

**CMP: INR 819**

**Rating: BUY**

**Target Price: INR 1,037**

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)	27,093
52w H/L (INR)	934/737
Avg Yearly Volume (in 000')	1,270.7

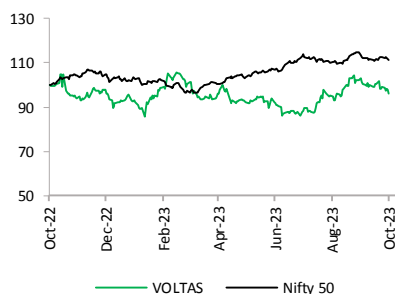
### Shareholding Pattern %

(As on Sep, 2023)

Promoters	30.30
DII	35.82
FII	17.84
Public & Others	16.03

Stock Performance (%)	3m	6m	12m
VOLTAS	1.0	5.6	-4.0
NIFTY	0.8	3.6	11.3

### Voltas vs Nifty



**Abhishek Jain**  
abhishek.jain@arihantcapital.com  
022-422548871

**Balasubramanian A**  
bala@arihantcapital.com  
022-67114780

**Voltas Ltd** reported strong numbers, Q2FY24 revenue grew by 29.7% YoY (-31.8% QoQ) to INR 2,293cr; above our estimates of INR 1,969cr due to strong performance in the UCP and EMP segment. Gross Profit stood at INR 562cr (+30.5% YoY/-20.8% QoQ); below our estimates of INR 462cr; Gross margins improved by 16 bps YoY (up by 341 bps QoQ) to 24.5% vs 24.4% in Q2FY23. The raw material cost in terms of sales stood at 75.5% vs 75.6% in Q2FY23. EBITDA stood at INR 70cr (-30.3% YoY/-62.1% QoQ); below our estimates of INR 99cr. EBITDA margin contracted by 264 bps YoY (down by 245 bps QoQ) to 3.1% vs 5.7% in Q2FY23. The decrease in EBITDA margin led by an increase in other expenses in terms of sales stood at 13% vs 8.8% in Q2FY23. PAT stood at INR 36cr (-64.5% YoY/-72.5% QoQ); below our estimates of INR 85cr, and PAT margin contracted by 412 bps YoY (down by 230 bps QoQ) to 1.6% vs 5.7% in Q2FY23. In Q2FY23, exceptional items of INR -106cr were excluded.

### Key Highlights

**Steady performance in UCP segment, continued weakness in market share:** Unitary Cooling Products (UCP) revenue stood at INR 1,209cr (+15.4% YoY/-51.9% QoQ); EBIT Stood at INR 93cr (+21.3% YoY/-55.3% QoQ). EBIT margin improved by 38 bps YoY (down by 57 bps QoQ) to 7.7% vs 7.3% in Q2FY23. UCP volume and value growth stood at 15% in Q2FY24. AC volume growth stood at 15% in Q2FY24 and the majority of growth came from Air coolers (>50% YoY), water coolers (double-digit growth), and water dispensers (double-digit growth). Air coolers are the major contributor to UCP growth, Air coolers witnessed strong demand in the South and East markets, while the North market remained muted. Overall, Air Cooler witnessed 50% YoY volume growth in Q2FY24. Commercial refrigeration witnessed muted growth due to lower demand for cold beverages, chocolates, and Ice-creams. Commercial air conditioning witnessed strong demand from chillers and packed air conditioners.

**Provisioning has impacted EMP:** Electro-Mechanical Projects and Services revenue stood at INR 924cr (+66.8% YoY/+36.1% QoQ); EBIT Stood at INR -49cr vs INR 14cr in Q2FY23. EBIT margin stood at -5.3% vs 2.6% in Q2FY23. The company made provisions of INR 86cr due to the delayed collection of overseas projects. EMP order book stood at INR 8,677cr (~57.8% YoY) in Q2FY24. Domestic order book stood at INR 3,368cr and International order book stood at INR 3,368cr. The international order book is mostly from the UAE, Qatar, and Saudi Arabia regions. The risk management policy has moved from unconditional to conditional guarantees for projects. The change in policy is due to challenges faced in the Qatar project.

**EMS has improved by the sale of accessories:** Engineering Products and Services revenue stood at INR 134cr (-2.1% YoY/-5.5% QoQ); EBIT Stood at INR 54cr (+12.3% YoY/-0.4% QoQ). EBIT margin improved by 515 bps YoY (up by 208 bps QoQ) to 40.1% vs 35% in Q2FY23. Sale of accessories improved Engineering products and services. The sluggish in iron ore market and slower pace of infra rollout have muted the domestic mining business which impacted the business.

**Outlook & Valuation:** Voltas has a leadership position in the RAC segment, however, its market share declined to 19.2% as of Oct-23. The upcoming festive season will improve H2FY24E. The change in risk management policy from unconditional to conditional guarantees for projects will improve EMP segments. The focus on volumes and increase in consumer finance penetration would improve sales and market share going forward. A strong brand presence, a wider network, a focus on the B2C segment, export duty removal of iron ore, and industry growth will be the key drivers for the company. The Capex for RAC and Commercial AC will lead to additional revenue going forward. We maintain our "BUY" rating at a TP of INR 1,037 per share; valued based on SOTP; an upside of 26.6%.

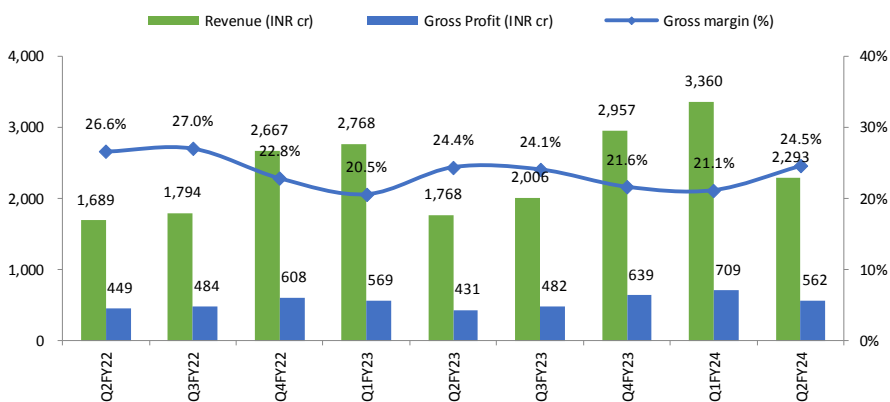
Q2FY24 Results

Income statement summary

Particular (INR cr)	Q2FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Revenue	1,768	3,360	2,293	29.7%	-31.8%
Net Raw Materials	1,338	2,650	1,731	29.4%	-34.7%
Employee Cost	175	181	194	11.3%	7.7%
Other Expenses	155	344	298	91.6%	-13.4%
<b>EBITDA</b>	<b>101</b>	<b>185</b>	<b>70</b>	<b>-30.3%</b>	<b>-62.1%</b>
<b>EBITDA Margin (%)</b>	<b>5.7%</b>	<b>5.5%</b>	<b>3.1%</b>	<b>-264 bps</b>	<b>-245 bps</b>
Depreciation	10	11	12		
Interest expense	7	10	11		
Other income	64	70	71		
Exceptional Items	-	-	-		
Share of profits associate & JV	(29)	(31)	(33)		
<b>Profit before tax</b>	<b>120</b>	<b>203</b>	<b>85</b>	<b>-29.1%</b>	<b>-58.1%</b>
Taxes	19	73	49		
Minorities and other	-	-	-		
<b>PAT</b>	<b>100</b>	<b>129</b>	<b>36</b>	<b>-64.5%</b>	<b>-72.5%</b>
<b>PAT Margin</b>	<b>5.7%</b>	<b>3.9%</b>	<b>1.6%</b>	<b>-412 bps</b>	<b>-230 bps</b>
<b>EPS (INR)</b>	<b>3.0</b>	<b>3.9</b>	<b>1.1</b>		

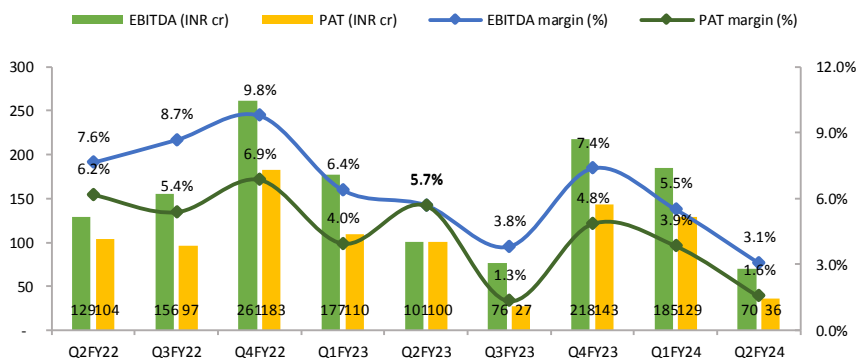
Source: Company Reports, Aриhant Capital Research

Exhibit 1: Gross margins improved by 16bps YoY/341bps QoQ to 24.5% in Q2FY24 due to softening of RM costs.



Source: Company Reports, Aриhant Capital Research

Exhibit 2: EBITDA Margin contracted by 264bps YoY/245bps QoQ to 3.1% in Q2FY24 due to increase in other expenses.



Source: Company Reports, Aриhant Capital Research, Exceptional items are excluded in Q2FY23..

**Q2FY24 Concall Highlights****Market share**

- RAC market share stood at 19.2% YTD and 19.5% as of Aug-23.
- Air cooler market share stood at 7.7% as of Jul-23 and holds the No. 2 position in the industry.
- Refrigerators market share stood at 3.3% (+0.9% YoY) and washing machines market share stood at 5.4% (1.4% YoY) in Q2FY24.

**UCP**

- UCP volume and value growth stood at 15% in Q2FY24. AC volume growth stood at 15% in Q2FY24 and the majority of growth came from Air coolers (>50% YoY), water coolers (double-digit growth), and water dispensers (double-digit growth). Air coolers are the major contributor to UCP growth. Commercial refrigerator growth remains muted in Q2FY24.
- Air coolers witnessed strong demand in the South and East markets, while the North market remained muted. Overall, Air Cooler witnessed 50% YoY volume growth in Q2FY24.
- UCP revenue break-up; AC – 80%, Commercial refrigeration – 18%, and Air coolers – 2%.
- Commercial refrigeration witnessed muted growth due to lower demand for cold beverages, chocolates, and Ice-creams.
- Commercial air conditioning witnessed strong demand from chillers and packed air conditioners.

**EMP**

- EMP order book stood at INR 8,677cr (~57.8% YoY) in Q2FY24. Domestic order book stood at INR 5,309cr and International order book stood at INR 3,368cr. The international order book is mostly from the UAE, Qatar, and Saudi Arabia regions.
- In EMP, around INR 673cr (~41.6% YoY) orders were booked in domestic projects. The majority of orders are from Electrical and MEP.
- The overseas projects order booking stood at INR 449cr (~2.7x YoY).
- In EMP, the company made provisions of INR 86cr due to the delayed collection of overseas projects.
- The risk management policy has moved from unconditional to conditional guarantees for projects. The change in policy is due to challenges faced in the Qatar project.

**EPS**

- Sale of accessories improved Engineering products and services. The sluggish in iron ore market and slower pace of infra rollout have muted the domestic mining business which impacted the business.

**Q2FY24 Concall Highlights****Voltas Beko**

- Voltas Beko crossed a volume of 4mn units since launch. The volume growth was 40% YoY in Q2FY24. The frost-free refrigerators and automatic washing machine revenue share increased in Q2FY24.
- Voltas Beko's EBITDA breakeven is expected in FY25E.
- Direct Cold Refrigerators market share is expected to reach 10% over the next 2-3 years.

**Capex and Fundraising**

- The capex is expected around INR 500cr to INR 600cr for capacity expansion of Air Conditioner and Commercial Refrigerators.
- The board has approved to raise INR 500cr for capex plans.

**Other highlights**

- The retail touch points have moved above 10,000 touch points.
- The inventory days are around 75 to 90 at company levels.
- Appliances sales witnessed stronger in Kerala due to the Onam festival.
- The company is focused on expanding networks, working capital optimization, lucrative channel sales incentives, and strategic partnerships with modern retail channels for long-term growth.

## Financial Statements

## Income statement summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	7,658	7,556	7,934	9,499	11,664	13,994	16,473
Net Raw Materials	5,555	5,578	5,897	7,378	8,993	10,733	12,536
Employee Cost	672	602	618	667	828	1,008	1,186
Other Expenses	745	734	739	881	1,085	1,304	1,535
<b>EBITDA</b>	<b>687</b>	<b>641</b>	<b>682</b>	<b>572</b>	<b>758</b>	<b>949</b>	<b>1,216</b>
<b>EBITDA Margin (%)</b>	<b>9.0%</b>	<b>8.5%</b>	<b>8.6%</b>	<b>6.0%</b>	<b>6.5%</b>	<b>6.8%</b>	<b>7.4%</b>
Depreciation	(32)	(34)	(37)	(40)	(48)	(60)	(66)
Interest expense	(21)	(26)	(26)	(30)	(61)	(71)	(70)
Other income	231	189	189	168	157	175	206
Exceptional Items	(51)	-	-	(244)	-	-	-
Share of profits associate & JV	(69)	(61)	(110)	(121)	(98)	-	-
<b>Profit before tax</b>	<b>744</b>	<b>709</b>	<b>697</b>	<b>307</b>	<b>708</b>	<b>993</b>	<b>1,285</b>
Taxes	(223)	(180)	(191)	(171)	(200)	(272)	(337)
<b>PAT</b>	<b>521</b>	<b>529</b>	<b>506</b>	<b>136</b>	<b>508</b>	<b>721</b>	<b>949</b>
<b>PAT Margin (%)</b>	<b>6.8%</b>	<b>7.0%</b>	<b>6.4%</b>	<b>1.4%</b>	<b>4.4%</b>	<b>5.2%</b>	<b>5.8%</b>
Other Comprehensive income	(190)	321	170	(38)	-	-	-
<b>Total Comprehensive income</b>	<b>331</b>	<b>850</b>	<b>676</b>	<b>98</b>	<b>508</b>	<b>721</b>	<b>949</b>
<b>EPS (INR)</b>	<b>10.0</b>	<b>25.7</b>	<b>20.4</b>	<b>3.0</b>	<b>15.4</b>	<b>21.8</b>	<b>28.7</b>

Source: Company Reports, Arihant Capital Research

## Balance sheet summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	33	33	33	33	33	33	33
Reserves	4,247	4,960	5,466	5,419	5,757	6,236	6,867
<b>Net worth</b>	<b>4,280</b>	<b>4,993</b>	<b>5,500</b>	<b>5,452</b>	<b>5,790</b>	<b>6,270</b>	<b>6,900</b>
Minority Interest	36	36	38	42	42	42	42
Provisions	204	209	262	258	256	249	271
Debt	332	375	479	1,288	1,773	1,763	1,760
Other non-current liabilities	9	7	22	9	35	42	49
<b>Total Liabilities</b>	<b>4,862</b>	<b>5,620</b>	<b>6,301</b>	<b>7,049</b>	<b>7,895</b>	<b>8,365</b>	<b>9,022</b>
Fixed assets	240	238	230	361	861	1,099	1,174
Capital Work In Progress	26	9	59	98	48	60	33
Other Intangible assets	9	8	7	6	6	6	6
Goodwill	72	72	72	72	72	72	72
Investments	1,972	2,962	3,338	3,123	3,499	3,498	4,118
Other non current assets	250	176	160	172	268	322	379
<b>Net working capital</b>	<b>1,327</b>	<b>1,337</b>	<b>1,348</b>	<b>1,848</b>	<b>1,670</b>	<b>1,762</b>	<b>1,811</b>
Inventories	1,469	1,280	1,661	1,592	1,946	2,264	2,542
Sundry debtors	1,834	1,801	2,110	2,192	2,652	3,105	3,565
Loans & Advances	2	2	3	1	3	4	5
Other current assets	1,316	1,290	1,019	1,294	1,502	1,802	2,121
Sundry creditors	(2,689)	(2,465)	(2,942)	(3,013)	(3,735)	(4,575)	(5,434)
Other current liabilities & Prov	(605)	(571)	(503)	(218)	(700)	(840)	(988)
Cash	308	459	572	708	770	706	441
Other Financial Assets	656	358	514	660	700	840	988
<b>Total Assets</b>	<b>4,862</b>	<b>5,620</b>	<b>6,301</b>	<b>7,049</b>	<b>7,895</b>	<b>8,365</b>	<b>9,022</b>

Source: Company Reports, Arihant Capital Research

## Financial Statements

## Cashflow summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	744	709	697	307	708	993	1,285
Depreciation	32	34	37	40	48	60	66
Tax paid	(223)	(180)	(191)	(171)	(200)	(272)	(337)
Working capital Δ	(48)	(11)	(11)	(500)	178	(92)	(49)
<b>Operating cashflow</b>	<b>505</b>	<b>552</b>	<b>533</b>	<b>(324)</b>	<b>735</b>	<b>689</b>	<b>965</b>
Capital expenditure	(67)	(15)	(80)	(209)	(498)	(310)	(113)
<b>Free cash flow</b>	<b>437</b>	<b>537</b>	<b>453</b>	<b>(533)</b>	<b>237</b>	<b>379</b>	<b>853</b>
Equity raised	(188)	320	168	(1)	13	(71)	(76)
Investments	(702)	(990)	(376)	216	(377)	1	(620)
Others	676	373	(138)	(157)	(136)	(193)	(206)
Debt financing/disposal	(65)	42	107	812	485	(10)	(3)
Dividends paid	(163)	(136)	(168)	(183)	(183)	(170)	(241)
Other items	(9)	3	68	(17)	23	1	29
<b>Net Δ in cash</b>	<b>(13)</b>	<b>150</b>	<b>113</b>	<b>137</b>	<b>62</b>	<b>(65)</b>	<b>(265)</b>
<b>Opening Cash Flow</b>	<b>321</b>	<b>308</b>	<b>459</b>	<b>572</b>	<b>708</b>	<b>770</b>	<b>706</b>
<b>Closing Cash Flow</b>	<b>308</b>	<b>459</b>	<b>572</b>	<b>708</b>	<b>770</b>	<b>706</b>	<b>441</b>

Source: Company Reports, Aриhant Capital Research

## Ratio analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth matrix (%)</b>							
Revenue growth	7.5%	-1.3%	5.0%	19.7%	22.8%	20.0%	17.7%
Op profit growth	12.3%	-6.6%	6.3%	-16.0%	32.5%	25.1%	28.1%
<b>Profitability ratios (%)</b>							
OPM	9.0%	8.5%	8.6%	6.0%	6.5%	6.8%	7.4%
Net profit margin	6.8%	7.0%	6.4%	1.4%	4.4%	5.2%	5.8%
RoCE	13.0%	11.4%	10.2%	4.7%	8.9%	9.6%	11.6%
RoNW	12.4%	11.4%	9.6%	2.5%	9.1%	12.0%	14.4%
RoA	10.7%	9.4%	8.0%	1.9%	6.4%	8.6%	10.5%
<b>Per share ratios (INR)</b>							
EPS	10.0	25.7	20.4	3.0	15.4	21.8	28.7
Dividend per share	4.9	4.1	5.1	5.5	5.5	5.1	7.3
Cash EPS	16.7	17.0	16.4	5.3	16.8	23.6	30.7
Book value per share	129.4	150.9	166.3	164.8	175.0	189.5	208.6
<b>Valuation ratios (x)</b>							
P/E	81.8	31.9	40.1	277.0	53.3	37.6	28.6
P/CEPS	49.0	48.1	49.9	154.1	48.7	34.7	26.7
P/B	6.3	5.4	4.9	5.0	4.7	4.3	3.9
EV/EBITDA	36.6	37.5	34.7	42.9	32.4	26.0	20.0
<b>Payout (%)</b>							
Dividend payout	31.2%	25.7%	33.1%	134.2%	36.0%	23.6%	25.5%
Tax payout	30.0%	25.4%	27.4%	55.6%	28.2%	27.4%	26.2%
<b>Liquidity ratios</b>							
Debtor days	87	88	90	83	76	75	74
Inventory days	84	90	91	80	72	72	70
Creditor days	133	136	136	122	113	116	120
WC Days	39	42	45	41	35	30	24
<b>Leverage ratios (x)</b>							
Interest coverage	31.0	23.2	24.9	18.0	11.6	12.6	16.3
Net debt / equity	0.0	-0.0	-0.0	0.1	0.2	0.2	0.2
Net debt / op. profit	0.0	-0.1	-0.1	1.0	1.3	1.1	1.1

Source: Company Reports, Aриhant Capital Research

**SOTP Valuation**

**Voltas FY25E based implied valuation**

	Electro Mechanical Projects	Engineering Products and Services	Unitary Cooling Products	Overall
FY25E EBITDA (INR cr)	86	221	933	
EV/EBITDA (x)	<b>5.0x</b>	<b>10.0x</b>	<b>35.0x</b>	
EV (INR cr)	431	2,205	32,656	35,293
Net Debt/(cash) (INR cr) - FY25E				985
Market Cap (INR cr)				34,308
Share outstanding (cr)				33
<b>Value per share (INR)</b>				<b>1,037</b>
<b>CMP (INR)</b>				<b>819</b>
<b>Upside/Downside (%)</b>				<b>26.6%</b>

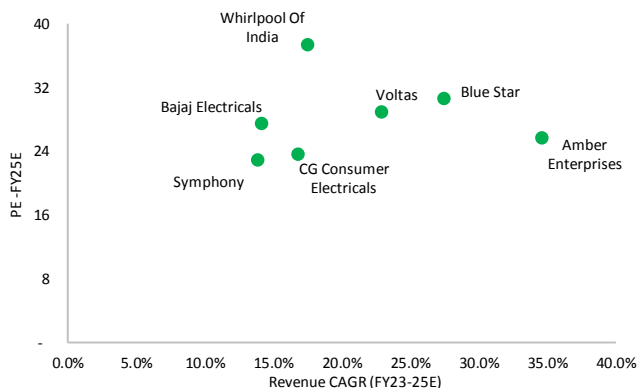
**Rating**

**BUY**

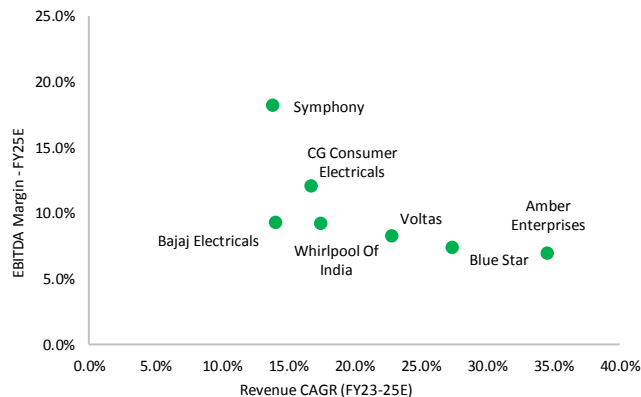
Source: Company Reports, Arianth Capital Research

**Voltas vs Peers**

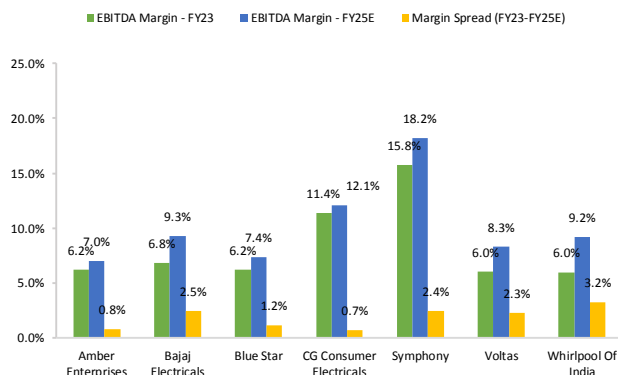
**Exhibit 3: Voltas is expected to grow 20%-25% CAGR over the period of FY23-FY25E.**



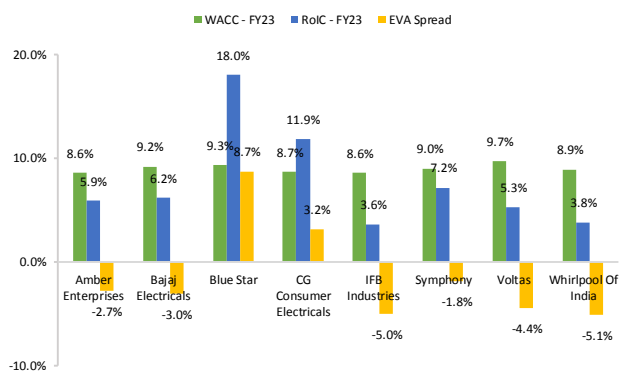
**Exhibit 4: Voltas is expected to reach 8%-9% EBITDA margin by FY25E.**



**Exhibit 5: Around 100-300bps margin improvement are expected in consumer durable companies going forward.**



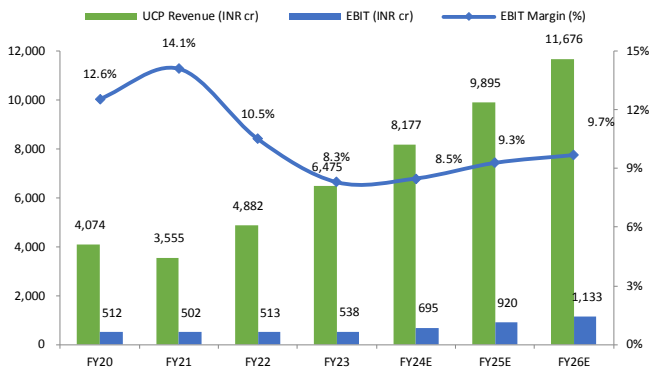
**Exhibit 6: Blue Star and CG consumer has positive EVA spread in FY23.**



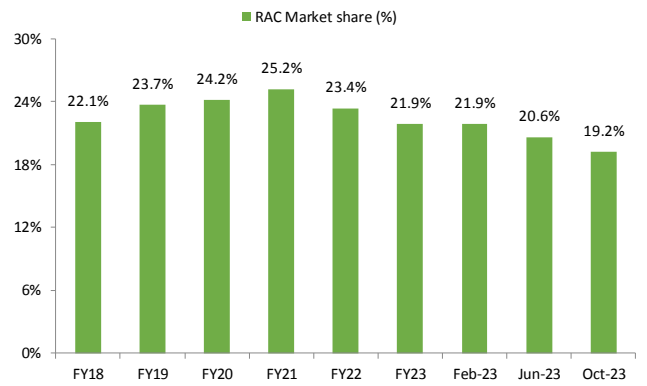
Source: Bloomberg Estimates, Arianth Capital Research

**Story in Charts**

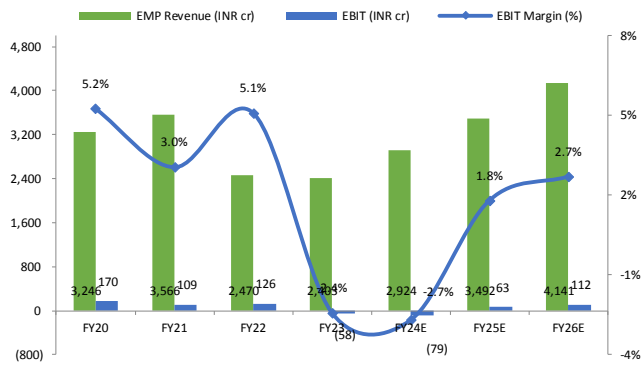
**Exhibit 7: UCP is expected to grow at a CAGR of 23.6% over the period of FY23-FY25E. Margins are expected to normalise over medium term.**



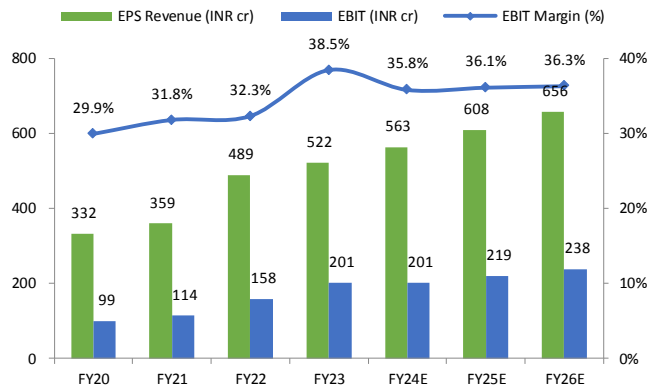
**Exhibit 8: RAC market share stood at ~19.2% as of Oct-23. Voltas focused to bring back the market share to previous levels.**



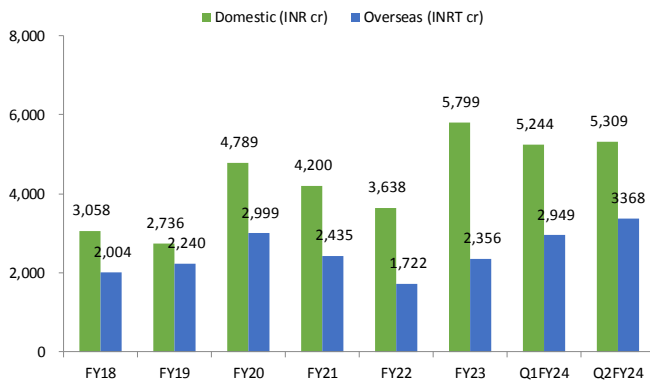
**Exhibit 9: EMP profitability impacted due to provisions, delayed collections and is expected to normalise going forward.**



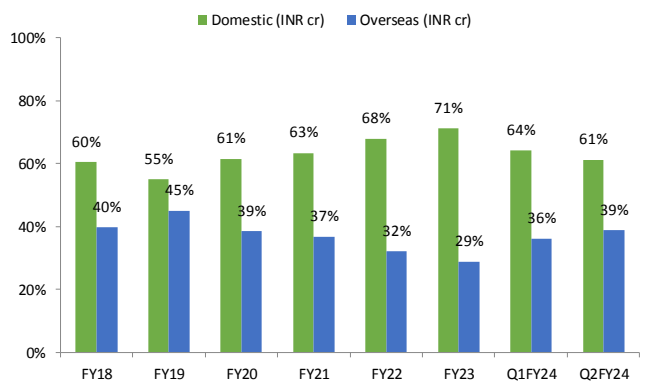
**Exhibit 10: Export duty removal and accessories will boost EPS segment.**



**Exhibit 11: EMP order book stood at INR 8,677cr (~+57.8% YoY) as of Q2FY24.**



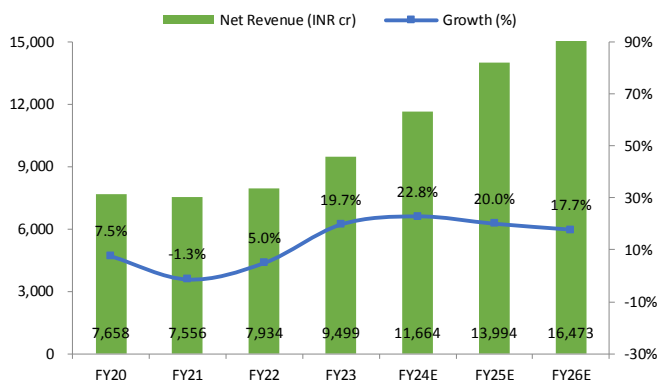
**Exhibit 12: In EMP, Overseas projects accounted 39% as of Q2FY24.**



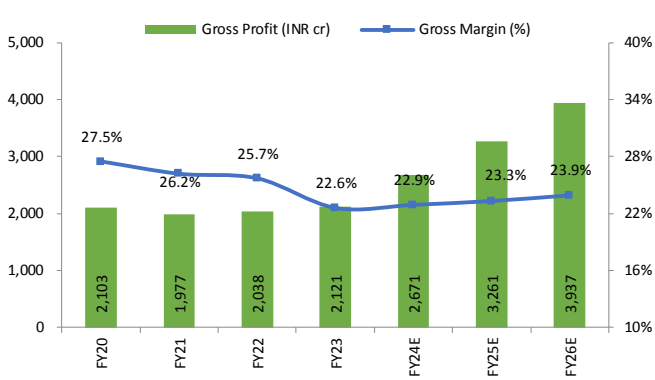


**Story in Charts**

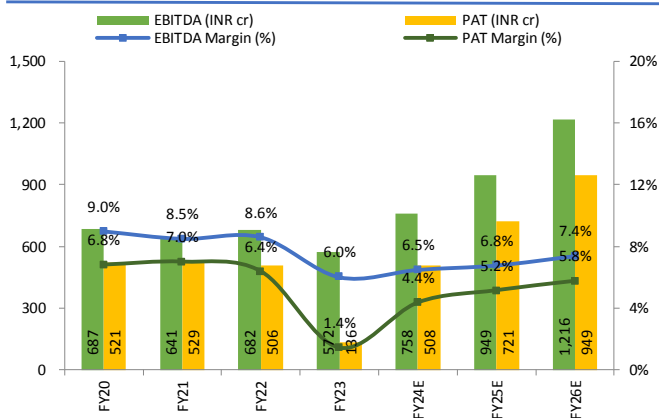
**Exhibit 13: Revenue growth is expected to pick-up backed by Unitary cooling products.**



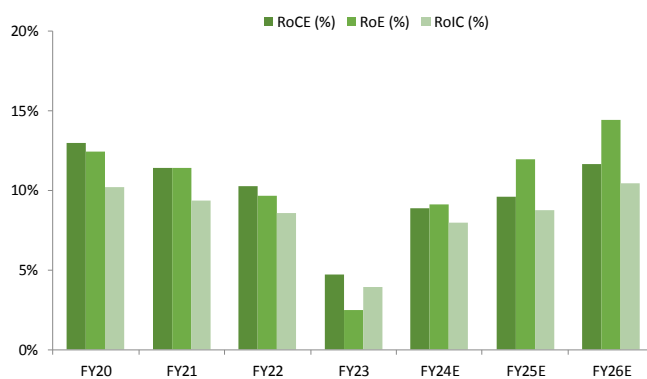
**Exhibit 14: Commodity prices remain volatile, outsourcing has helped reduce costs to some extent. Softening of raw material prices will improve gross margins.**



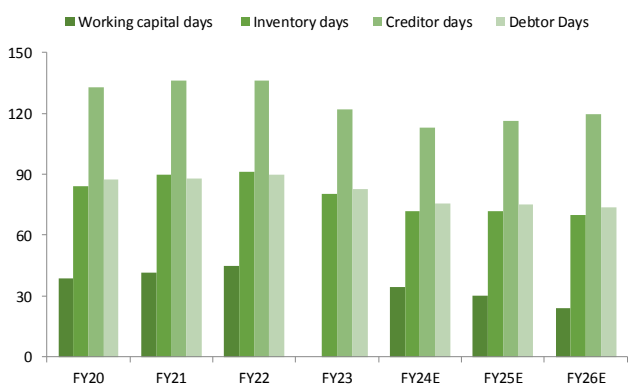
**Exhibit 15: EBITDA and PAT margin is expected to improve from FY24 onwards.**



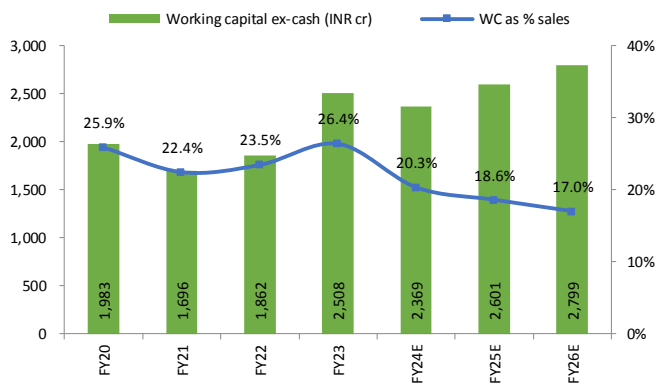
**Exhibit 16: Return ratios is expected to improve from FY24 onwards.**



**Exhibit 17: Working capital days to be improve**



**Exhibit 18: Working capital as % of sales is expected to reduce going forward.**



**Arihant Research Desk**Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

**Head Office**

#1011, Solitaire Corporate Park  
 Building No. 10, 1<sup>st</sup> Floor  
 Andheri Ghatkopar Link Road  
 Chakala, Andheri (E)  
 Mumbai – 400093  
 Tel: (91-22) 42254800  
 Fax: (91-22) 42254880

**Registered Office**

Arihant House  
 E-5 Ratlam Kothi  
 Indore - 452003, (M.P.)  
 Tel: (91-731) 3016100  
 Fax: (91-731) 3016199

**Stock Rating Scale**

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%

**Research Analyst  
Registration No.**

INH000002764

**Contact**

SMS: 'Arihant' to 56677

**Website**[www.arihantcapital.com](http://www.arihantcapital.com)**Email Id**[instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

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Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
 Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
 Tel. 022-42254800 Fax. 022-42254880