Arihant Capital
Generating Wealth

Q3FY23 Result update
13th Feb, 2023

Voltas Ltd

Beats on top line and missed on bottom line due to one-off in Electro Mechanical Projects

CMP: INR 850

Rating: BUY

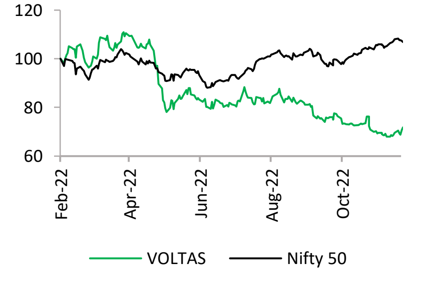
Target Price: INR 1,154

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)	25,087
52w H/L (INR)	1,348/737
Avg Yearly Volume (in 000')	1,237.2

Shareholding Pattern % *(As on Dec, 2022)*	
Promoters	30.30
DII	31.46
FII	21.58
Public & Others	15.69

Stock Performance (%)	3m	6m	12m
VOLTAS	2.5	-14.1	-28.7
NIFTY	-3.0	1.1	2.8

Voltas vs Nifty



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Voltas Ltd reported numbers, Q3FY23 revenue grew by 11.8% YoY (+13.4% QoQ) to INR 2,006cr vs our estimates of INR 1,941cr. Gross Profit stood at INR 482cr (-0.3% YoY/+12% QoQ) vs our estimates of INR 516cr; Gross margins contracted by 292 bps YoY (down by 31 bps QoQ) to 24.1% vs 27% in Q3FY22. The raw material cost in terms of sales stood at 75.9% vs 73% in Q3FY22. EBITDA stood at INR 76cr (-50.9% YoY/-24.3% QoQ) vs our estimates of INR 130cr. EBITDA margin contracted by 487 bps YoY (down by 189 bps QoQ) to 3.8% vs 8.7% in Q3FY22. Adjusted PAT stood at INR 27cr vs INR 97cr in Q3FY22 vs our estimates of INR 113cr, Adjusted PAT excluded exceptional items of INR -137cr.

Key Highlights

Steady growth witnessed in UCP segment: Unitary Cooling Products (UCP) revenue stood at INR 1,216cr (+11.2% YoY/+16.1% QoQ); EBIT Stood at INR 89cr (-12.1% YoY/+17% QoQ). EBIT margin contracted by 194 bps YoY (up by 6 bps QoQ) to 7.36% vs 9.3% in Q3FY22. Voltas continues to be a market leader and sustained its No. 1 position in the RAC market. RAC market share stood at 22.5% as of Dec-22. The company focused to reach a 25% market share going forward. The Indian AC market penetration is around 7% to 8% and is expected to increase to 10% to 12% over the medium term. The increase in market penetration in the AC segment will be a big opportunity for Voltas.

Margins remain impacted due to the rupee depreciation effect on imports: The commodity prices softening; however, rupee depreciation has taken away margin levels. Post July, the Energy level changed and the company upgraded to star-rated products, which led to an increase in cost in Q3FY23 and impacted margins. The company is expected to localize around 40% of the raw materials and margins are expected to improve going forward.

EMP segment witnessed pressure due to provisions: Electro Mechanical Projects and Services (EMP) revenue stood at INR 648cr (+17.1% YoY/+17% QoQ); EBIT Stood at INR -46cr, excluding exceptional items of INR -137cr. EBIT margin stood at -7.1% vs 6.6% in Q3FY22. The company has made a provision of INR 244cr in 9MFY23 due to the termination of the contract and encashment of bank guarantees for two overseas projects in Dubai and Qatar. The company has reduced order inflows because of risk mitigation initiatives. We are expecting there is no further provision for EMP projects in Q4FY23.

Margin improvement witnessed on EPS: Engineering Products and Services (EPS) revenue stood at INR 118cr (-5.4% YoY/-14.2% QoQ); EBIT Stood at INR 46cr (+14.9% YoY/-4.3% QoQ). EBIT margin improved by 690 bps YoY (up by 403 bps QoQ) to 39% vs 32.1% in Q3FY22. The removal of export duty for fines in the iron ore market will increase demand for capital equipment in this segment. The PLI benefits and opportunity for expansion in the export market will boost demand in the textile sector.

Outlook & Valuation: Voltas has a leadership position in the RAC segment, a strong brand presence, and a wider network, focus on the B2C segment, export duty removal of iron ore and industry growth will be the key drivers for the company. The risk mitigation initiatives will improve the EMP segment going forward. The Capex for compressors will reduce the imports and move towards localization going forward. The early summer season is sentimentally positive and Q4FY23 is expected to be a better quarter. We maintain our "BUY" rating at a TP of INR 1,154 per share; valued based on SOTP; an upside of 35.7%.

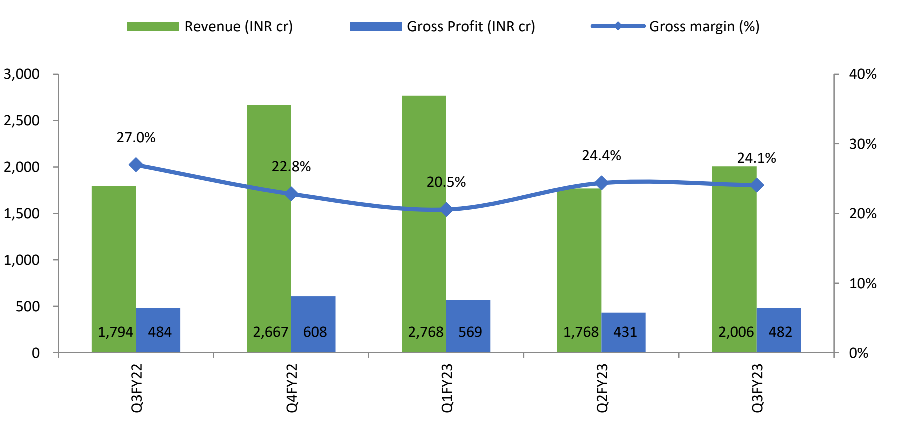
Q3FY23 Results

Income statement summary

Particular (INR cr)	Q3FY22	Q2FY23	Q3FY23	YoY (%)	QoQ (%)
Revenue	1,794	1,768	2,006	11.8%	13.4%
Net Raw Materials	1,310	1,338	1,523	16.3%	13.9%
Employee Cost	156	175	174	11.5%	-0.3%
Other Expenses	172	155	232	34.8%	49.4%
EBITDA	**156**	**101**	**76**	-50.9%	-24.3%
EBITDA Margin (%)	**8.7%**	**5.7%**	**3.8%**	**-487 bps**	**-189 bps**
Depreciation	10	10	11		
Interest expense	4	7	6		
Other income	28.8	64.4	30.7		
Share of profits associate & JV	(32)	(29)	(33)		
Profit before tax	**139**	**120**	**57**	-59.1%	-52.5%
Taxes	43	19	30		
Minorities and other	-	-	-		
PAT	**97**	**100**	**27**	-72.1%	-73.2%
PAT Margin (%)	**5.4%**	**5.7%**	**1.3%**	**-404 bps**	**-434 bps**
Other Comprehensive income	24.4	195.7	(16.2)		
Net profit	**121**	**296**	**11**	**-91.2%**	**-96.4%**
Net profit Margin (%)	**6.7%**	**16.7%**	**0.5%**	**-621 bps**	**-1621 bps**
EPS (INR)	**2.9**	**(0.2)**	**(3.3)**		

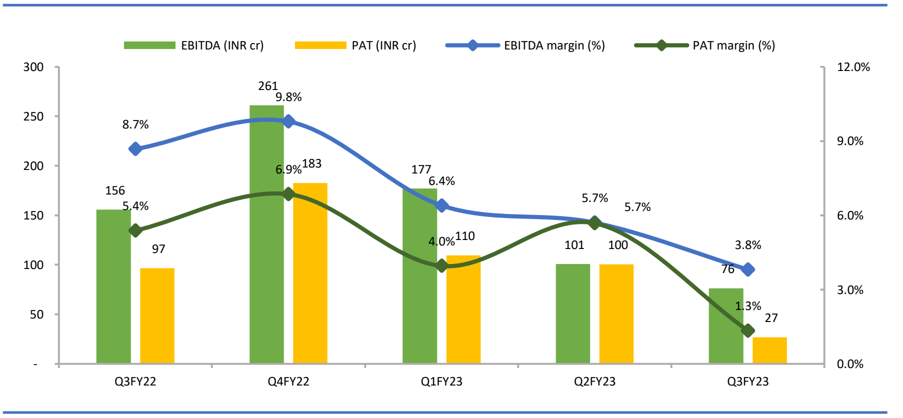
Source: Company Reports, Arihant Capital Research, Exceptional items of INR -106cr in Q2FY23 and INR -137cr in Q3FY23 excluded.

Exhibit 1: Commodity prices softening, however rupee depreciation takeaway the gross margins. The company is significantly importing raw materials and expected to localize going forward.



Source: Company Reports, Arihant Capital Research

Exhibit 2: The increase in other expenses further impacted EBITDA and PAT margin levels.



Source: Company Reports, Arihant Capital Research

Q3FY23 Concall Highlights

Market Share
The inverter category has helped to increase the market share from 65% to 82% of the split AC.

The company continues to be a market leader and sustained its No. 1 position in the RAC market. RAC market share stood at 22.5% as of Dec-22. The company focused to reach a 25% market share going forward.

RAC market share strengthening will be backed by the expansion of exclusive brand outlets and healthy participation in various channels.

Air cooler market share stood at 9.2% as of Q3FY23

Margins
The commodity prices softening, however, rupee depreciation has taken away margin levels.

Post July, the Energy level changed and the company upgraded to star-rated products, which led to an increase in cost in Q3FY23 and impacted margins.

The company is focusing on a high single-digit margin in the UCP segment.

Volt-Beko
Volt-Beko has sold ~3 mn units since launch.

Volt-Beko is expected to be breakeven by FY24-25. The market share objective is around 10% in the near team. The market share is expected to reach 18%-20% by FY24-25.

Price hike
There is no price hike in Q3FY23 and Q4FY23. Some of the price hikes are expected in Q1FY24.

Inventory
The channel partner inventory will go up in Q4FY23.

Unitary Cooling Products (UCP)
UCP segment performed well despite muted festival sales amidst inflation woes and subdued consumer sentiments.

The company has signed a technical agreement with Vestfrost, Denmark for medical refrigeration products in Q3FY23.

In the Commercial Air-conditioning category, demand was witnessed for light commercial and ductable products. The company has focused on customer retention with value-added services.

Electro-Mechanical Projects and Services (EMP)
The company has made a provision of INR 244cr in 9MFY23 due to the termination of the contract and encashment of bank guarantees for two overseas projects in Dubai and Qatar.

The company has reduced order inflows because of risk mitigation initiatives.

Q3FY23 Concall Highlights

The delay in collections and settlements led to making provisions in line with the requirement of accounting standards.

The delayed certification with new projects not crossing milestones of recognizing margin in line with the internal policy impacted the profitability levels.

The company has issued a request for arbitration to the respective contractors to recover proceeds of bank guarantees from them.

The company has secured a heralding project in the Kingdom of Saudi Arabia.

Middle east projects are in progress and a few of them are at the completion stage.

EMP Order book
The carry-forward order book stood at INR 7,543cr (+34.7% YoY), the domestic order book stood at INR 4,538cr and the International order book stood at INR 3,005cr Domestic order inflows witnessed 462.2% YoY to INR 1,040cr.

Engineering Products and Services
The mining operation in Mozambique is in full swing.

Export levy on Iron ore has slowed down mining activities which impacted equipment sales and after-sales services.

Capital machinery deliveries improved in textile sector.

Other highlights
Q4FY23 volume will be higher than Q3FY23.

The government provides incentives to encourage in-house manufacturing.

The company is continuing to outsource the products.

In Q4FY23, the company is introducing customer-centric products with improved features.

Financial Statements

Income statement summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	7,658	7,556	7,934	9,483	11,026	12,926
Net Raw Materials	5,555	5,578	5,897	7,245	8,214	9,526
Employee Cost	672	602	618	749	849	995
Other Expenses	745	734	739	872	984	1,153
EBITDA	**687**	**641**	**682**	**616**	**979**	**1,251**
EBITDA Margin (%)	**9.0%**	**8.5%**	**8.6%**	**6.5%**	**8.9%**	**9.7%**
Depreciation	(32)	(34)	(37)	(42)	(63)	(80)
Interest expense	(21)	(26)	(26)	(28)	(27)	(27)
Other income	231	189	189	149	154	162
Exceptional Items	(51)	-	-	(244)	-	-
Share of profits associate & JV	(69)	(61)	(110)	(122)	-	-
Profit before tax	**744**	**709**	**697**	**329**	**1,043**	**1,306**
Taxes	(223)	(180)	(191)	(90)	(273)	(342)
PAT	**521**	**529**	**506**	**239**	**770**	**964**
PAT Margin (%)	**6.8%**	**7.0%**	**6.4%**	**2.5%**	**7.0%**	**7.5%**
Other Comprehensive income	(190)	321	170	-	-	-
Net profit	**331**	**850**	**676**	**239**	**770**	**964**
EPS (INR)	10	26	20	7	23	29

Source: Company Reports, Arihant Capital Research

Balance sheet summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	33	33	33	33	33	33
Reserves	4,247	4,960	5,466	5,625	6,137	6,778
Net worth	**4,280**	**4,993**	**5,500**	**5,658**	**6,170**	**6,811**
Minority Interest	36	36	38	38	38	38
Provisions	204	209	262	208	196	212
Debt	332	375	479	462	448	445
Other non-current liabilities	9	7	22	28	33	39
Total Liabilities	**4,862**	**5,620**	**6,301**	**6,395**	**6,886**	**7,546**
Fixed assets	240	238	230	748	1,037	1,342
Capital Work In Progress	26	9	59	42	56	36
Other Intangible assets	9	8	7	7	7	7
Goodwill	72	72	72	72	72	72
Investments	1,972	2,962	3,338	3,319	3,087	3,231
Other non current assets	250	176	160	218	254	297
Net working capital	**1,327**	**1,337**	**1,348**	**1,245**	**1,368**	**1,563**
Inventories	1,469	1,280	1,661	1,687	1,733	1,931
Sundry debtors	1,834	1,801	2,110	2,182	2,507	2,833
Loans & Advances	2	2	3	3	3	4
Other current assets	1,316	1,290	1,019	1,221	1,420	1,664
Sundry creditors	(2,689)	(2,465)	(2,942)	(3,279)	(3,633)	(4,094)
Other current liabilities & Prov	(605)	(571)	(503)	(569)	(662)	(776)
Cash	308	459	572	175	343	221
Other Financial Assets	656	358	514	569	662	776
Total Assets	**4,862**	**5,620**	**6,301**	**6,395**	**6,886**	**7,546**

Source: Company Reports, Arihant Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	744	709	697	329	1,043	1,306
Depreciation	32	34	37	42	63	80
Tax paid	(223)	(180)	(191)	(90)	(273)	(342)
Working capital Δ	(48)	(11)	(11)	103	(123)	(195)
Operating cashflow	505	552	533	384	710	849
Capital expenditure	(67)	(15)	(80)	(542)	(366)	(366)
Free cash flow	437	537	453	(158)	344	483
Equity raised	(188)	320	168	(0)	(0)	-
Investments	(702)	(990)	(376)	19	232	(144)
Others	676	373	(138)	(113)	(128)	(158)
Debt financing/disposal	(65)	42	107	(17)	(14)	(3)
Dividends paid	(163)	(136)	(168)	(80)	(258)	(323)
Other items	(9)	3	68	(48)	(7)	22
Net Δ in cash	(13)	150	113	(397)	169	(122)
Opening Cash Flow	321	308	459	572	175	343
Closing Cash Flow	308	459	572	175	343	221

Source: Company Reports, Arihant Capital Research

Ratio analysis

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)						
Revenue growth	7.5%	-1.3%	5.0%	19.5%	16.3%	17.2%
Op profit growth	12.3%	-6.6%	6.3%	-9.6%	58.8%	27.8%
Profitability ratios (%)						
OPM	9.0%	8.5%	8.6%	6.5%	8.9%	9.7%
Net profit margin	6.8%	7.0%	6.4%	2.5%	7.0%	7.5%
RoCE	13.0%	11.4%	10.2%	8.4%	12.0%	13.8%
RoNW	12.4%	11.4%	9.6%	4.3%	13.0%	14.8%
RoA	10.7%	9.4%	8.0%	3.7%	11.2%	12.8%
Per share ratios (INR)						
EPS	10.0	25.7	20.4	7.2	23.3	29.1
Dividend per share	4.9	4.1	5.1	2.4	7.8	9.8
Cash EPS	16.7	17.0	16.4	8.5	25.2	31.6
Book value per share	129.4	150.9	166.3	171.1	186.5	205.9
Valuation ratios (x)						
P/E	84.9	33.1	41.6	117.7	36.5	29.2
P/CEPS	50.8	50.0	51.8	100.1	33.8	26.9
P/B	6.6	5.6	5.1	5.0	4.6	4.1
EV/EBITDA	38.1	39.1	36.2	40.7	25.7	20.1
Payout (%)						
Dividend payout	31.2%	25.7%	33.1%	33.5%	33.5%	33.5%
Tax payout	30.0%	25.4%	27.4%	27.4%	26.2%	26.2%
Liquidity ratios						
Debtor days	87	88	90	83	78	75
Inventory days	84	90	91	84	76	70
Creditor days	133	136	136	128	126	121
WC Days	39	42	45	39	28	25
Leverage ratios (x)						
Interest coverage	31.0	23.2	24.9	20.3	33.5	43.7
Net debt / equity	0.0	-0.0	-0.0	0.1	0.0	0.0
Net debt / op. profit	0.0	-0.1	-0.1	0.5	0.1	0.2

Source: Company Reports, Arihant Capital Research

SOTP Valuation

Voltas FY25E based implied valuation

	Electro Mechanical Projects	Engineering Products and Services	Unitary Cooling Products	Overall
FY25E EBITDA (INR cr)	113	213	1,168	
EV/EBITDA (x)	10.0x	10.0x	30.0x	
EV (INR cr)	1,135	2,133	35,043	38,310
Net Debt/(cash) (INR cr) - FY25E				152
Market Cap (INR cr)				38,158
Share outstanding (cr)				33
Value per share (INR)				**1,154**
CMP (INR)				**850**
Upside/Downside (%)				**35.7%**

Rating	**BUY**

Source: Company Reports, Arihant Capital Research

Voltas vs Peers

Exhibit 3: Voltas is expected to grow 15%-16% CAGR over the period of FY22-FY25E.

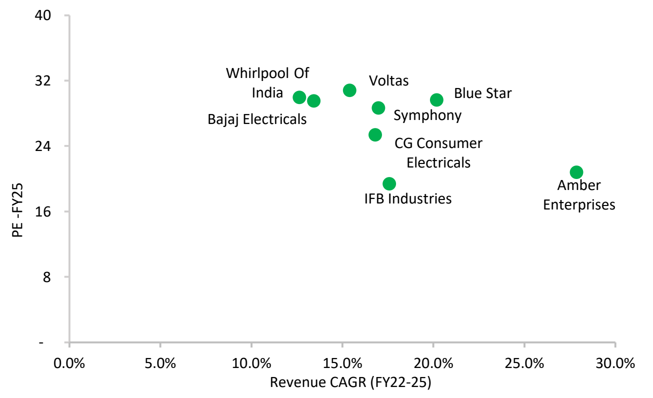


Exhibit 4: Voltas is expected to reach ~9.5% EBITDA margin by FY25E.

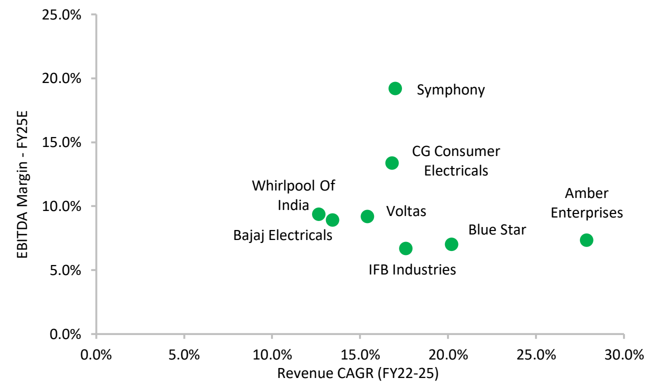


Exhibit 5: Margin improvements are expected in consumer durable companies going forward.

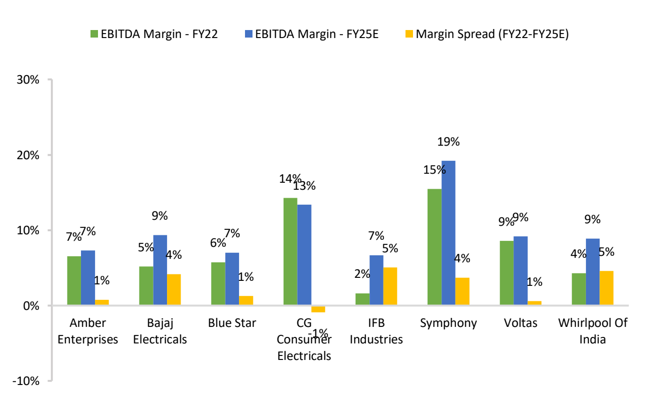
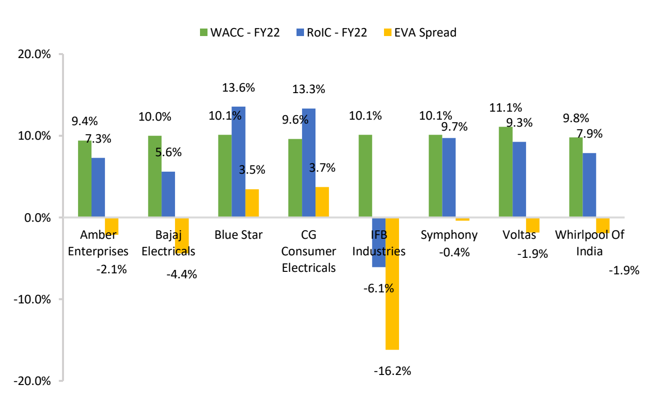


Exhibit 6: Blue Star and CG consumer has positive EVA spread in FY22. Voltas and Whirlpool's RoIC is expected to improve going forward.



Source: Bloomberg Estimates, Arihant Capital Research

Story in Charts

Exhibit 7: UCP is expected to grow at a faster rate and margins are expected to normalise over medium term.

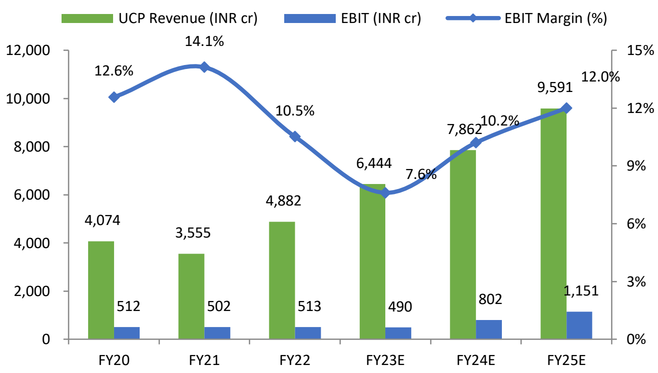


Exhibit 8: RAC market share stood at 22.5% as of Dec-22. Voltas focused to reach 25% market share over medium term.

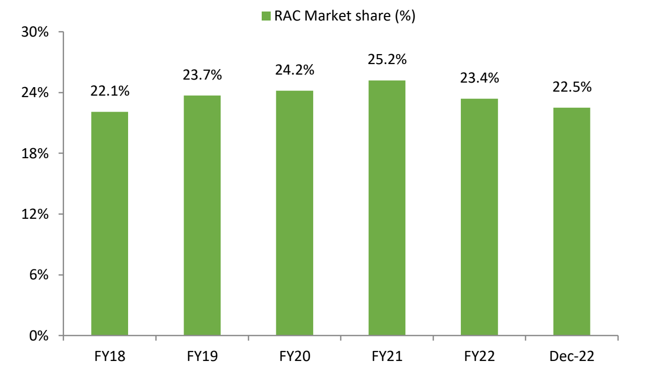


Exhibit 9: EMP profitability impacted due to provisions and expected to normalise going forward.

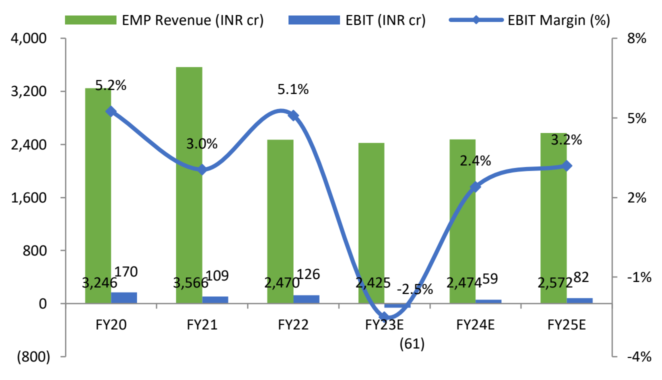


Exhibit 10: Export duty removal will boost EPS segment.

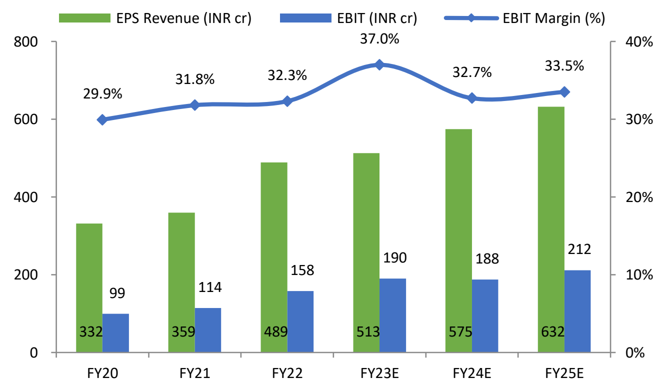


Exhibit 11:EMP business has healthy order book as of 9MFY23.

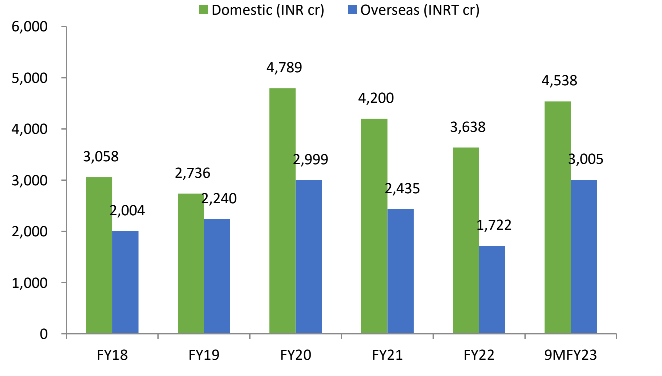
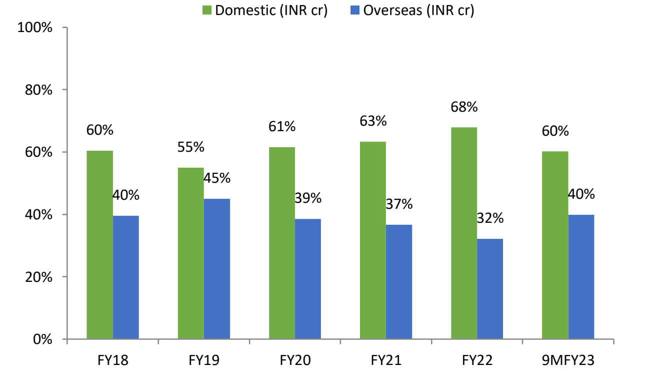


Exhibit 12: In EMP, Overseas projects accounted 40% and some of the projects are completion stage in near future. The company has reduced order inflows in overseas projects due to risk policy.



Source: Company Reports, Arihant Capital Research

Story in Charts

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

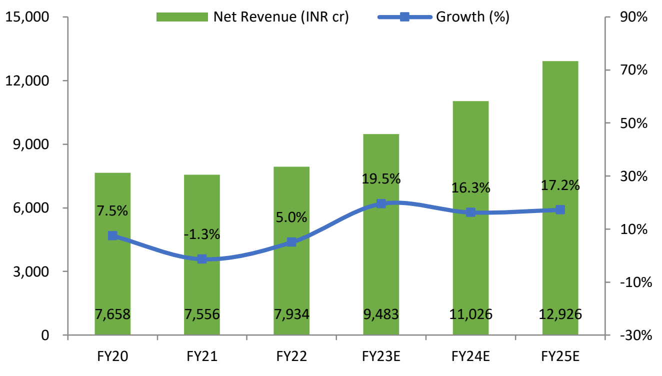


Exhibit 14: Softening of raw material prices will improve gross margins. The localization of raw materials would avoid currency fluctuation going forward.

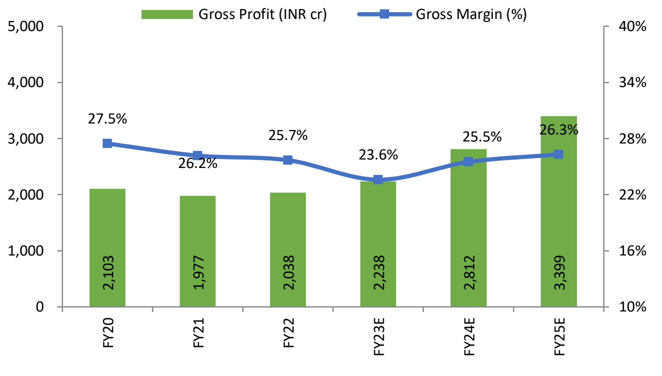


Exhibit 15: EBITDA and PAT margin is expected to improve from FY24 onwards.

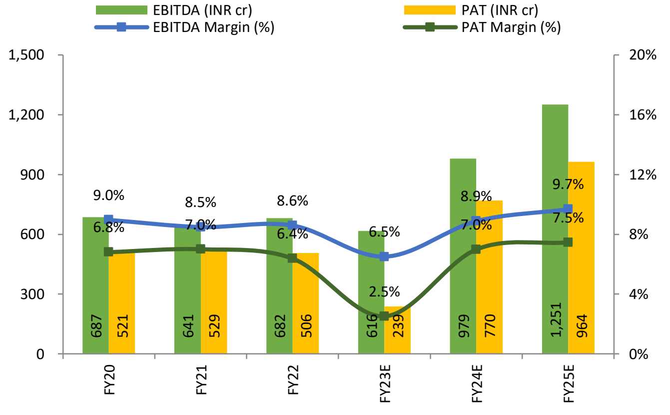


Exhibit 16: Return ratios is expected to improve from FY24 onwards.

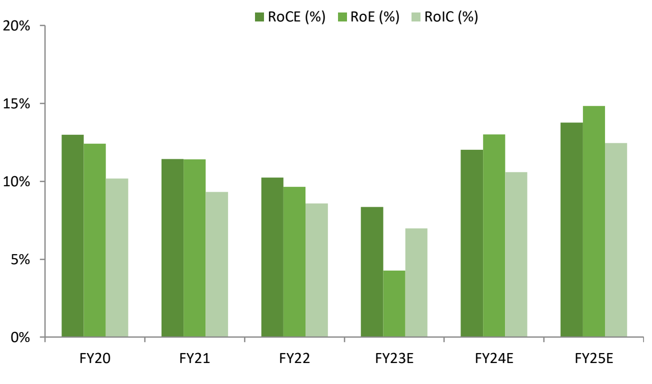


Exhibit 17: Working capital days to be improve

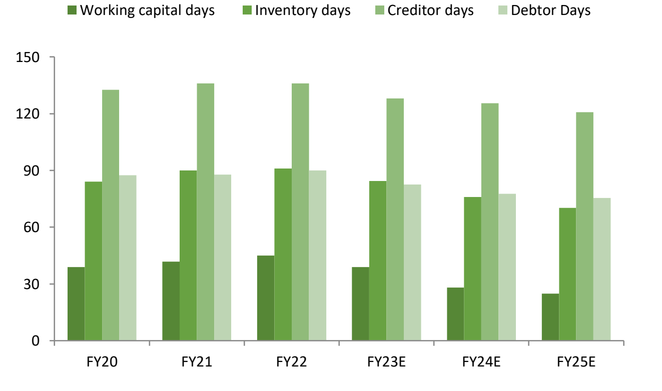
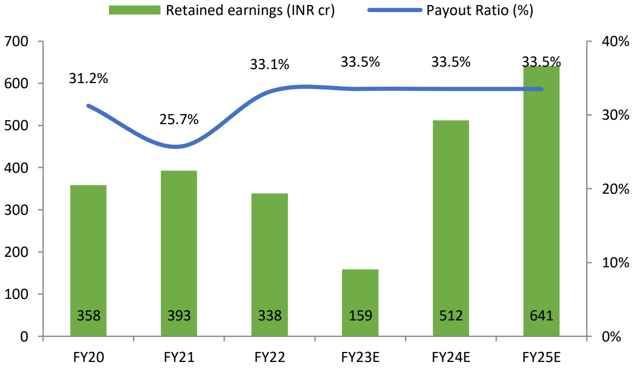


Exhibit 18: Dividend pay-out to be continue



Source: Company Reports, Arihant Capital Research

Story in Charts

Exhibit 19: Working capital as % of sales is expected to reduce going forward.

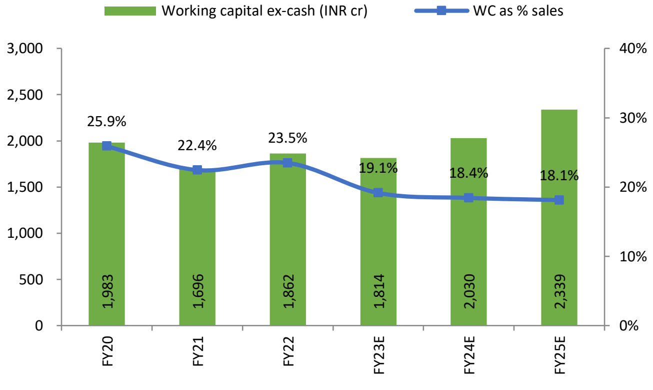


Exhibit 20: Freight & Forwarding charges are expected to be less than 2% of sales.

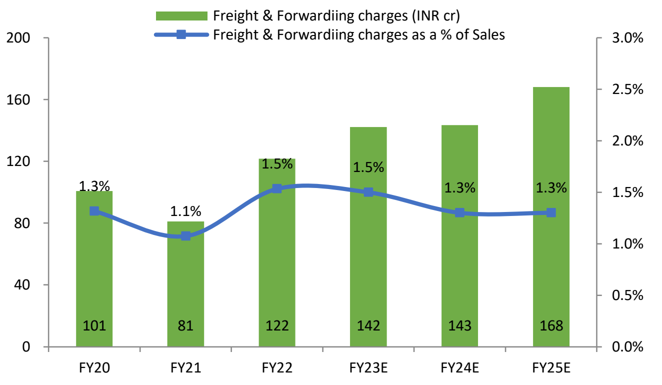


Exhibit 21: Advertising and promotion expenses are expected to be less than 1% of sales.

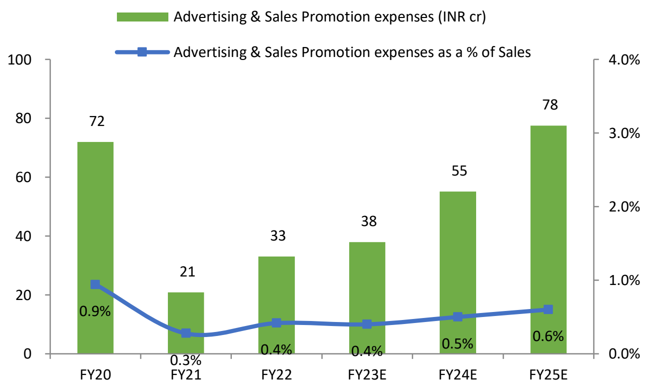


Exhibit 22: Outside service charges are expected to be less than 2% of sales.

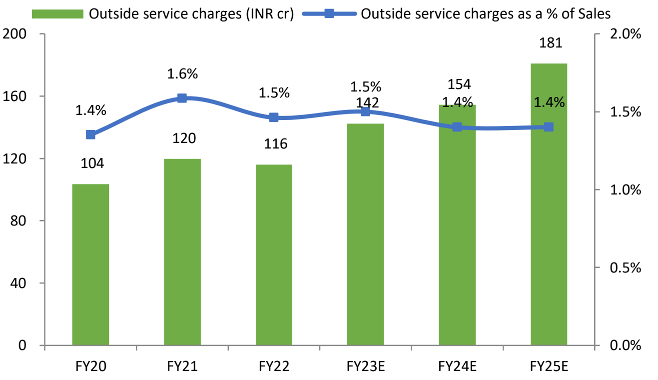


Exhibit 23: Clearing charges are expected to be less than 1% of sales.

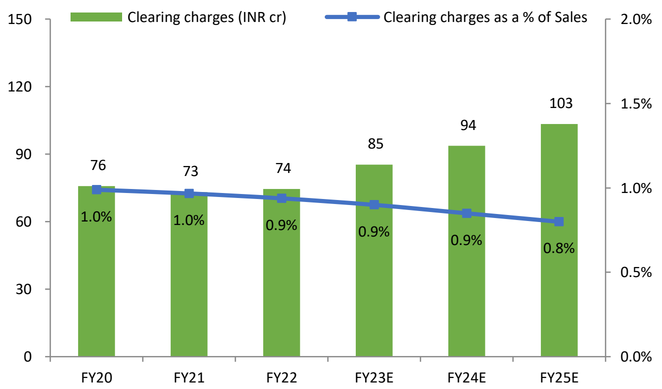
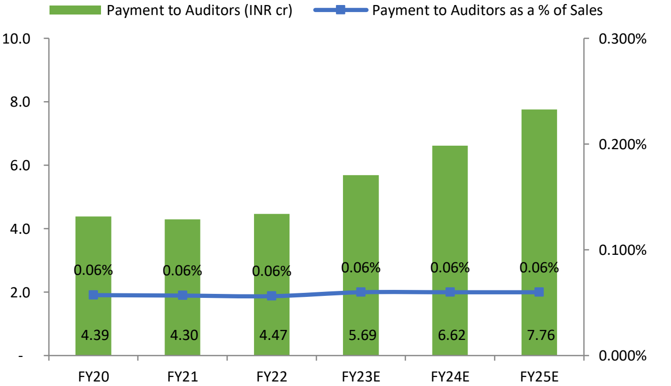


Exhibit 24: Payments to the auditors remain flat in-terms of sales.



Source: Company Reports, Arihant Capital Research

Peer Comparison

Exhibit 25: Blue star maintained RoCE over the period of FY17-22

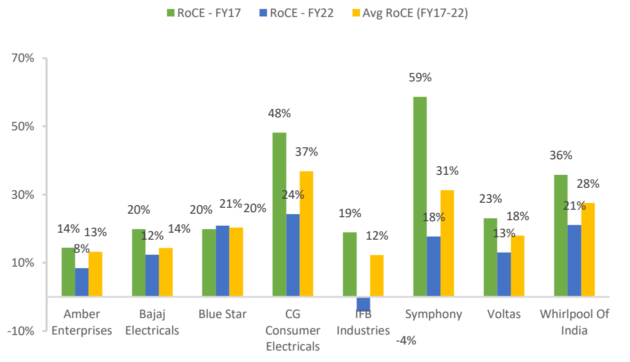


Exhibit 26: Blue star maintained RoE over the period of FY17-22

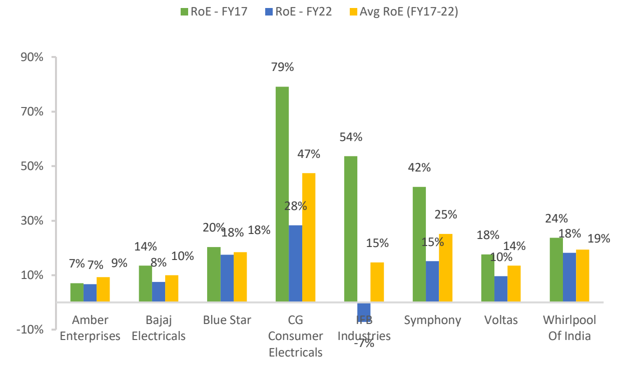


Exhibit 27: Voltas has generated 25% CAGR return over 14% of ROE during the period of FY17-FY22.

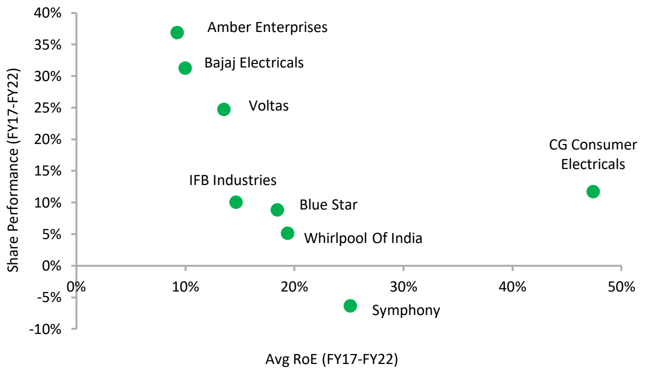


Exhibit 28: Voltas and Whirlpool was generated healthy RoA in the industry over the period of FY17-FY22.

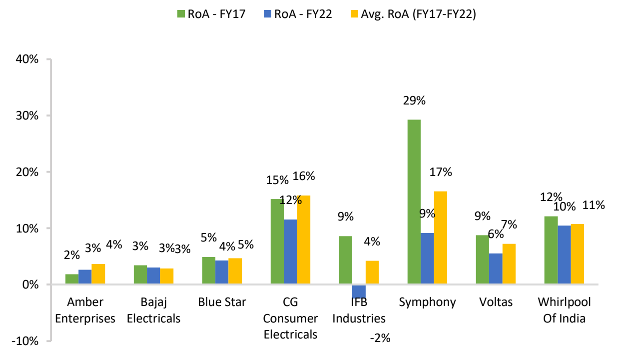


Exhibit 29: Blue Star witnessed RoCE expansion during the period of FY17-FY22.

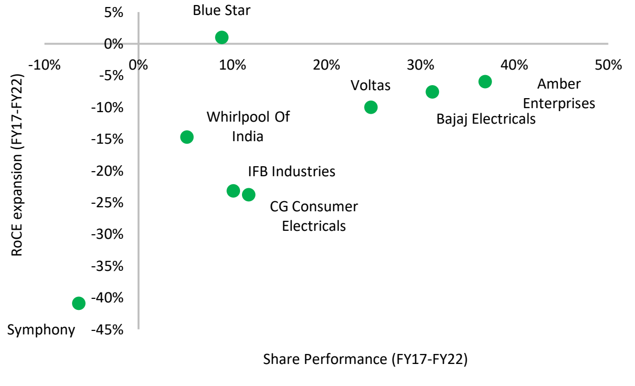
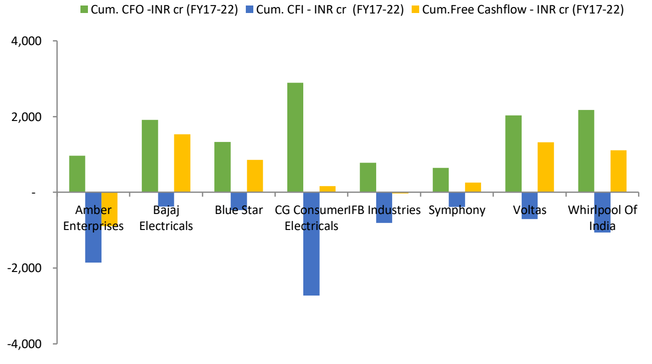


Exhibit 30: Voltas, Whirlpool, Blue Star and Bajaj Electricals generated healthy free cash flows over the period of FY17-FY22.



Source: Ace Equity, Arihant 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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