

Witnessed strong volume growth with market share gain.

CMP: INR 1,535

Rating: ACCUMULATE

Target Price: INR 1,767

Stock Info

BSE	500575
NSE	VOLTAS
Bloomberg	VOLT:IN
Reuters	VOLT.NS
Sector	Consumer Durables
Face Value (INR)	1
Equity Capital (INR cr)	33.1
Mkt Cap (INR cr)	50,778
52w H/L (INR)	1,599/800
Avg Yearly Volume (in 000')	1,604.4

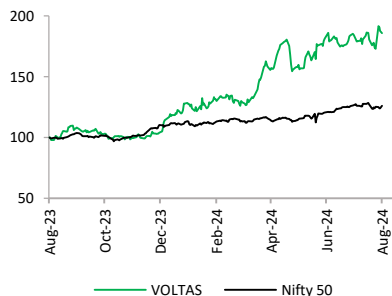
Shareholding Pattern %

(As on Jun, 2024)

Promoters	30.30
DII	40.19
FII	15.08
Public & Others	14.43

Stock Performance (%)	3m	6m	12m
VOLTAS	-0.1	18.4	85.7
NIFTY	4.2	10.8	26.1

Voltas vs Nifty



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Voltas Ltd reported strong numbers, Q1FY25 revenue grew by 46.5% YoY (+17.1% QoQ) to INR 4,921cr; above our estimates of INR 4,527cr. Gross Profit stood at INR 1,029cr (+45% YoY/+23.9% QoQ); above our estimates of INR 960cr; Gross margins contracted by 21 bps YoY (up by 115 bps QoQ) to 20.9% vs 21.1% in Q1FY24. The raw material cost in terms of sales stood at 79.1% vs 78.9% in Q1FY24. EBITDA stood at INR 424cr (+128.6% YoY/+122.4% QoQ); above our estimates of INR 344cr. EBITDA margin improved by 310 bps YoY (up by 408 bps QoQ) to 8.6% vs 5.5% in Q1FY24. PAT stood at INR 335cr (+158.8% YoY/+202.8% QoQ); above our estimates of INR 258cr, and PAT margin improved by 296 bps YoY (up by 418 bps QoQ) to 6.8% vs 3.9% in Q1FY24.

Key Highlights

Strong growth witnessed in UCP: Unitary Cooling Products (UCP) revenue stood at INR 3,802cr (+51.2% YoY/+28.7% QoQ), led by volume growth of 67% YoY in Q1FY25. EBIT Stood at INR 327cr (+57.7% YoY/+20.9% QoQ). EBIT margin improved by 35 bps YoY (down by 55 bps QoQ) to 8.6% vs 8.2% in Q1FY24. The margin impact was due to higher A&P, subvention costs, consumer financing, etc. The company is focused on high single-digit margins in RAC going forward. RAC's market share stood at 21.2% as of Jun-24. Voltas remains No 1 Player and 800bps market share difference between Voltas and the 2nd player. Commercial refrigeration margins stood at 11.5% vs 12.5% in Q1FY24, due to non-QCO inventory liquidation in Q1FY25. The Inventory players have sold their QCO-related inventory at discounted prices. The quality control is coming up and the company also liquidated some of the inventories at discounted prices. Commercial AC and Commercial Refrigeration revenue share is around 18% and margins are double-digit rate.

Witnessed improvement in EMP: Electro-Mechanical Projects and Services revenue stood at INR 949cr (+39.8% YoY/-13.6% QoQ); EBIT Stood at INR 67cr vs INR -52cr in Q1FY24. EBIT margin stood at 7.1% vs -7.6% in Q1FY24. Strong project execution and timely assessment of cost and profitability have improved the bottom line of EMP. The company is trying to collect money through arbitration and the court process would take around 4-8 quarters. The EMP order book stood at INR 75.03bn as of Q1FY25. Internal order book stood at INR 27.34bn, majorly from UAE and Saudi Arabia regions. UAE and Saudi projects improved international business in EMP.

Sustained growth and margin remain under pressure in EMS: Engineering Products and Services revenue stood at INR 161cr (+13% YoY/+2.8% QoQ); EBIT Stood at INR 45cr (-17.1% YoY/-6.2% QoQ). EBIT margin contracted by 1014 bps YoY (down by 268 bps QoQ) to 27.9% vs 38% in Q1FY24 due to ancillary overhead costs. Mining & Construction continued business momentum in-terms of O&M and sale of power screens. The textile industry has witnessed headwinds owing to fluctuations in cotton and yarn exports. The decrease in Capex and lower utilization of spinners impacted the margins of the agency business.

Outlook & Valuation: Voltas has a leadership position in the RAC segment and gained market share from 18.7% (FY24) to 21.2% as of Jun-24. RAC volume growth stood at 67% YoY in Q1FY25 and sold 1mn ACs within 88 days in Q1FY25. In earlier years, the company sold 1mn AC units in the first 6-7 months. The company has started commercial operations of 1mn units RAC plant and is expected to increase the capacity to 2mn units by FY26E. A Water dispenser capacity of 3.5 lakhs/annum in the Waghodia plant started operations. These plants will cater to south and west Indian markets. Voltas Beko has achieved 50% YoY growth in Q1FY25 and focused on EBITDA breakeven in the near future. The portfolio expansion, strategic tie-ups with partners and price calibrations would lead the RAC segment growth going forward. Strong project execution and timely assessment of cost and profitability have improved the bottom line of EMP. The company is in the process of recovering money through arbitration. A strong brand presence, a wider network, a focus on the B2C segment, PLI schemes and industry growth will be the key drivers for the company. We are maintaining an "ACCUMULATE" rating at a TP of INR 1,767 per share; valued based on SOTP; an upside of 15.1%.

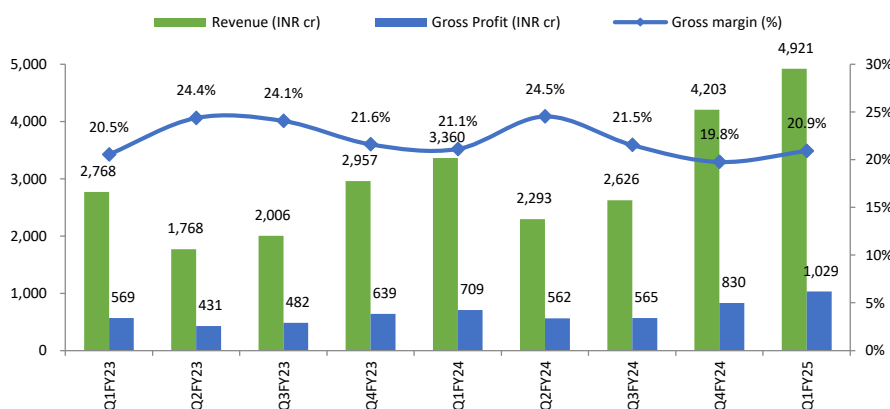
Q1FY25 Results

Income statement summary

Particular (INR cr)	Q1FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Revenue	3,360	4,203	4,921	46.5%	17.1%
Net Raw Materials	2,650	3,373	3,892	46.9%	15.4%
Gross Profit	709	830	1,029	45.0%	23.9%
Gross Margin (%)	21.1%	19.8%	20.9%	-21 bps	+115 bps
Employee Cost	181	199	202	12.1%	1.6%
Other Expenses	344	440	403	17.2%	-8.6%
EBITDA	185	191	424	128.6%	122.4%
EBITDA Margin (%)	5.5%	4.5%	8.6%	+310 bps	+408 bps
Depreciation	11	12	13		
Interest expense	10	21	10		
Other income	70	54	80		
Exceptional Items	-	-	-		
Share of profits associate & JV	(31)	(38)	(29)		
Profit before tax	203	174	452	122.5%	159.4%
Taxes	73	63	117		
Minorities and other	-	-	-		
PAT	129	111	335	158.8%	202.8%
PAT Margin	3.9%	2.6%	6.8%	+296 bps	+418 bps
EPS (INR)	3.9	3.3	10.1		

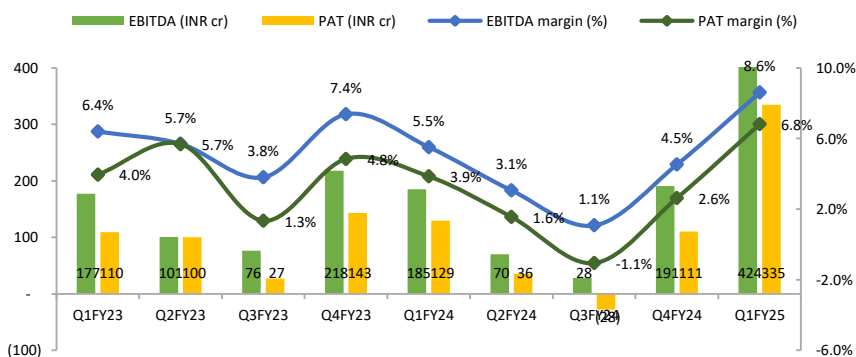
Source: Company Reports, Aриhant Capital Research

Exhibit 1: Gross margins contracted by 21 bps YoY (up by 115 bps QoQ) to 20.9% in Q1FY25 due to higher RM costs.



Source: Company Reports, Aриhant Capital Research

Exhibit 2: EBITDA margin improved by 310 bps YoY (up by 408 bps QoQ) to 8.6% in Q1FY25 due to lower employee costs and other expenses in-terms of sales.



Source: Company Reports, Aриhant Capital Research

Q1FY25 Concall Highlights**Margins**

- UCP margin stood at 8.6% in Q1FY25. The margin impact was due to higher A&P, subvention costs, consumer financing, etc. The company is focused on high single-digit margins in RAC going forward.
- Project margins are around 4%-5%.

RAC

- The company sold 1mn ACs within 88 days in Q1FY25. In earlier years, the company sold 1mn AC units in the first 6-7 months.

Market share

- RAC's market share stood at 21.2% as of Jun-24. Voltas remains No 1 Player and 800bps market share difference between Voltas and the 2nd player.
- Air Cooler's market share stood at 10.5% and it became the No.2 brand as of Jun-24. The new cooler modules are well-accepted in the market.
- Voltbek became one of the top 3 brands for Semi-Automatic Washing machines with a market share of 14% as of Jun-24.
- The washing machine market share stood at 7.8% in Q1FY25.
- Refrigerator market share stood at 5.2% as of Jun-24.

Volume

- UCP volume growth stood at 67% YoY in Q1FY25.
- The volume growth stood at 65% YoY for Split AC in Q1FY25.
- Air Cooler volume growth stood at 170% YoY in Q1FY25.
- Voltbek volume growth stood at 50% YoY in Q1FY25.
- Refrigerator volume growth stood at 50% YoY in Q1FY25.

Commercial Refrigeration

- Commercial refrigeration margin impact of 100 bps due to non-QCO inventory liquidation in Q1FY25. The margins stood at 11.5% vs 12.5% in Q1FY24. The Inventory players have sold their QCO-related inventory at discounted prices. The quality control is coming up and the company also liquidated some of the inventories at discounted prices.
- Commercial AC and Commercial Refrigeration revenue share is around 18% and margins are double-digit rate.

Q1FY25 Concall Highlights

EMP

- The EMP order book stood at INR 7,503cr as of Q1FY25. Internal order book stood at INR 2,734cr, majorly from UAE and Saudi Arabia regions.
- In the project's business, the company is trying to collect money through arbitration and the court process would take around 4-8 quarters. The court process is faster in these countries.
- UAE and Saudi projects improved international business in EMP.
- Strong project execution and timely assessment of cost and profitability have improved the bottom line of EMP.

Voltbek

- Voltbek is expected to do well in Q3 due to the festival season.

A&P expenses

- Ad & Promotional expenses are around 3% of sales in Q1FY25.
- A&P expenses are around 1.5%-1.75% on a yearly basis. Around INR 2bn A&P expenses are expected in FY25E.

Capex and Plants

- The capex is around INR 8-10bn for plant and machinery.
- The company has started commercial operations in 1) RAC (1mn units), Chennai plant 2) Water dispenser line (3.5 lakhs/annum), Waghodia. These plants will cater to south and west Indian markets.
- The company is looking for a technology partner for the compressor plant.

Other highlights

- All the players are struggling on channel inventory levels.
- The competition is very stiffer and 65 brands are available in India and few of them are private labels.
- The company is in wait-and-watch mode for exports, because geopolitical situation in the SAARC, GCC, Bangladesh, and Sri Lanka geographies.

Financial Statements

Income statement summary

Y/e 31 Mar (INR cr)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	7,556	7,934	9,499	12,481	16,455	20,965	26,398
Net Raw Materials	5,578	5,897	7,378	9,814	12,802	16,269	20,432
Employee Cost	602	618	667	779	806	1,048	1,346
Other Expenses	734	739	881	1,414	1,583	2,011	2,542
EBITDA	641	682	572	475	1,264	1,637	2,078
EBITDA Margin (%)	8.5%	8.6%	6.0%	3.8%	7.7%	7.8%	7.9%
Depreciation	(34)	(37)	(40)	(48)	(72)	(86)	(112)
Interest expense	(26)	(26)	(30)	(56)	(55)	(68)	(78)
Other income	189	189	168	253	148	189	211
Exceptional Items	-	-	(244)	-	-	-	-
Share of profits associate & JV	(61)	(110)	(121)	(139)	(117)	(77)	(32)
Profit before tax	709	697	307	486	1,168	1,595	2,066
Taxes	(180)	(191)	(171)	(238)	(306)	(418)	(541)
PAT	529	506	136	248	862	1,177	1,525
PAT Margin (%)	7.0%	6.4%	1.4%	2.0%	5.2%	5.6%	5.8%
Other Comprehensive income	321	170	(38)	255	-	-	-
Total Comprehensive income	850	676	98	503	862	1,177	1,525
EPS (INR)	25.7	20.4	3.0	15.2	26.0	35.6	46.1

Source: Company Reports, Arihant Capital Research

Balance sheet summary

Y/e 31 Mar (INR cr)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	33	33	33	33	33	33	33
Reserves	4,960	5,466	5,419	5,787	6,360	7,143	8,157
Net worth	4,993	5,500	5,452	5,821	6,393	7,176	8,190
Minority Interest	36	38	42	34	34	34	34
Provisions	209	262	258	310	113	144	181
Debt	375	479	1,288	982	1,382	1,632	1,832
Other non-current liabilities	7	22	9	69	66	84	106
Total Liabilities	5,620	6,301	7,049	7,215	7,987	9,069	10,342
Fixed assets	238	230	361	390	1,186	1,413	1,628
Capital Work In Progress	9	59	98	368	64	77	45
Other Intangible assets	8	7	6	6	6	6	6
Goodwill	72	72	72	72	72	72	72
Investments	2,962	3,338	3,123	3,324	2,962	3,774	4,224
Other non current assets	176	160	172	152	197	252	317
Net working capital	1,337	1,348	1,848	907	1,566	1,725	1,889
Inventories	1,280	1,661	1,592	2,135	2,455	3,075	3,862
Sundry debtors	1,801	2,110	2,192	2,533	3,156	3,963	4,918
Loans & Advances	2	3	1	1	5	6	8
Other current assets	1,290	1,019	1,294	1,059	1,307	1,551	1,880
Sundry creditors	(2,465)	(2,942)	(3,013)	(3,856)	(4,370)	(5,613)	(7,196)
Other current liabilities & Prov	(571)	(503)	(218)	(965)	(987)	(1,258)	(1,584)
Cash	459	572	708	852	947	493	578
Other Financial Assets	358	514	660	1,144	987	1,258	1,584
Total Assets	5,620	6,301	7,049	7,215	7,987	9,069	10,342

Source: Company Reports, Arihant Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR cr)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	709	697	307	486	1,168	1,595	2,066
Depreciation	34	37	40	48	72	86	112
Tax paid	(180)	(191)	(171)	(238)	(306)	(418)	(541)
Working capital Δ	(11)	(11)	(500)	941	(659)	(159)	(164)
Operating cashflow	552	533	(324)	1,236	275	1,104	1,473
Capital expenditure	(15)	(80)	(209)	(346)	(564)	(327)	(295)
Free cash flow	537	453	(533)	890	(289)	777	1,178
Equity raised	320	168	(1)	264	-	-	-
Investments	(990)	(376)	216	(201)	362	(812)	(450)
Others	373	(138)	(157)	(463)	111	(325)	(391)
Debt financing/disposal	42	107	812	(314)	400	250	200
Dividends paid	(136)	(168)	(183)	(143)	(289)	(394)	(511)
Other items	3	68	(17)	112	(200)	49	59
Net Δ in cash	150	113	137	144	95	(455)	85
Opening Cash Flow	308	459	572	708	852	947	493
Closing Cash Flow	459	572	708	852	947	493	578

Source: Company Reports, Arianth Capital Research

Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth matrix (%)							
Revenue growth	-1.3%	5.0%	19.7%	31.4%	31.8%	27.4%	25.9%
Op profit growth	-6.6%	6.3%	-16.0%	-17.1%	166.3%	29.6%	26.9%
Profitability ratios (%)							
OPM	8.5%	8.6%	6.0%	3.8%	7.7%	7.8%	7.9%
Net profit margin	7.0%	6.4%	1.4%	2.0%	5.2%	5.6%	5.8%
RoCE	11.4%	10.2%	4.7%	4.9%	13.2%	15.2%	16.8%
RoNW	11.4%	9.6%	2.5%	4.4%	14.1%	17.3%	19.8%
RoA	9.4%	8.0%	1.9%	3.4%	10.8%	13.0%	14.7%
Per share ratios (INR)							
EPS	25.7	20.4	3.0	15.2	26.0	35.6	46.1
Dividend per share	4.1	5.1	5.5	4.3	8.7	11.9	15.4
Cash EPS	17.0	16.4	5.3	8.9	28.2	38.2	49.5
Book value per share	150.9	166.3	164.8	176.0	193.3	216.9	247.6
Valuation ratios (x)							
P/E	59.7	75.1	519.1	100.9	58.9	43.1	33.3
P/CEPS	90.2	93.5	288.8	171.7	54.4	40.2	31.0
P/B	10.2	9.2	9.3	8.7	7.9	7.1	6.2
EV/EBITDA	74.4	69.5	84.3	100.3	38.2	29.4	23.0
Payout (%)							
Dividend payout	25.7%	33.1%	134.2%	57.7%	33.5%	33.5%	33.5%
Tax payout	25.4%	27.4%	55.6%	48.9%	26.2%	26.2%	26.2%
Liquidity ratios							
Debtor days	88	90	83	69	63	62	61
Inventory days	90	91	80	69	65	62	62
Creditor days	136	136	122	104	99	94	96
WC Days	42	45	41	34	30	30	27
Leverage ratios (x)							
Interest coverage	23.2	24.9	18.0	7.6	21.8	22.9	25.2
Net debt / equity	-0.0	-0.0	0.1	0.0	0.1	0.2	0.2
Net debt / op. profit	-0.1	-0.1	1.0	0.3	0.3	0.7	0.6

Source: Company Reports, Arianth Capital Research

Outlook & Valuation: Voltas has a leadership position in the RAC segment and gained market share from 18.7% (FY24) to 21.2% as of Jun-24. RAC volume growth stood at 67% YoY in Q1FY25 and sold 1mn ACs within 88 days in Q1FY25. In earlier years, the company sold 1mn AC units in the first 6-7 months. The company has started commercial operations of 1mn units RAC plant and is expected to increase the capacity to 2mn units by FY26E. A Water dispenser capacity of 3.5 lakhs/annum in the Waghodia plant started operations. These plants will cater to south and west Indian markets. Voltas Beko has achieved 50% YoY growth in Q1FY25 and focused on EBITDA breakeven in the near future. The portfolio expansion, strategic tie-ups with partners and price calibrations would lead the RAC segment growth going forward. Strong project execution and timely assessment of cost and profitability have improved the bottom line of EMP. The company is in the process of recovering money through arbitration. A strong brand presence, a wider network, a focus on the B2C segment, PLI schemes and industry growth will be the key drivers for the company. We are maintaining an “ACCUMULATE” rating at a TP of INR 1,767 per share; valued based on SOTP; an upside of 15.1%.

Voltas FY27E based implied valuation

	Electro Mechanical Projects	Engineering Products and Services	Unitary Cooling Products	Overall
FY27E EBITDA (INR cr)	315	294	1,833	
EV/EBITDA (x)	5.0x	10.0x	30.0x	
EV (INR cr)	1,576	2,944	55,004	59,524
Net Debt/(cash) (INR cr) - FY27E				1,067
Market Cap (INR cr)				58,458
Share outstanding (cr)				33
Value per share (INR)				1,767
CMP (INR)				1,535
Upside/Downside (%)				15.1%

Rating

ACCUMULATE

Source: Company Reports, Arihant Capital Research

Story in Charts

Exhibit 3: UCP is expected to grow at a CAGR of 35.1% over the period of FY24-FY27E. Margins are expected to normalise over medium term.

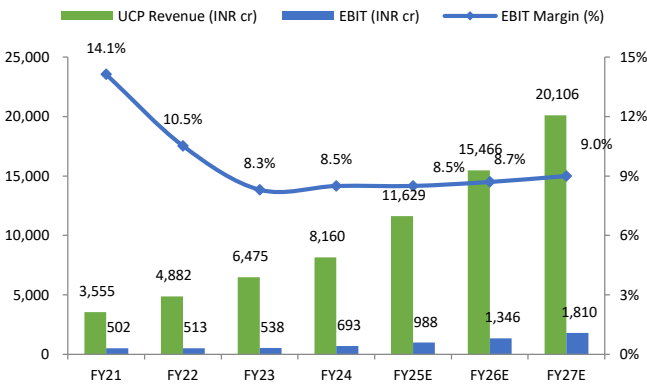


Exhibit 4: RAC market share stood at ~21.2% as of Q1FY25.

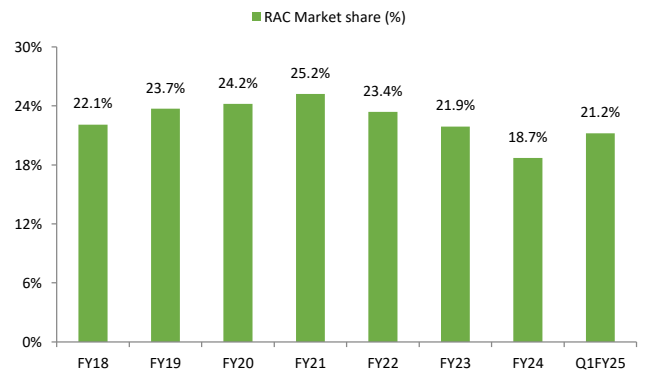


Exhibit 5: Projects Margins are expected around 5% going forward. The company is very selective in international projects.

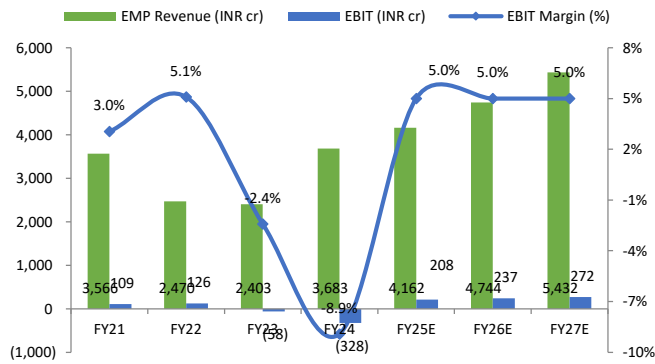


Exhibit 6: EPS margins impacted due to ancillary & fixed overheads and expected to improve gradually.

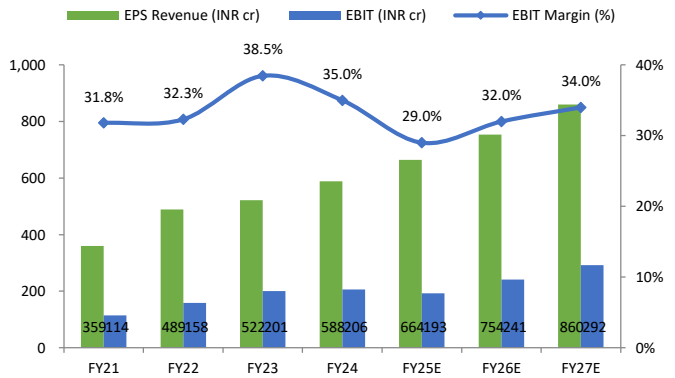


Exhibit 7: EMP order book stood around INR 7,503cr as of Q1FY25. The company is very selective in international projects.

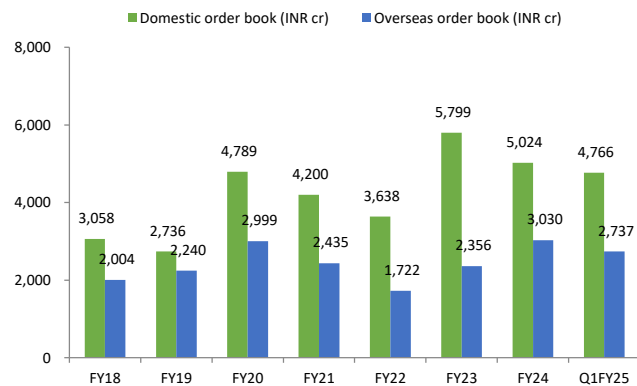
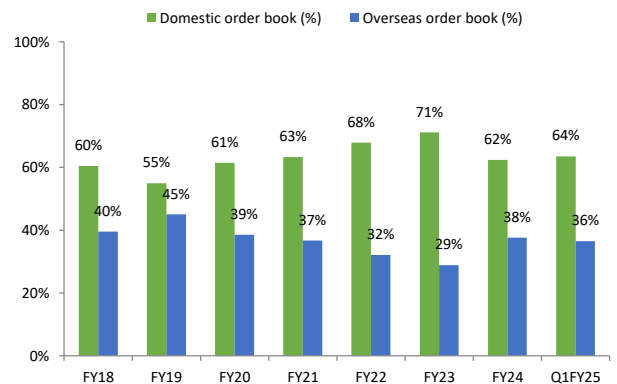


Exhibit 8: Domestic and International order book mix stood at 64:36 as of Q1FY25.



Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 9: Revenue growth is expected to pick-up backed by volume growth in UCP.

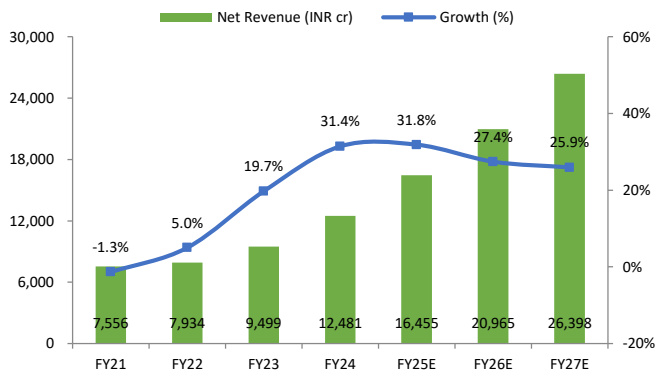


Exhibit 10: Stabilising raw material prices will improve gross margins.

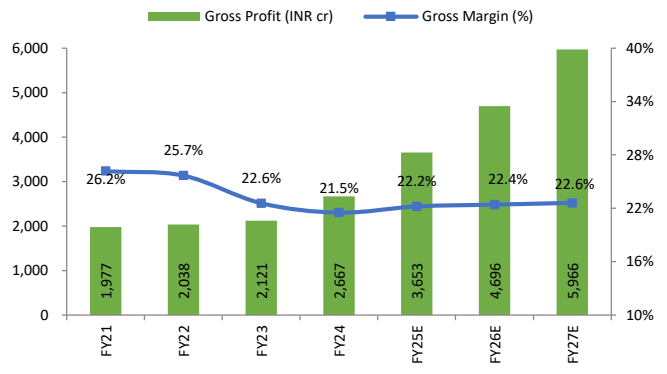


Exhibit 11: EBITDA and PAT margin is expected to improve from FY25E onwards.

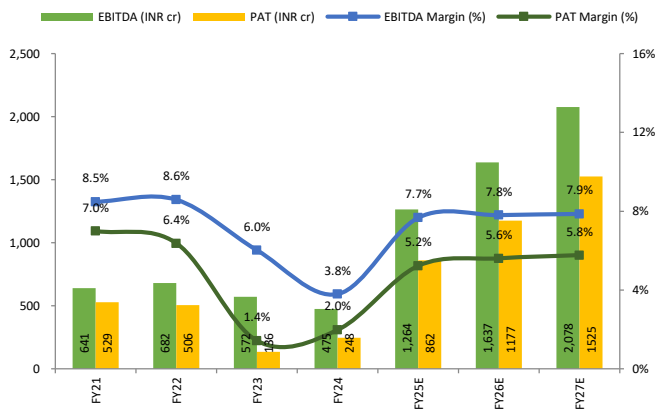


Exhibit 12: Return ratios is expected to improve from FY25E onwards.

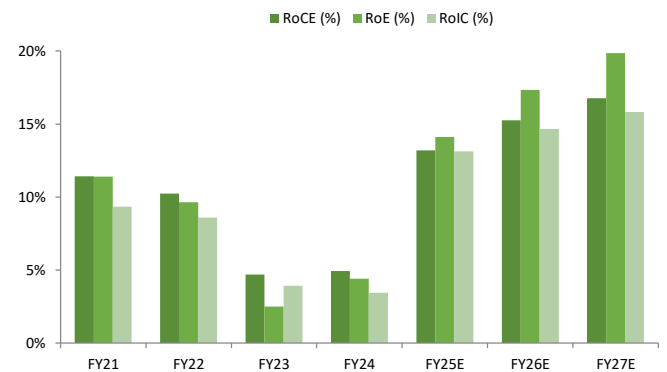


Exhibit 13: Working capital days to be improve

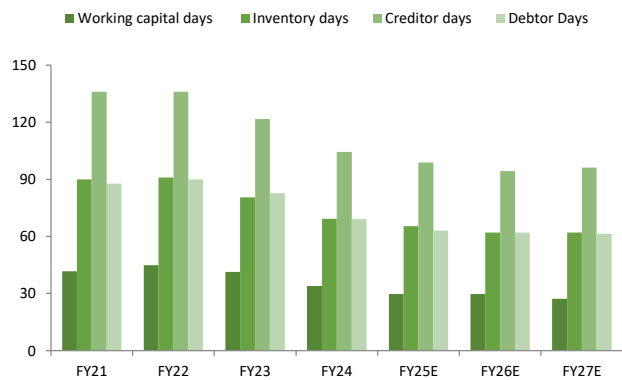
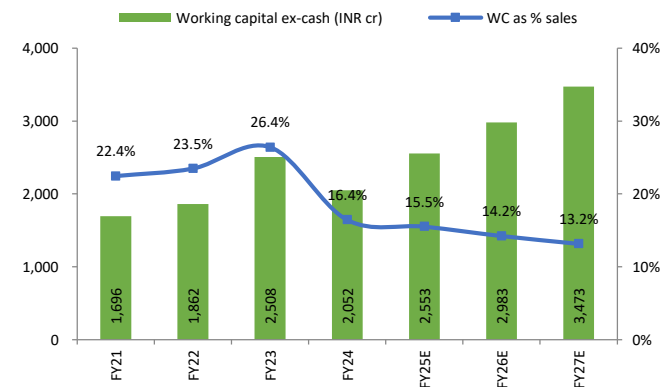


Exhibit 14: Working capital as % of sales is expected to maintain going forward.



Source: Company Reports, Arianth Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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