
Current price:	Rs1,698
Target price: ▲	Rs1,820
Previous target:	Rs1,620
Up/downside:	7.2%
InCred Research / Consensus:	8.0%
Reuters:	
Bloomberg:	VOLT IN
Market cap:	US\$7,737m
	Rs561,809m
Average daily turnover:	US\$37.9m
	Rs2748.5m
Current shares o/s:	330.8m
Free float:	69.7%
*Source: Bloomberg	

Key changes in this note

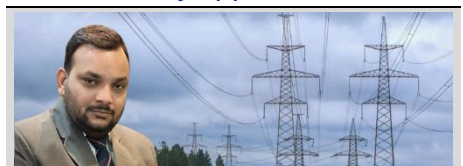
- For FY25F-27F, we increase our revenue estimates by 1%-6% and PAT estimates by 3%-5%. We retain our HOLD rating on the stock with a higher target price of Rs1,820.



Price performance	1M	3M	12M
Absolute (%)	(8.0)	10.3	103.5
Relative (%)	(3.0)	12.8	62.6

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

Research Analyst(s)



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Voltas Ltd

UCP drives revenue; project biz profitable

- 2Q EBITDA came in at Rs1.6bn, up 131% YoY, in line with our estimate and 12% above BB consensus. The EBITDA margin rose by 313bp YoY to 6.2%.
- Voltbek posted volume growth of 54% in 1H, with a higher share of refrigerators (5%) & washing machines (7.4%). To achieve EBITDA breakeven in FY25F.
- For FY25F-27F, we increase our revenue estimates by 1%-6% and PAT estimates by 3%-5%. We retain HOLD rating with a higher TP of Rs1,820.

Healthy revenue with margin expansion

Voltas reported a healthy 2QFY25 performance, with revenue at Rs26.2bn, up 14% YoY (-47% QoQ), ~6% below our estimate and 7% below the Bloomberg or BB consensus estimate. Revenue growth was largely driven by the UCP segment, which grew 31% YoY to Rs15.8bn. UCP business volume surged 56% YoY. While the project business revenue dipped 5% YoY, the segment's EBIT witnessed an uptick to Rs462m as against an EBIT loss of Rs490m YoY. Blended EBITDA stood at Rs1.6bn, up 131% YoY, in line with our estimate and 12% above the BB consensus estimate. The EBITDA margin expanded by 313bp YoY to 6.2%. PAT grew by 273% YoY to Rs1.3bn beating our estimate by 55% and the BB consensus estimate by 13%.

VoltBek to deliver positive EBITDA in FY25F

VoltBek reported a strong volume growth of 54% in 1HFY25, with a higher market share in refrigerators (5%) and washing machines (7.4%). The home appliances segment is experiencing steady growth driven by consumer demand for both large and small appliances. Management said that VoltBek is likely to achieve a 10% market share in washing machines and 7-8% in refrigerators in coming quarters. VoltBek is likely to achieve EBITDA breakeven in FY25F while on the PAT front, it is expected to break even with a revenue Rs25-26bn. Voltas continues to invest in the VoltBek brand and garner revenue.

New facility in Chennai

Voltas has started commercial operations at its room air-conditioner or RAC factory in Chennai having a capacity of 1m ACs and water dispenser capacity of ~3,50,000 units, which provides the strategic advantage of location to meet the rising demand for the under-penetrated AC and commercial refrigeration products.

Outlook and valuation

Voltas achieved a milestone of selling 2m air-conditioners or ACs within a span of eight months in 2024, reflecting strong market demand. It has started commercial operations at the RAC factory (Chennai) with a capacity of 1m ACs. For FY25F-27F, we increase our revenue estimates by 1%-6% factoring in higher volume in the UCP division and raise PAT estimates by 3%-5%. We retain HOLD rating on Voltas with a higher target price of Rs1,820 (Rs1,620 earlier), valuing it at 45x (from 42x) Sep 2026F, in line with the mean multiple. Upside risks: Quick margin recovery and strong revenue growth. Downside risks: More EMP segment losses & market share contraction in the RAC segment.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	94,988	124,812	164,070	193,859	213,388
Operating EBITDA (Rsm)	5,724	4,746	13,046	15,161	17,254
Net Profit (Rsm)	1,362	2,481	9,989	12,231	14,516
Core EPS (Rs)	7.4	7.5	30.2	37.0	43.9
Core EPS Growth	(51.7%)	1.5%	302.6%	22.4%	18.7%
FD Core P/E (x)	412.43	226.44	56.24	45.93	38.70
DPS (Rs)	5.5	4.3	5.6	7.3	9.5
Dividend Yield	0.33%	0.25%	0.33%	0.43%	0.56%
EV/EBITDA (x)	98.07	118.15	42.97	36.86	32.15
P/FCFE (x)	160.26	166.96	606.77	156.23	140.84
Net Gearing	(1.7%)	(2.4%)	(2.3%)	(4.3%)	(8.5%)
P/BV (x)	10.30	9.65	8.47	7.38	6.42
ROE	4.5%	4.4%	16.0%	17.2%	17.7%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY25 conference-call highlights

- **Overview:** Voltas achieved a milestone of selling 2m air conditioners within a span of eight months in 2024, reflecting strong market demand. In 2QFY25, Voltas recorded a 15% increase in revenue YoY, with the Unitary Cooling Products or UCP division leading the charge with a 56% volume growth over the previous six months. The company also recorded the highest half-yearly profit in its history.
- Management stated that while ACs did not register significant sales during the festive period, other appliances like washing machines performed well. Despite the extended monsoon season affecting sales, the overall performance was strong.
- **Segments:**
 - **Unitary cooling products:** The segment performed well in 2QFY25, reporting a revenue growth of 30% compared to 2QFY24 and 44% compared to 1HFY24. Demand for air-conditioning products surged due to consumer preference for comfort, particularly in the premium segment. The company maintained its leadership position with an exit market share of 21% as of Sep 2024-end. Despite the challenges from persistent rains affecting the overall industry's progress, Voltas capitalized on its extensive distribution network and new product offerings.
 - **Electromechanical projects:** In the EMPS segment, revenue in 2QFY25 was down slightly. Over a period of six months, the segment's revenue grew by 14%, touching Rs18.3bn. Heavy rainfall impacted project execution and profitability during the quarter, but improved dues collection and better working capital management contributed to the strong performance.
 - **Engineering products:** The segment faced challenges, despite revenue growth, mainly due to the difficulty in maintaining its margin against top-line growth. The mining and construction vertical showed good momentum, but fluctuation in demand from the textile industry hindered the overall performance. The after-sales business remained strong, despite these challenges.
- **VoltBek:** It reported a strong volume growth of 54% in 1HFY25, with significant growth in market share for refrigerators and washing machines. The home appliances segment is experiencing steady growth driven by consumer demand for both large and small appliances. Initiatives like the HarvestFresh campaign and enhanced e-commerce efforts have strengthened the overall performance while reducing losses gradually. Management said that VoltBek is likely to achieve a 10% market share in washing machines and 7-8% in refrigerators soon. It expects to break even at a turnover of Rs25-26bn. The new plant in Tamil Nadu is expected to run at full capacity, supporting future growth. Voltas continues to invest in the VoltBek brand and garner revenue. Higher volume is gradually reducing the loss per unit, and it aims to break even soon. The focus is on expanding market presence and enhancing product offerings.
- **Initiatives:** The board of directors has approved a Long-Term Incentive Scheme (LTIS) aimed at enhancing company performance and retaining key talent through FY27. This initiative has led to a provision being added to employee benefits during 1HFY25, impacting the bottom line moderately but reflecting a commitment to long-term growth strategies.
- **Investments:** The company said that total capital deployed in the washing machine business is approximately Rs13bn. The company is focused on building its brand presence rapidly, despite being late to the market, with a growth strategy emphasizing significant market penetration, including e-commerce and modern trade channels.
- **Outlook:** While management did not provide any guidance, looking ahead to 3QFY25F, typically a lean season for cooling products due to the winter

season, management expects a potential early demand surge due to the festive season. However, factors such as inflation rate, crude oil price fluctuations, and geopolitical challenges will play a crucial role in shaping future economic conditions and consumer demand.

Figure 1: Quarter results snapshot

(Rs m)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	1HFY25	1HFY24	YoY (%)
Net Sales	26,191	22,928	14.2	49,210	(46.8)	75,401	56,526	33.4
Raw Material Costs	19,421	17,305	12.2	38,922	(50.1)	58,343	43,809	33.2
Employee Costs	2,382	1,945	22.5	2,023	17.7	4,404	3,750	17.5
Other Expenses	2,766	2,975	(7.0)	4,027	(31.3)	6,794	6,412	6.0
Total Expenditure	24,569	22,225	10.5	44,972	(45.4)	69,541	53,970	28.9
EBITDA	1,622	703	130.8	4,238	(61.7)	5,860	2,556	129.3
Depreciation	164	117	40.7	134	22.3	299	229	30.2
EBIT	1,458	586	148.8	4,104	(64.5)	5,561	2,327	139.0
Interest	136	115	18.4	98	39.1	233	216	8.1
Other Income	1,055	710	48.6	803	31.4	1,857	1,410	31.8
PBT	2,377	1,181	101.2	4,809	(50.6)	7,186	3,521	104.1
PBT Excl. Extraordinary Items	2,377	1,181	101.2	4,809	(50.6)	7,186	3,521	104.1
Total Tax	726	493	47.2	1,165	(37.7)	1,891	1,228	54.0
Share of Profit of JV	(323)	(332)	N/A	(294)	N/A	(616)	(642)	N/A
PAT	1,328	357	272.6	3,350	(60.3)	4,678	1,649	183.6
Adj. PAT	1,328	357	272.6	3,350	(60.3)	4,678	1,649	183.6

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin and cost analysis

Margin (%)	2QFY25	2QFY24	YoY bp	1QFY25	QoQ bp	1HFY25	1HFY24	YoY bp
EBITDA Margin	6.2	3.1	313	8.6	(242)	7.8	4.5	325
EBIT Margin	5.6	2.6	301	8.3	(277)	7.4	4.1	326
PBT Margin	9.1	5.2	392	9.8	(70)	9.5	6.2	330
NPM	5.1	1.6	352	6.8	(174)	6.2	2.9	329
Effective Tax Rate	30.5	41.7	(1120)	24.2	631	26.3	34.9	(856)
Cost (%)								
Raw Material Costs	74.2	75.5	(133)	79.1	(494)	77.4	77.5	(12)
Other Expenses	10.6	13.0	(241)	8.2	238	9.0	11.3	(233)
Personnel Costs	9.1	8.5	61	4.1	498	5.8	6.6	(79)

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Segment-wise revenue and EBIT

Revenues (Rs m)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	1HFY25	1HFY24	YoY (%)
Electro-mechanical Products	8,799	9,242	(4.8)	9,491	(7.3)	18,290	16,033	14.1
Engineering Products	1,467	1,344	9.1	1,608	(8.8)	3,075	2,768	11.1
Unitary Cooling Products	15,822	12,088	30.9	38,022	(58.4)	53,844	37,228	44.6
Total	26,088	22,674	15.1	49,121	(46.9)	75,209	56,028	34.2
EBIT (Rs m)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	1HFY25	1HFY24	YoY (%)
Electro-mechanical Products	462	-490	N/A	675	(31.6)	1,137	-1,008	N/A
Engineering Products	396	539	(26.6)	448	(11.7)	844	1,080	(21.8)
Unitary Cooling Products	1,162	928	25.3	3,270	(64.5)	4,432	3,001	47.7
Total	2,020	977	106.7	4,394	(54.0)	6,414	3,073	108.7
EBIT Margin (%)	2QFY25	2QFY24	YoY bp	1QFY25	QoQ bp	1HFY25	1HFY24	YoY bp
Electro-mechanical	5.2	(5.3)	1,055	7.1	(186)	6.2	(6.3)	1,251
Engineering Products	27.0	40.1	(1312)	27.9	(90)	27.5	39.0	(1158)
Unitary Cooling Products	7.3	7.7	(33)	8.6	(126)	8.2	8.1	17
Blended EBIT margin	7.7	4.3	343	8.9	(120)	8.5	5.5	304

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals Vs. Estimates

vs. InCred (Rs m)	2QFY25A	2QFY25F	Diff.
Revenue	26,191	27,983	-6.4%
EBITDA	1,622	1,623	-0.1%
Margin (%)	6.2	5.8	39bp
PAT	1,328	854	55.6%
vs. Consensus (Rs m)	2QFY25A	2QFY25C	Diff.
Revenue	26,191	28,134	-6.9%
EBITDA	1,622	1,449	11.9%
Margin (%)	6.2	5.2	104bp
PAT	1,328	1,171	13.4%

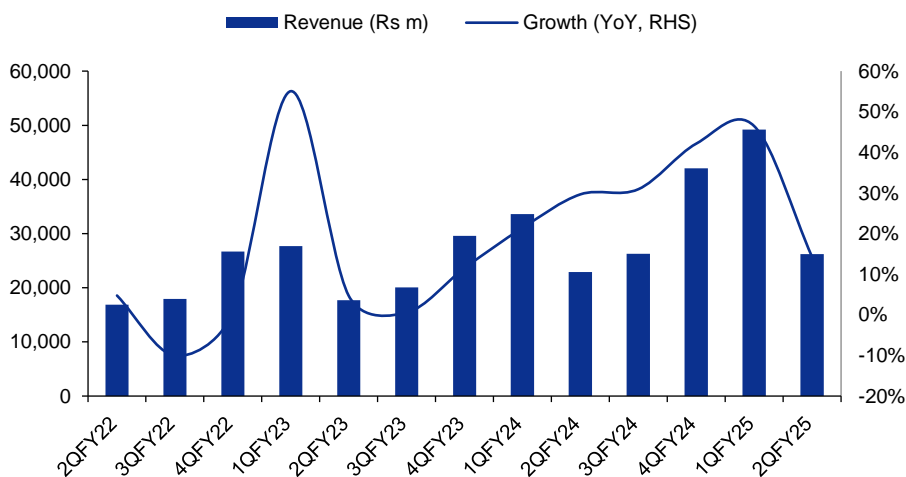
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

(Rs m)	New Estimates			Old Estimates			Change (%)		
	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
Revenue	1,64,070	1,93,859	2,13,388	1,61,959	1,83,513	2,05,339	1.3%	5.6%	3.9%
EBITDA	13,046	15,161	17,254	12,750	14,863	16,967	2.3%	2.0%	1.7%
Core PAT	9,989	12,231	14,516	9,658	11,702	13,808	3.4%	4.5%	5.1%

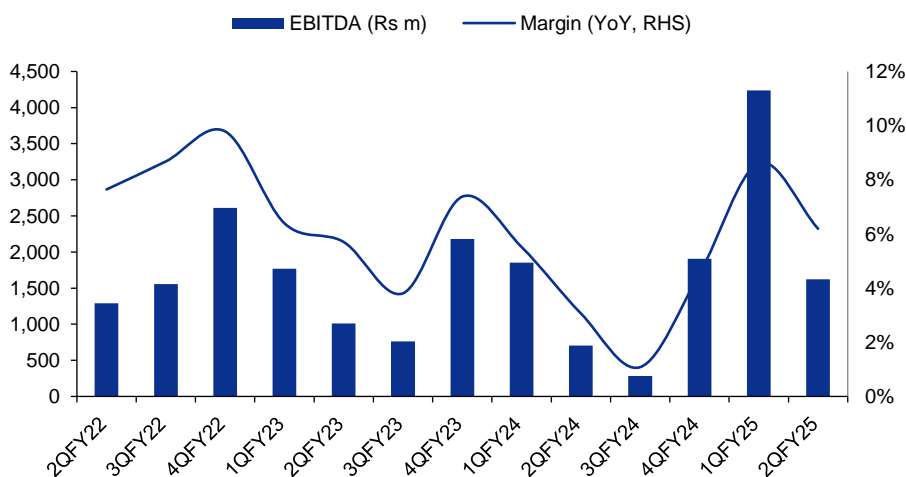
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 6: Quarterly revenue trend



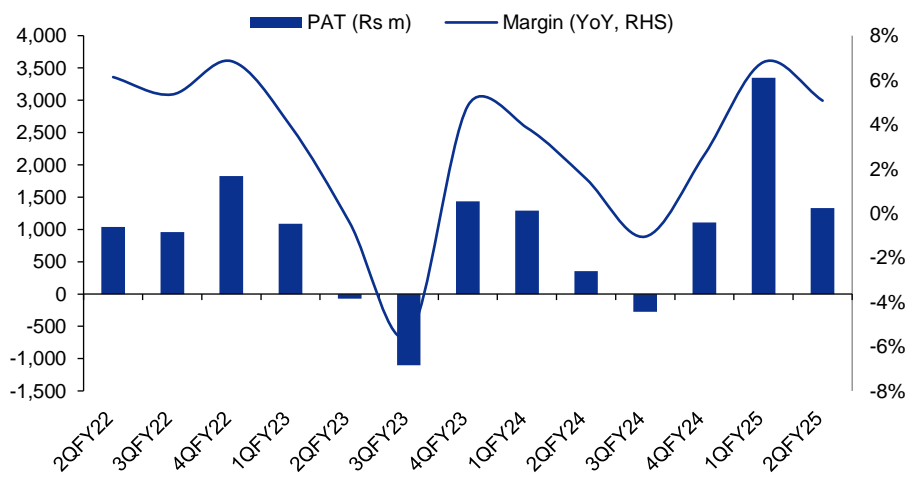
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Quarterly EBITDA trend



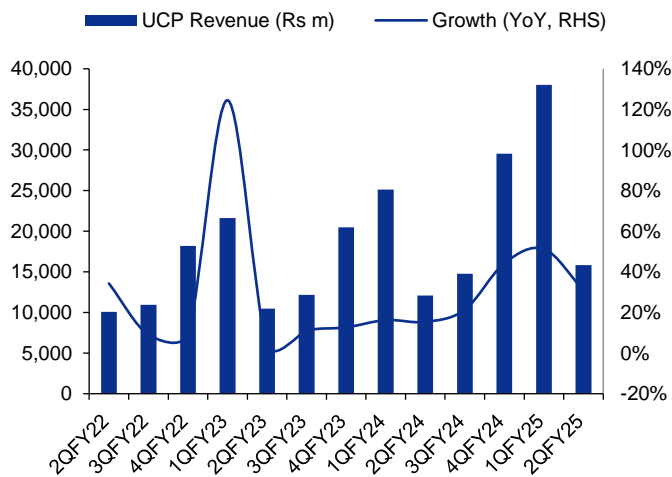
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Quarterly PAT trend



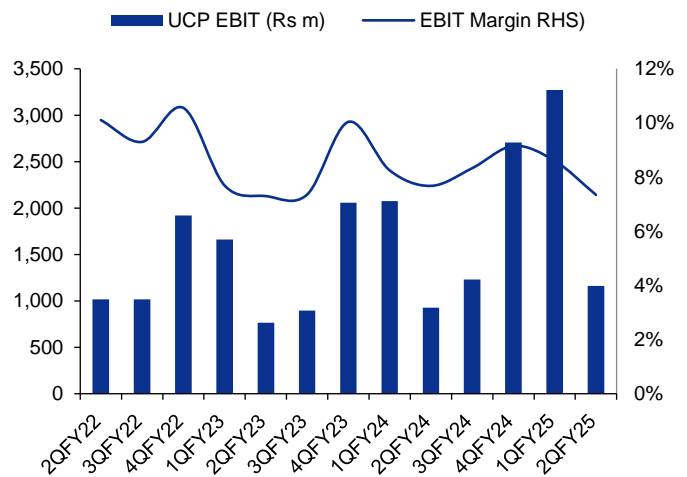
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: UCP segment revenue trend



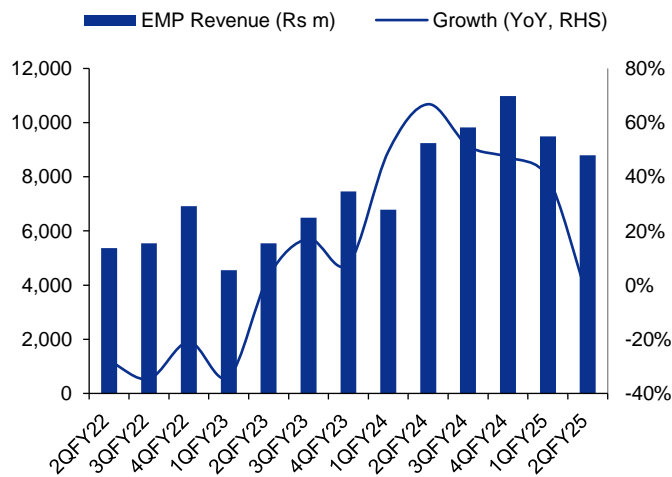
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: UCP segment EBIT trend



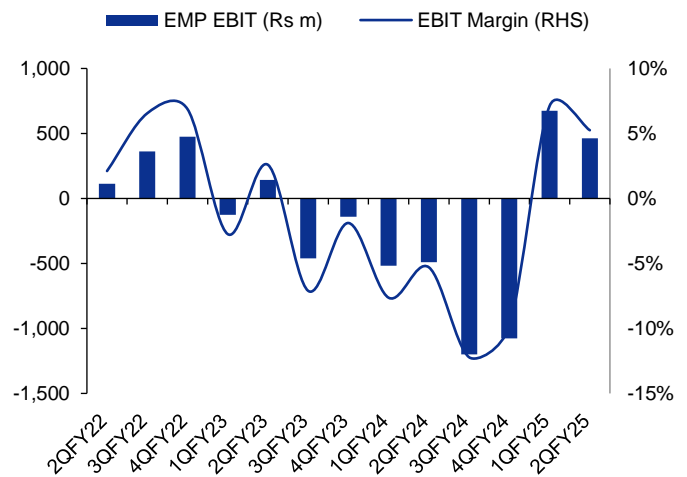
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Projects business revenue



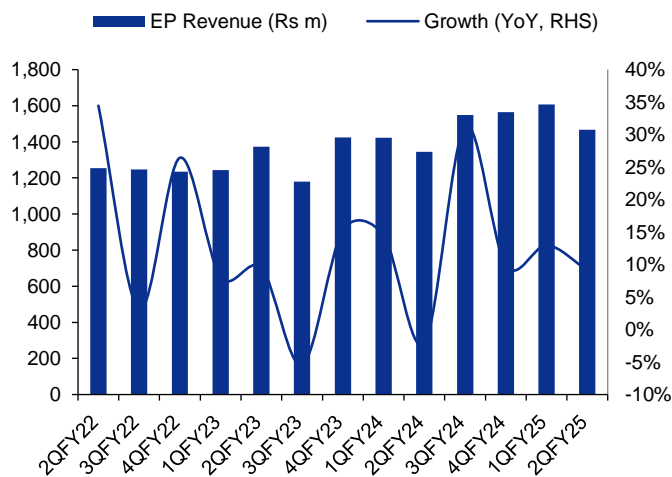
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Projects business witnesses an uptick in 2QFY25



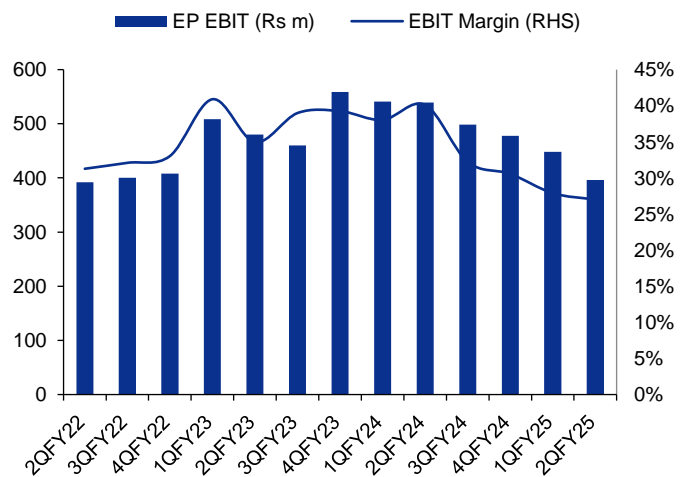
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Engineering products revenue trend



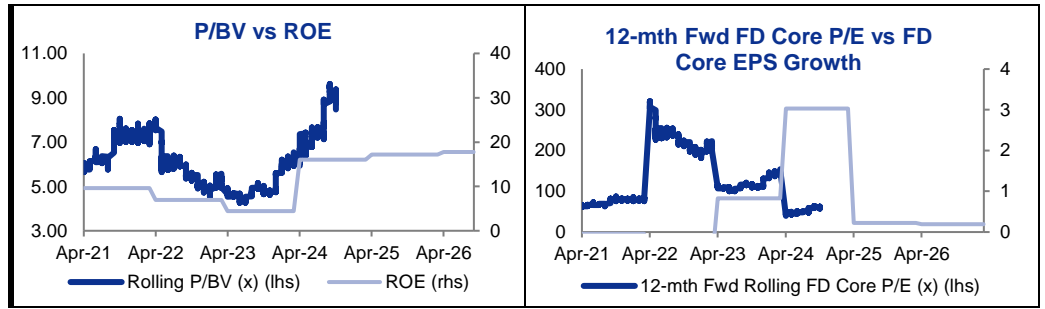
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: Engineering products EBIT trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	94,988	124,812	164,070	193,859	213,388
Gross Profit	21,206	26,672	36,898	45,363	50,360
Operating EBITDA	5,724	4,746	13,046	15,161	17,254
Depreciation And Amortisation	(396)	(476)	(552)	(612)	(668)
Operating EBIT	5,328	4,270	12,494	14,549	16,586
Financial Income/(Expense)	(296)	(559)	(593)	(655)	(699)
Pretax Income/(Loss) from Assoc.	(1,207)	(1,386)	(1,375)	(825)	(330)
Non-Operating Income/(Expense)	1,685	2,533	3,378	3,560	3,959
Profit Before Tax (pre-EI)	5,510	4,858	13,903	16,629	19,517
Exceptional Items	(2,438)				
Pre-tax Profit	3,071	4,858	13,903	16,629	19,517
Taxation	(1,709)	(2,377)	(3,914)	(4,399)	(5,001)
Exceptional Income - post-tax					
Profit After Tax	1,362	2,481	9,989	12,231	14,516
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,362	2,481	9,989	12,231	14,516
Recurring Net Profit	2,444	2,481	9,989	12,231	14,516
Fully Diluted Recurring Net Profit	2,444	2,481	9,989	12,231	14,516

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	5,724	4,746	13,046	15,161	17,254
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,836)	801	(6,891)	(2,758)	(6,224)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,362	4,183	2,461	2,908	3,201
Net Interest (Paid)/Received					
Tax Paid	(1,656)	(2,115)	(3,914)	(4,399)	(5,001)
Cashflow From Operations	1,594	7,615	4,702	10,912	9,230
Capex	(1,774)	(2,883)	984	(1,120)	(1,120)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	958	(2,341)	(5,116)	(6,571)	(4,514)
Cash Flow From Investing	(816)	(5,224)	(4,132)	(7,691)	(5,634)
Debt Raised/(repaid)	2,728	974	357	374	393
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,829)	(1,432)	(1,862)	(2,421)	(3,147)
Preferred Dividends					
Other Financing Cashflow	(355)	(713)	(66)	(350)	(512)
Cash Flow From Financing	544	(1,172)	(1,571)	(2,396)	(3,266)
Total Cash Generated	1,322	1,219	(1,002)	825	330
Free Cashflow To Equity	3,506	3,365	926	3,596	3,989
Free Cashflow To Firm	778	2,392	569	3,221	3,596

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	7,084	8,523	9,046	11,146	15,759
Total Debtors	21,919	25,328	32,364	37,178	40,924
Inventories	15,920	21,354	26,970	30,805	33,908
Total Other Current Assets	16,471	17,027	22,520	26,078	28,705
Total Current Assets	61,393	72,232	90,901	105,207	119,296
Fixed Assets	5,012	7,980	6,441	6,949	7,401
Total Investments	31,581	35,532	39,377	44,588	49,079
Intangible Assets	723	723	723	723	723
Total Other Non-Current Assets	4,081	3,890	5,742	7,754	8,536
Total Non-current Assets	41,397	48,125	52,283	60,014	65,738
Short-term Debt	5,948	4,853	5,096	5,351	5,618
Current Portion of Long-Term Debt					
Total Creditors	30,126	38,557	50,345	58,954	64,893
Other Current Liabilities	8,461	12,043	13,485	15,934	17,539
Total Current Liabilities	44,535	55,453	68,926	80,239	88,050
Total Long-term Debt	212	2,280	2,394	2,514	2,639
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,393	1,383	1,969	2,326	2,561
Total Non-current Liabilities	1,605	3,663	4,363	4,840	5,200
Total Provisions	1,713	2,699	3,227	3,663	3,937
Total Liabilities	47,853	61,815	76,515	88,742	97,187
Shareholders Equity	54,521	58,205	66,332	76,142	87,510
Minority Interests	417	337	337	337	337
Total Equity	54,937	58,542	66,669	76,479	87,847

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	19.7%	31.4%	31.5%	18.2%	10.1%
Operating EBITDA Growth	(16.0%)	(17.1%)	174.9%	16.2%	13.8%
Operating EBITDA Margin	6.0%	3.8%	8.0%	7.8%	8.1%
Net Cash Per Share (Rs)	2.79	4.20	4.70	9.92	22.67
BVPS (Rs)	164.77	175.91	200.47	230.12	264.47
Gross Interest Cover	18.00	7.64	21.05	22.22	23.74
Effective Tax Rate	55.6%	48.9%	28.2%	26.5%	25.6%
Net Dividend Payout Ratio	48.1%	57.7%	18.6%	19.8%	21.7%
Accounts Receivables Days	82.65	69.08	64.17	65.47	66.80
Inventory Days	80.47	69.31	69.35	71.01	72.44
Accounts Payables Days	147.29	127.72	127.58	134.33	138.64
ROIC (%)	16.7%	12.3%	29.9%	31.1%	32.5%
ROCE (%)	8.9%	6.7%	17.7%	18.2%	18.3%
Return On Average Assets	4.0%	2.6%	7.9%	8.2%	8.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.