

Beat on top-line and EMP dragged overall performance

CMP: INR 1,093

Rating: HOLD

Target Price: INR 1,151

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)	36,156
52w H/L (INR)	1,101/745
Avg Yearly Volume (in 000')	1,436.4

Shareholding Pattern %

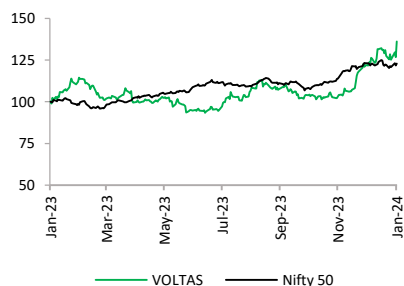
(As on Dec, 2023)

Promoters	30.30
DII	37.00
FII	17.18
Public & Others	15.32

Stock Performance (%)

	3m	6m	12m
VOLTAS	1.0	5.6	-4.0
NIFTY	0.8	3.6	11.3

Voltas vs Nifty



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Voltas Ltd reported numbers, Q3FY24 revenue grew by 30.9% YoY (+14.5% QoQ) to INR 2,626cr; above our estimates of INR 2,220cr. Gross Profit stood at INR 565cr (+17.2% YoY/+0.5% QoQ); below our estimates of INR 627cr; Gross margins contracted by 253 bps YoY (down by 300 bps QoQ) to 21.5% vs 24.1% in Q3FY23. The raw material cost in terms of sales stood at 78.5% vs 75.9% in Q3FY23. EBITDA stood at INR 28cr (-62.8% YoY/-59.6% QoQ); below our estimates of INR 135cr. EBITDA margin contracted by 273 bps YoY (down by 198 bps QoQ) to 1.1% vs 3.8% in Q3FY23. The projects business majorly impacted on EBITDA levels, especially from Qatar projects. PAT stood at INR -28cr (-202.6% YoY/-177.4% QoQ); below our estimates of INR 98cr, and PAT margin contracted by 239 bps YoY (down by 261 bps QoQ) to -1.1% vs 1.3% in Q3FY23.

Key Highlights

UCP witnessed steady growth along with margin improvement: Unitary Cooling Products (UCP) revenue stood at INR 1,476cr (+21.4% YoY/+22.1% QoQ); EBIT Stood at INR 123cr (+37.4% YoY/+32.5% QoQ). EBIT margin improved by 97 bps YoY (up by 65 bps QoQ) to 8.3% vs 7.4% in Q3FY23. The focus on the inverter category, product portfolio, and larger scale resulted in margin improvement. The company remained the market leader for RAC and market share stood at 19.2% as of YTD. The company launched water heaters in Q3FY24 and witnessed good acceptance. Commercial air conditioners, Chillers, VRF, and Packaged Air conditioners witnessed growth in the retail and healthcare sectors.

Continued pain on EMP: Electro-Mechanical Projects and Services revenue stood at INR 982cr (+51.4% YoY/+6.2% QoQ); EBIT Stood at INR -120cr vs INR -183cr in Q3FY23. EBIT margin stood at -12.2% vs -28.3% in Q3FY23. International business was impacted due to provision on account of delayed collections and cost overruns in international projects, especially in Qatar projects. The company is trying to retrieve the loss impact through legal ways. The legal activities would take 24-36 months. Project business is usual in other regions excluding Qatar. The Projects EBIT margins are around 4%-4.5%. The company is very selective on project intake and executions.

Sustained growth on EMS: Engineering Products and Services revenue stood at INR 155cr (+31.3% YoY/+15.1% QoQ); EBIT Stood at INR 50cr (+8.5% YoY/-7.5% QoQ). EBIT margin contracted by 677 bps YoY (down by 789 bps QoQ) to 32.2% vs 39% in Q3FY23. In Engineering products and services, the growth is majorly supported by increased demand for crushing and screening equipment, revival of the iron ore sector, and extensive infra spending. The demand for textile machinery was supported by sustained cotton prices and new crop arrivals. The investments in textile sectors, PLI schemes, and export demand would drive the Engineering products and services business going forward.

Outlook & Valuation: Voltas has a leadership position in the RAC segment and market share stood around 19.2% as of Dec-23. The portfolio expansion, strategic tie-up with partners and price calibrations would lead the RAC segment growth going forward. The international projects majorly impacted overall performance, especially Qatar projects and the pain on projects will continue for a few quarters. The company is in the progress of legal activities and it would take 24-36 months. The change in risk management policy from unconditional to conditional guarantees for projects will improve EMP segments gradually. 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, PLI schemes 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 are downgrading to "HOLD" (earlier "BUY") rating at a TP of INR 1,151 per share; valued based on SOTP; an upside of 5.3%.

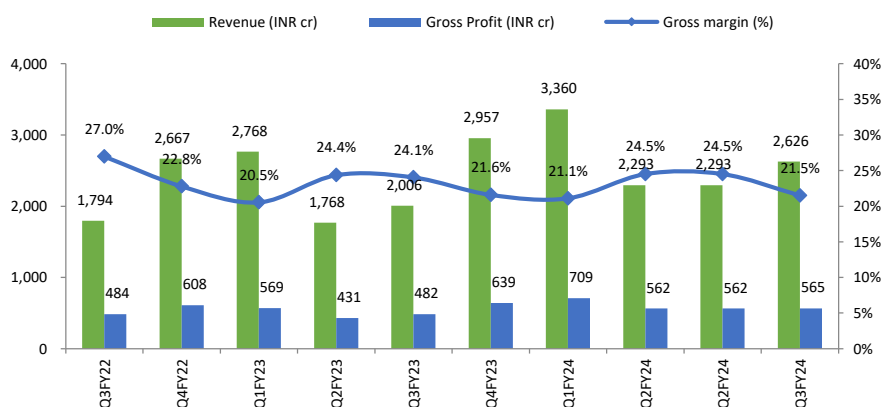
Q3FY24 Results

Income statement summary

Particular (INR cr)	Q3FY23	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Revenue	2,006	2,293	2,626	30.9%	14.5%
Net Raw Materials	1,523	1,731	2,060	35.3%	19.1%
Employee Cost	174	194	205	17.5%	5.2%
Other Expenses	232	298	332	43.3%	11.7%
EBITDA	76	70	28	-62.8%	-59.6%
EBITDA Margin (%)	3.8%	3.1%	1.1%	-273 bps	-198 bps
Depreciation	11	12	13		
Interest expense	6	11	14		
Other income	31	71	58		
Exceptional Items	-	-	-		
Share of profits associate & JV	(33)	(33)	(36)		
Profit before tax	57	85	24	-58.1%	-71.9%
Taxes	30	49	51		
Minorities and other	-	-	-		
PAT	27	36	(28)	-202.6%	-177.4%
PAT Margin	1.3%	1.6%	-1.1%	-239 bps	-261 bps
EPS (INR)	0.8	1.1	(0.8)		

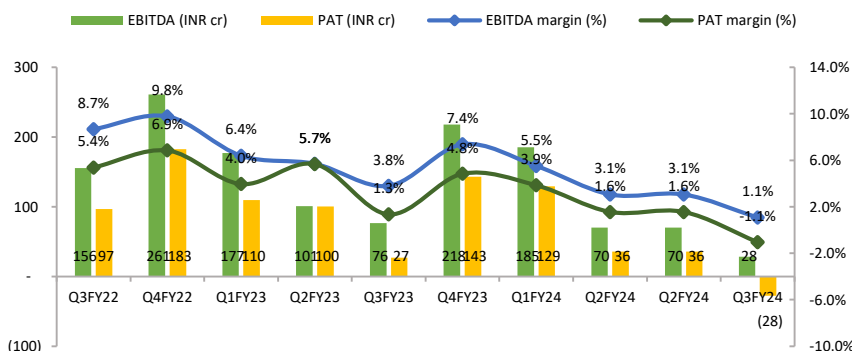
Source: Company Reports, Aриhant Capital Research

Exhibit 1: Gross margins contracted by 253 bps YoY (-300 bps QoQ) to 21.5% in Q3FY24 due to higher RM costs.



Source: Company Reports, Aриhant Capital Research

Exhibit 2: EBITDA margin contracted by 273 bps YoY (-198 bps QoQ) to 1.1% in Q3FY24 due to higher employee costs and other expenses.



Source: Company Reports, Aриhant Capital Research

Q3FY24 Concall Highlights**Volume growth**

- The volume growth of 27% YoY in Q3FY24, majorly drove the revenue. The strategic tie-ups with channel partners, price calibrations, and portfolio expansion resulted in volume growth in Q3FY24.
- The increase in sales is supported by the expansion of EBOs.

Market share

- The company remained the market leader for RAC and market share stood at 19.2% as of YTD.
- The refrigerators market share stood at 3.3% (+1% YoY) and the washing machine market share stood at 5.5% (+2.1% YoY) as of Dec-23.
- The semi-automatic washing machine market share stood at 12.2% as of Dec-23.

UCP

- Air coolers witnessed lower demand due to non-season time. Air coolers maintained 2nd position and have a market share of 8.9% (+170bps from FY23) as of Nov-23.
- The focus on the inverter category, product portfolio, and larger scale resulted in margin improvement on a QoQ basis.
- The company launched water heaters in Q3FY24 and witnessed good acceptance.

Commercial Air conditioning

- Commercial air conditioners, Chillers, VRF, and Packaged Air conditioners witnessed growth in the retail and healthcare sectors.
- The commercial air conditioning systems are expected to be impacted due to quality control order compliance.

EMP

- International business was impacted due to provision on account of delayed collections and cost overruns in international projects, especially in Qatar projects.
- The international projects will continue to face headwinds, few projects including FIFA projects are under stress due to delays in the realization of overdue receivables and extended execution timelines.
- The company is trying to retrieve the loss impact through legal ways. The legal activities would take 24-36 months.
- Project business is usual in other regions excluding Qatar. Projects EBIT margins are around 4%-4.5%.

Q3FY24 Concall Highlights**Order book**

- The domestic projects order inflow stood at INR 482cr as of Q3FY24. The order book stood at INR 5,275cr as of Q3FY24.
- International order book is around INR 2,500cr to INR 3,000cr. The overall order book is around INR 8,000cr.

Engineering products and services

- In Engineering products and services, the growth is majorly supported by increased demand for crushing and screening equipment, revival of the iron ore sector, and extensive infra spending.
- The demand for textile machinery was supported by sustained cotton prices and new crop arrivals.
- The investments in textile sectors, PLI schemes, and export demand would drive the Engineering products and services business going forward.

Voltas Beko

- Voltas Beko volumes crossed 4.5mn since launch. The volume growth witnessed 65% YoY in Q3FY24, the festive demand, supportive retail & e-commerce platform, and product management activities led to the premiumization of the overall portfolio.
- Voltas Beko's losses per unit are coming down.
- The company has received export orders from the overseas subsidiaries of its shareholder partners.

Price hike

- The small hike is possible due to energy efficiency. The company is majorly focused on product designing and value engineering instead of price hikes.

Other highlights

- UCP margin expansion through the RAC category.
- Domestic business improved due to the stability of commodity prices, the festive season, and operating leverage supported further.
- The company has availed a term loan to finance capacity expansion for both AC and commercial refrigerators. The investments are linked with the PLI scheme.

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	11,689	14,010	16,492
Net Raw Materials	5,555	5,578	5,897	7,378	9,102	10,773	12,584
Employee Cost	672	602	618	667	822	981	1,138
Other Expenses	745	734	739	881	1,402	1,523	1,664
EBITDA	687	641	682	572	364	733	1,107
EBITDA Margin (%)	9.0%	8.5%	8.6%	6.0%	3.1%	5.2%	6.7%
Depreciation	(32)	(34)	(37)	(40)	(42)	(56)	(68)
Interest expense	(21)	(26)	(26)	(30)	(49)	(71)	(70)
Other income	231	189	189	168	264	175	206
Exceptional Items	(51)	-	-	(244)	-	-	-
Share of profits associate & JV	(69)	(61)	(110)	(121)	(130)	-	-
Profit before tax	744	709	697	307	406	781	1,174
Taxes	(223)	(180)	(191)	(171)	(200)	(214)	(308)
PAT	521	529	506	136	207	567	866
PAT Margin (%)	6.8%	7.0%	6.4%	1.4%	1.8%	4.0%	5.3%
Other Comprehensive income	(190)	321	170	(38)	-	-	-
Total Comprehensive income	331	850	676	98	207	567	866
EPS (INR)	10.0	25.7	20.4	3.0	6.2	17.1	26.2

Source: Company Reports, Aриhant 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	5,556	5,933	6,510
Net worth	4,280	4,993	5,500	5,452	5,589	5,967	6,543
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
Total Liabilities	4,862	5,620	6,301	7,049	7,695	8,062	8,665
Fixed assets	240	238	230	361	767	1,005	1,243
Capital Work In Progress	26	9	59	98	44	56	34
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	3,507	3,502	4,123
Other non current assets	250	176	160	172	269	308	346
Net working capital	1,327	1,337	1,348	1,848	1,557	1,578	1,506
Inventories	1,469	1,280	1,661	1,592	1,970	2,273	2,551
Sundry debtors	1,834	1,801	2,110	2,192	2,658	3,109	3,479
Loans & Advances	2	2	3	1	4	4	5
Other current assets	1,316	1,290	1,019	1,294	1,505	1,689	1,898
Sundry creditors	(2,689)	(2,465)	(2,942)	(3,013)	(3,879)	(4,656)	(5,438)
Other current liabilities & Prov	(605)	(571)	(503)	(218)	(701)	(841)	(990)
Cash	308	459	572	708	772	693	344
Other Financial Assets	656	358	514	660	701	841	990
Total Assets	4,862	5,620	6,301	7,049	7,695	8,062	8,665

Source: Company Reports, Aриhant 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	406	781	1,174
Depreciation	32	34	37	40	42	56	68
Tax paid	(223)	(180)	(191)	(171)	(200)	(214)	(308)
Working capital Δ	(48)	(11)	(11)	(500)	291	(21)	72
Operating cashflow	505	552	533	(324)	540	602	1,007
Capital expenditure	(67)	(15)	(80)	(209)	(394)	(306)	(284)
Free cash flow	437	537	453	(533)	146	296	723
Equity raised	(188)	320	168	(1)	(0)	-	-
Investments	(702)	(990)	(376)	216	(384)	4	(621)
Others	676	373	(138)	(157)	(138)	(179)	(187)
Debt financing/disposal	(65)	42	107	812	485	(10)	(3)
Dividends paid	(163)	(136)	(168)	(183)	(69)	(190)	(290)
Other items	(9)	3	68	(17)	24	0	29
Net Δ in cash	(13)	150	113	137	63	(78)	(349)
Opening Cash Flow	321	308	459	572	708	772	693
Closing Cash Flow	308	459	572	708	772	693	344

Source: Company Reports, Aриhant Capital Research

Ratio analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)							
Revenue growth	7.5%	-1.3%	5.0%	19.7%	23.1%	19.9%	17.7%
Op profit growth	12.3%	-6.6%	6.3%	-16.0%	-36.5%	101.5%	51.0%
Profitability ratios (%)							
OPM	9.0%	8.5%	8.6%	6.0%	3.1%	5.2%	6.7%
Net profit margin	6.8%	7.0%	6.4%	1.4%	1.8%	4.0%	5.3%
RoCE	13.0%	11.4%	10.2%	4.7%	4.3%	7.9%	11.1%
RoNW	12.4%	11.4%	9.6%	2.5%	3.7%	9.8%	13.9%
RoA	10.7%	9.4%	8.0%	1.9%	2.7%	7.0%	10.0%
Per share ratios (INR)							
EPS	10.0	25.7	20.4	3.0	6.2	17.1	26.2
Dividend per share	4.9	4.1	5.1	5.5	2.1	5.7	8.8
Cash EPS	16.7	17.0	16.4	5.3	7.5	18.8	28.3
Book value per share	129.4	150.9	166.3	164.8	169.0	180.4	197.8
Valuation ratios (x)							
P/E	109.2	42.5	53.5	369.6	175.0	63.8	41.7
P/CEPS	65.4	64.3	66.6	205.6	145.3	58.0	38.7
P/B	8.4	7.2	6.6	6.6	6.5	6.1	5.5
EV/EBITDA	49.8	51.6	48.0	58.7	92.5	46.0	30.2
Payout (%)							
Dividend payout	31.2%	25.7%	33.1%	134.2%	33.5%	33.5%	33.5%
Tax payout	30.0%	25.4%	27.4%	55.6%	49.2%	27.4%	26.2%
Liquidity ratios							
Debtor days	87	88	90	83	76	75	73
Inventory days	84	90	91	80	71	72	70
Creditor days	133	136	136	122	111	117	120
WC Days	39	42	45	41	36	30	23
Leverage ratios (x)							
Interest coverage	31.0	23.2	24.9	18.0	6.5	9.6	14.7
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	2.8	1.5	1.3

Source: Company Reports, Aриhant Capital Research

Outlook & Valuation

Voltas has a leadership position in the RAC segment and market share stood around 19.2% as of Dec-23. The portfolio expansion, strategic tie-up with partners and price calibrations would lead the RAC segment growth going forward. The international projects majorly impacted overall performance, especially Qatar projects and the pain on projects will continue for a few quarters. The company is in the progress of legal activities and it would take 24-36 months. The change in risk management policy from unconditional to conditional guarantees for projects will improve EMP segments gradually. 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, PLI schemes 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 are downgrading to "HOLD" (earlier "BUY") rating at a TP of INR 1,151 per share; valued based on SOTP; an upside of 5.3%.

Voltas FY26E based implied valuation

	Electro Mechanical Projects	Engineering Products and Services	Unitary Cooling Products	Overall
FY26E EBITDA (INR cr)	161	257	1,020	
EV/EBITDA (x)	5.0x	10.0x	35.0x	
EV (INR cr)	805	2,567	35,714	39,086
Net Debt/(cash) (INR cr) - FY26E				997
Market Cap (INR cr)				38,089
Share outstanding (cr)				33
Value per share (INR)				1,151
CMP (INR)				1,093
Upside/Downside (%)				5.3%

Rating**HOLD**

Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 3: UCP is expected to grow at a CAGR of 18.7% over the period of FY23-FY26E. Margins are expected to normalise over medium term.

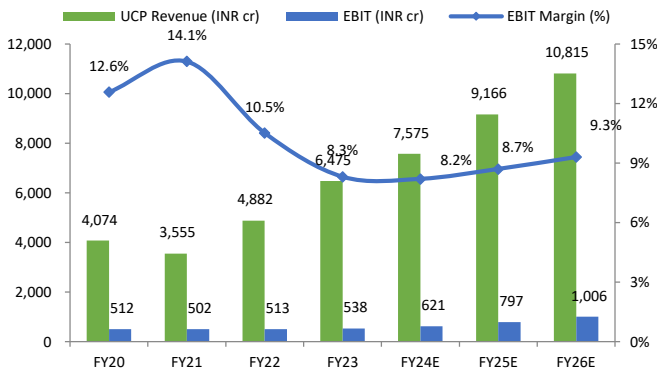


Exhibit 4: RAC market share stood at ~19.2% as of Dec-23. Voltas focused to bring back the market share to previous levels.

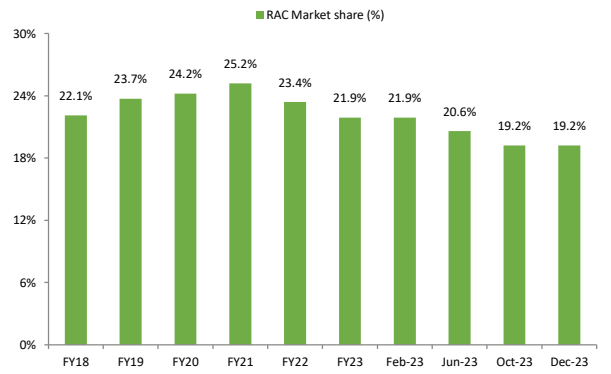


Exhibit 5: EMP profitability impacted due to provisions, delayed collections and is expected to normalise going forward.

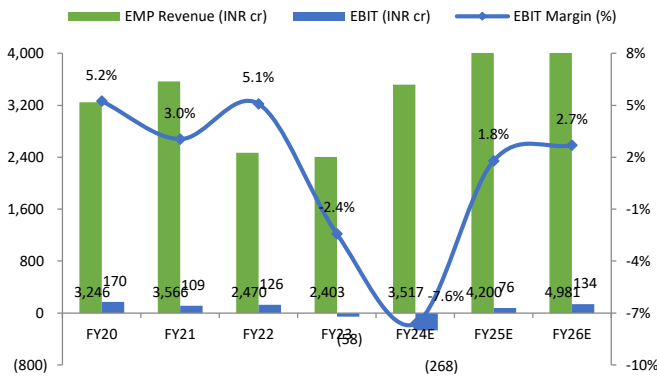


Exhibit 6: Textile investments, PLI and exports will boost EPS segment.

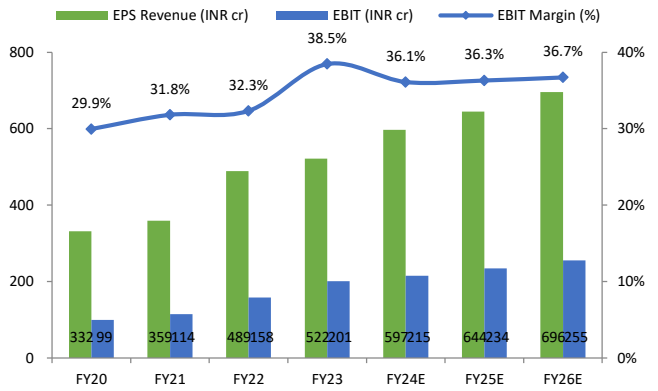


Exhibit 7: EMP order book stood around INR 8,000cr as of Q3FY24. Overseas order book is around INR 2,500cr to INR 3,000cr.

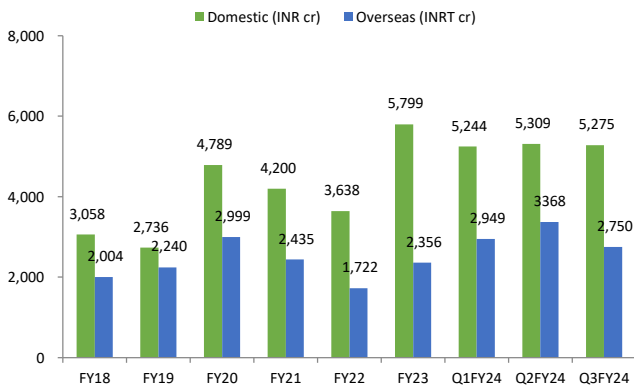
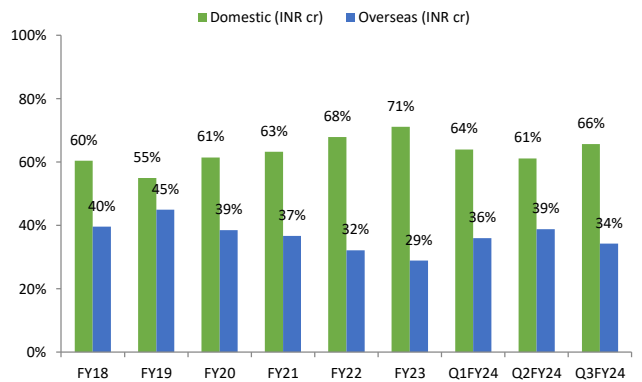


Exhibit 8: In EMP, Overseas projects accounted 34% as of Q3FY24.



Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 9: Revenue growth is expected to pick-up backed by Unitary cooling products.

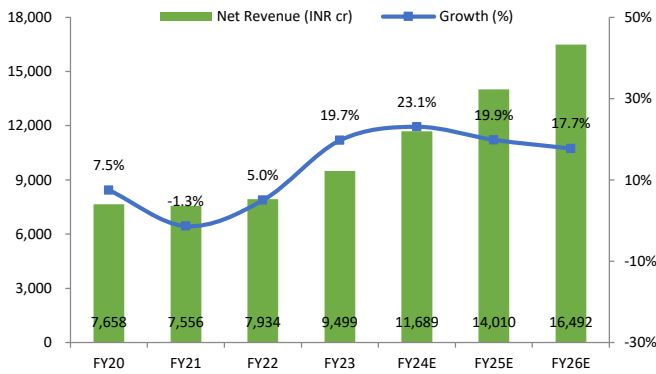


Exhibit 10: Stabilising raw material prices will improve gross margins.

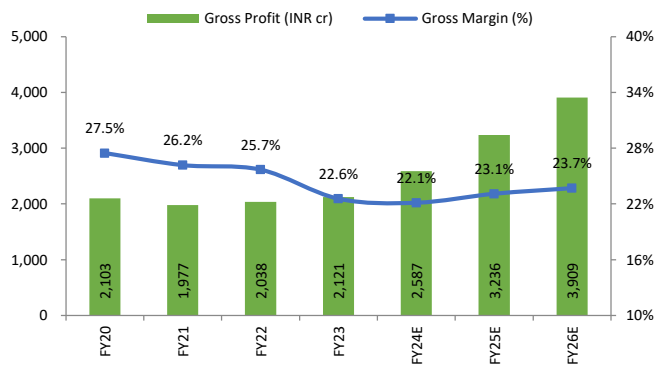


Exhibit 11: EBITDA and PAT margin is expected to improve from FY25E onwards.

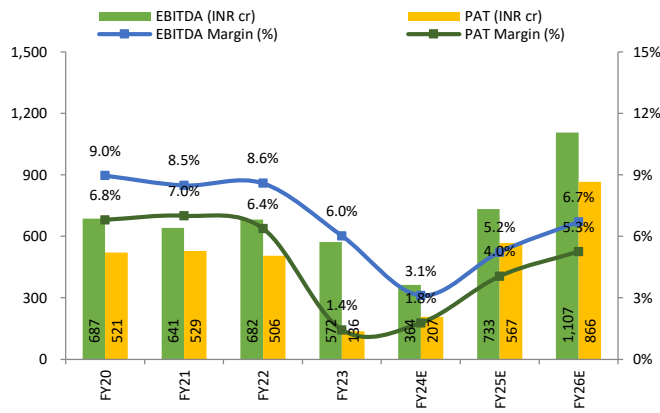


Exhibit 12: Return ratios is expected to improve from FY24 onwards.

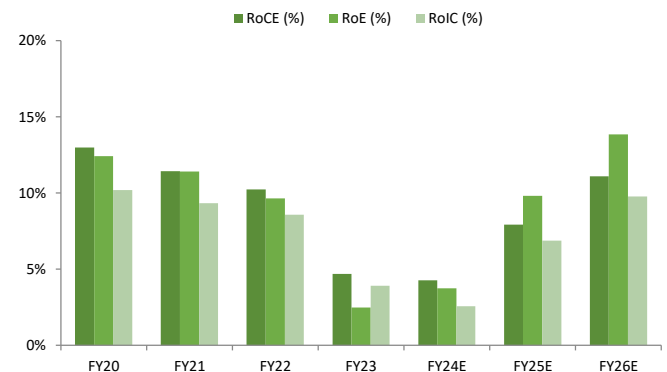


Exhibit 13: Working capital days to be improve

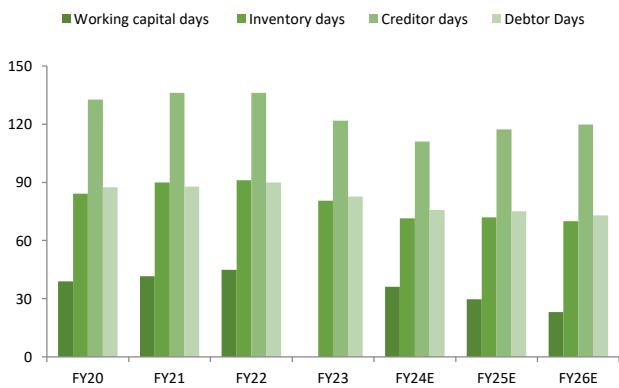
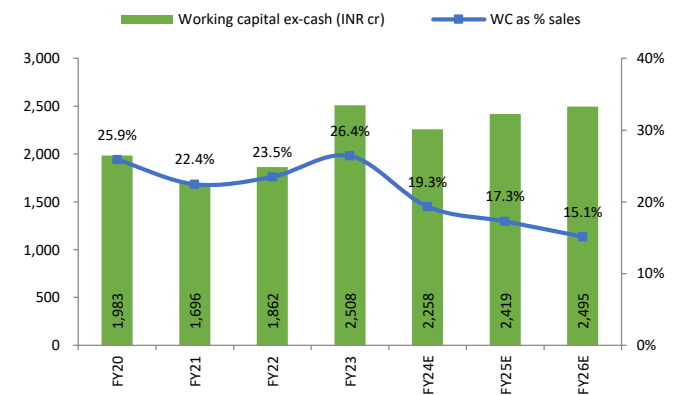


Exhibit 14: Working capital as % of sales is expected to reduce going forward.



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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