

CMP: INR 300

Outlook: Positive

Stock Info

BSE	543597
Bloomberg	VOEPL:IN
Sector	EMS
Face Value (INR)	10
Equity Capital (INR mn)	263.4
Mkt Cap (INR mn)	6,850
52w H/L (INR)	339 / 177
Avg Yearly Volume (in 000')	73

Shareholding Pattern %

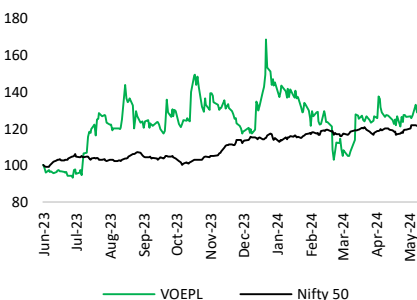
(As on June, 2024)

Promoters	56.88
DII	1.24
FII	0.31
Public & Others	41.57

Stock Performance (%) 3m 6m 12m

VOEPL	49.5%	33.0%	57.3%
NIFTY	6.6%	10.4%	24.4%

VOEPL vs Nifty



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We visited Virtuoso Optoelectronics (VOEPL) plant at Nashik, Maharashtra. We also interacted with Mr. Sajid Shaikh- CFO. VOEPL had 4 units and 1 corporate office in Nashik. We went to all 4 plants where AC-IDUs, ODUs, Lights and other components were being manufactured. We understood the process flow and the roadmap ahead of the company to capitalize on the growing AC demand. Management is guiding for 3x revenue and 5x profit by FY27E. It is a proxy play to India's growing AC demand and can be a manufacturing bet which shall rise considering the strong industry tailwind.

Key Highlights

Strong revenue visibility from Voltas: The company supplies its ACs entirely to Voltas which is guiding for a strong demand in FY25E as compared to FY24. Voltas is targeting for 2.5mn units in FY25 (2mn in FY24). Management claims that VOEPL will be able to fulfill Voltas' requirement from Virtuoso in entirety, for the first time this year. In the previous years, Virtuoso couldn't fulfill the entire requirements as raised by Voltas, which it shall be doing this year.

Growing share of new segments: Company has bought 2 land parcels one for commercial refrigeration and the other for washing machines. Currently, AC revenue share is around 80% and revenue share are expected to be AC-45%, deep freezer-25%, lighting-10%, dispenser-10% and remaining from others by FY27E which will de-risk dependency on AC. They are also evaluating INR 200mn investments for BLDC motors, where margins are expected to be 20%. The company has also entered water dispenser segment for which it has tied up with OEM and 2-3 retail chains and is planning to start exports.

Psycho Metric Lab giving competitive advantage: Virtuoso is the first one to have psycho metric lab which helps in checking the synchronization of the IDU with the ODU. Competitors do not have this in house and have to send samples to third party to get it checked. This lab helps the co. to get its ACs export ready right from its factories which are then exported through the nearby cargo airport in Nashik.

Capex Initiative for additional growth: Company is expanding its manufacturing capabilities by establishing a unit in Chennai for making AC components. Targeted capex for FY25E is INR 600mn. The company is aiming for an EBITDA margin of ~9% on a conservative basis. It is also in the process of adding assembly lines in its existing plants. They have also added new clients like GM in its lighting business. Lighting has a revenue capacity of INR 900-1,000mn.

Company is planning to increase its lamp equivalent units to 60mn in FY25 from 40mn in FY24. It is also increasing its ODU capacity by 200k units to 600k units in FY25E. Cross flow fans capacity to increase by 200k units to 800k units in FY25E. Around 100k units capacity to be added in FY25E and revenue from commercial refrigeration expected to start flowing from Q4FY25E. With the recent fund raise co. has undertaken, finance cost for this year is expected to be lower. The company is working with Hasbro for to manufacturing but is still in very nascent stage and is only 2-3% of topline. It is open to participate in PLI schemes that may come up for ACs and toys.

Key Highlights

At Plant 'B', 2 assembly lines were functioning while 3rd one was under construction. This plant started 4 years ago, prior to which Voltas was getting 60% of its requirement imported and the rest being done by Amber Enterprise. IDU is manufactured in this plant with 800k capacity. Aluminium sheets are cut here and made into pins.

Copper wires are cut and bended to be fit into these aluminium pins thereby making the AC coils. These coils then undergo quality check. These coils are then bended and copper fittings are made to it on the side. Copper is imported from Vietnam and Aluminum is imported from China.

The main part for an AC is its compressor which gets imported by majority of the industry, however, LG is making these compressors in house. Compressors cost approximately in the range of INR 2,000-4,000. In other part of this plant, 3 large plastic components were getting moulded including the front grill and chasis. 28 small components required for AC are also moulded in house at multiple plants. Cross flow fans (cff) are then fitted in the chasis. The company has 10% excess capacity in moulding which it sells outside to 3rd party.

Inventory for peak season of March starts getting made in Oct/Nov. Management claims that Co. will be able to fulfill Voltas' requirement from Virtuoso in entirety, for the first time this year. Virtuoso is the first one to have psychometric lab which helps in checking the synchronization of the IDU with the ODU. Competitors do not have this in house and have to send samples to third party to get it checked. This lab helps the co. to get its ACs export ready right from its factories which are then exported through the nearby airport in Nashik.

Company has all plants and structures on lease except 2 new lands which it has bought one for commercial refrigeration and the other for washing machines at approx. INR 9mn per acre. 2 of the plants are on 12 year lease with 10% escalation every 3 years. The rental per sq ft in Nashik is very affordable.

At the Feeder plant, the small components were getting moulded along with ultrasonic moulding for CFF. For water dispenser, Co. has tied up with OEM and 2-3 retail chain and is planning exports as well. Lighting unit along with quality check was placed where majority of the workforce was females due to various strategic reasons. This workforce comes in as unskilled labour and are then trained to get them job ready. SMT and manual process, both were being undertaken at the facility.

The plant for ODU which is also used for water dispenser is spread across 80k sq ft. At this plant, it also manufactures water heater components such as the main shelter for some 3rd co. Revenue from this water heater manufacturing is not added in Virtuoso's topline.

Financial Statements

Income statement summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23	FY24
Revenue	1,153	2,002	3,373	5,311
Operating expenses	989	1,724	2,930	4,586
Gross Profit	164	278	443	725
Gross Margin (%)	14.2%	13.9%	13.1%	13.6%
Employee Cost	28	36	71	125
Other Expenses	13	44	38	86
EBITDA	124	198	335	514
EBITDA Margin (%)	10.7%	9.9%	9.9%	9.7%
Depreciation	(24)	(51)	(94)	(183)
Interest expense	(74)	(91)	(135)	(200)
Other income	3	1	8	12
Share of profits associate & JV	-	-	-	-
Profit before tax	29	57	113	143
Taxes	-	(18)	(35)	(42)
PAT	29	39	78	101
PAT Margin (%)	2.5%	2.0%	2.3%	1.9%
EPS (INR)	3.4	7.5	9.5	4.4

Source: Company Reports, Arianth Capital Research

Cashflow summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23	FY24
Profit before tax	29	57	113	143
Depreciation	24	51	94	183
Tax paid	-	(18)	(35)	(42)
Working capital Δ	(423)	(2)	(412)	(330)
Change in Goodwill	-	-	-	-
Operating cashflow	(371)	88	(240)	(46)
Capital expenditure	(200)	(379)	(475)	(600)
Free cash flow	(571)	(291)	(716)	(646)
Equity raised	134	10	646	1,058
Investments	-	-	(102)	3
Others	(98)	83	(52)	(932)
Debt financing/disposal	514	166	201	468
Dividends paid	-	-	-	-
Other items	21	39	18	47
Net Δ in cash	0	8	(5)	(3)
Opening Cash Flow	-	0	8	3
Closing Cash Flow	0	8	3	1

Source: Company Reports, Arianth Capital Research

Balance sheet summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23	FY24
Equity capital	17	150	228	263
Reserves	116	63	708	1,631
Share allotment pending	30	-	-	201
Net worth	163	213	937	2,096
Provisions	13	44	47	76
Debt	514	680	882	1,350
Other non-current liabilities	8	16	31	48
Total Liabilities	698	953	1,896	3,570
Fixed assets	176	504	885	1,302
Other Intangible assets	90	-	60	69
Investments	-	-	102	99
Other non current assets	7	7	7	28
Net working capital	423	426	838	1,168
Inventories	372	633	1,384	1,648
Sundry debtors	108	89	262	212
Loans & Advances	8	1	1	2
Other current assets	37	6	60	290
Sundry creditors	(101)	(303)	(869)	(982)
Cash	0	8	3	1
Other Financial Assets	1	8	-	903
Total Assets	698	953	1,896	3,570

Source: Company Reports, Arianth Capital Research

Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24
Growth matrix (%)				
Revenue growth	73.7%	68.5%	57.5%	
Op profit growth	60.3%	68.8%	53.6%	
Profitability ratios (%)				
OPM	10.7%	9.9%	9.9%	9.7%
Net profit margin	2.5%	2.0%	2.3%	1.9%
RoCE	14.5%	15.7%	12.9%	9.0%
RoNW	17.5%	18.5%	8.3%	6.7%
RoA	4.1%	4.1%	4.1%	2.8%
Per share ratios (INR)				
EPS	3.43	7.50	9.51	3.8
Book value per share	126.3	202.0	19.5	71.9
Valuation ratios (x)				
P/E	121.0	55.3	43.6	80.1
P/B	3.3	2.1	21.3	4.3
EV/EBITDA	195.1	121.7	72.1	18.2
Payout (%)				
Tax payout	0.0%	31.3%	31.2%	29.2%
Liquidity ratios				
Debtor days	34	16	28	16
Inventory days	137	134	172	121
Creditor days	36	41	70	70
WC Days	207	191	271	67

Source: Company Reports, Arianth Capital Research

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return**Research Analyst
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