

In line with the topline; Provision continued on the EMP segment.

CMP: INR 808

Rating: BUY

Target Price: INR 1,129

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)	26,729
52w H/L (INR)	1,302/737
Avg Yearly Volume (in 000')	1,267

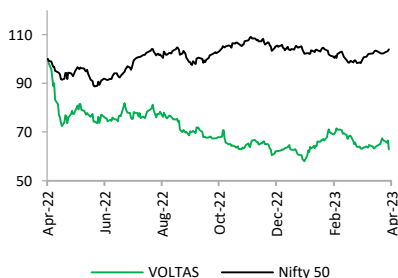
Shareholding Pattern %

(As on Mar, 2023)

Promoters	30.30
DII	33.14
FII	20.58
Public & Others	15.78

Stock Performance (%)	3m	6m	12m
VOLTAS	8.5	-7.5	-37.1
NIFTY	1.8	1.0	3.9

Voltas vs Nifty



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

Balasubramanian A
bala@arihantcapital.com
022-67114780

Voltas Ltd reported strong numbers, Q4FY23 revenue grew by 10.9% YoY (+47.4% QoQ) to INR 2,957cr vs our estimates of INR 2,950cr; backed by growth in all the verticals. Gross Profit stood at INR 639cr (+5.1% YoY/+32.4% QoQ) vs our estimates of INR 667cr; Gross margins contracted by 120 bps YoY (down by 246 bps QoQ) to 21.6% vs 22.8% in Q4FY22. The raw material cost in terms of sales stood at 78.4% vs 77.2% in Q4FY22. Raw material prices remain volatile, outsourcing has helped reduce costs to some extent. EBITDA stood at INR 218cr (-16.4% YoY/+185.7% QoQ) vs our estimates of INR 257cr. EBITDA margin contracted by 241 bps YoY (up by 357 bps QoQ) to 7.4% vs 9.8% in Q4FY22. PAT stood at INR 143cr (-21.6% YoY) vs our estimates of INR 210cr, and PAT margin contracted by 201 bps YoY to 4.8% vs 6.9% in Q4FY22.

Key Highlights

Steady growth witnessed in UCP segment: Unitary Cooling Products (UCP) revenue stood at INR 2,049cr (+12.7% YoY/+68.5% QoQ) vs our estimates of INR 2,046cr; EBIT Stood at INR 206cr (+7.2% YoY/+129.9% QoQ). EBIT margin contracted by 52 bps YoY (up by 268 bps QoQ) to 10% vs 10.6% in Q4FY22. The market share stood at 21.9% as of Feb-23, the market share reduction due to aggressive pricing and increased competition. However, Voltas continues to be a market leader and sustained its No. 1 position in the RAC market. The summer season with higher temperatures in March resulted in higher demand from consumers. Split inverter category AC is in higher demand due to energy cost and advanced features. The inverter category share increased from 63% to 75% in FY23. The company has expanded its inverter portfolio in the window category in the current season. Commercial refrigeration has continued growth backed by participation from retail chains and OEMs.

EMP segment witnessed pressure due to provisions: Electro-Mechanical Projects and Services revenue stood at INR 746cr (+7.8% YoY/+15% QoQ) vs our estimates of INR 741cr; EBIT Stood at INR -14cr and EBIT margin stood at -1.9% vs 6.9% in Q4FY22. The exceptional item of INR 244cr provision was made due to the termination of the contract and encashment of bank guarantees for two overseas projects in Dubai and Qatar, respectively in FY23. EMP order book stood at INR 8,155cr (+52.1% YoY) as of FY23, backed by domestic order inflows. The EMP projects will be executed in the next 2 to 3 years and margins are expected to be around 4% to 5%. The new project margins are in excess of 5%.

Margin improvement witnessed on EPS: Engineering Products and Services revenue stood at INR 142cr (+15.3% YoY/+20.7% QoQ) vs our estimates of INR 141cr; EBIT Stood at INR 56cr (+37% YoY/+21.6% QoQ). EBIT margin improved by 623 bps YoY (up by 392 bps QoQ) to 39.3% vs 33% in Q4FY22. The removal of Iron-ore export duty and increase in Infra will lead to demand for crushing and screening equipment. After-sales services supported overall growth and various innovative products introduced in FY23. The textile sector remains challenging due to the lower utilization of spinning mills, because of lower export orders and high raw material prices.

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 Capex for RAC and Commercial AC will lead to additional revenue going forward. Voltas has not taken any price hikes and there are no discounts offered to consumers. We believe Voltas will bring back normalization in EMP due to higher order inflows in domestic projects and market share loss is a temporary headwind and is expected to back previous levels over the medium term. We maintain our "BUY" rating at a TP of INR 1,129 per share; valued based on SOTP; an upside of 39.7%.

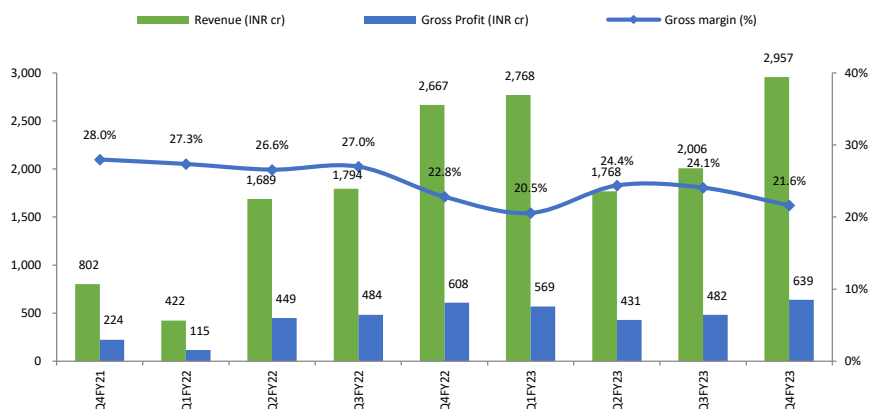
Q4FY23 Results

Income statement summary

Particular (INR cr)	Q4FY22	Q3FY23	Q4FY23	YoY (%)	QoQ (%)
Revenue	2,667	2,006	2,957	10.9%	47.4%
Net Raw Materials	2,059	1,523	2,318	12.6%	52.2%
Employee Cost	160	174	168	4.9%	-3.6%
Other Expenses	187	232	253	35.2%	8.9%
EBITDA	261	76	218	-16.4%	185.7%
EBITDA Margin (%)	9.8%	3.8%	7.4%	-2.41%	3.57%
Depreciation	9	11	10		
Interest expense	13	6	12		
Other income	37	31	47		
Exceptional Items	-	(137)	-		
Share of profits associate & JV	(29)	(33)	(28)		
Profit before tax	247	(80)	214	-13.6%	-365.8%
Taxes	65	30	71		
PAT	183	(110)	143	-21.6%	
PAT Margin (%)	6.9%	-5.5%	4.8%	-2.01%	10.35%
Other Comprehensive income	71.6	(16.2)	(195.5)		
Net profit	254	(127)	(52)	-120.5%	-58.8%
Net profit Margin (%)	9.5%	-6.3%	-1.8%	-11.30%	4.55%
EPS (INR)	5.5	(3.3)	4.3		

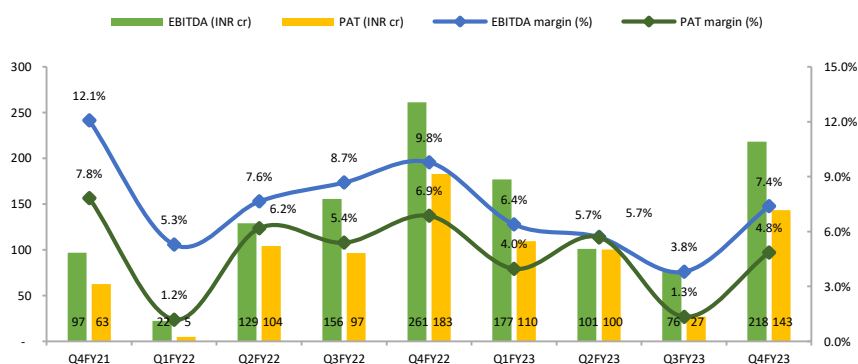
Source: Company Reports, Aриhant Capital Research

Exhibit 1: Commodity prices remain volatile, outsourcing has helped reduce costs to some extent. However gross margins fallen by 120bps to 21.6% in Q4FY23.



Source: Company Reports, Aриhant Capital Research

Exhibit 2: Employee cost and other expenses softened on a QoQ basis, leading to margin improvement on a QoQ basis.



Source: Company Reports, Aриhant Capital Research, Exceptional items are excluded in Q2FY23 and Q3FY23.

Q4FY23 Concall Highlights**Market Share**

- The market share stood at 21.9% as of Feb-23, the market share reduction due to aggressive pricing and increased competition.
- Air cooler market share stood at 9%.
- Voltas Beko's market share increased from 4.3% to 5.3% in Mar-23.
- The semi-automatic washing machine market share stood at 8.9% in Mar-23. The trail is underway for a fully automatic front-loaded washing machine.
- Bluestar and other brands are becoming stronger in the northern market and they are trying a pricing strategy to secure market share.
- Lloyd has increased its market share; Daikin is growing faster than Lloyd, Blue star also gained 0.5%-0.6% market share.

Margins

- In the UCP segment, high single-digit margins are expected on a sustainable basis.
- The EMP projects will be executed in the next 2 to 3 years and margins are expected to be around 4% to 5%. The new project margins are in excess of 5%.
- Commodity prices remain volatile, outsourcing has helped reduce costs to some extent.

Voltas Beko

- Voltas Beko witnessed 26% volume growth in Mar-23. Overall volume growth is around 15% to 18% in FY23.
- Voltas Beko topline around INR 1,000cr.
- Voltas Beko has sold 3.3mn units since launch. The expansion of distribution, focus on star-rated products, a wide range of SKUs, and In-house manufacturing led to growth.
- Frost-free refrigerator has been successfully launched in the current season.

Price hikes and discounts

- There is no price increase in Apr-23 and there is no discount given on products, while other brands have given discounts to consumers.

Capex

- The Capex is expected to be around INR 350cr to INR 500cr in the next 18 months.
- The Capex is for doubling AC capacity to 2mn units, Commercial refrigerators will double from 2.2mn units to 5.5mn units.

Unitary Cooling Products (UCP)

- The summer season with higher temperatures in March resulted in higher demand from consumers.
- The unseasoned rain has deferred demand for cooling products and some of the inventory was stuck in channel partner levels at the end of March due to unseasonal rain.

Q4FY23 Concall Highlights**Unitary Cooling Products (UCP)**

- Split inverter category AC is in higher demand due to energy cost and advanced features. The inverter category share increased from 63% to 75% in FY23. The company has expanded its inverter portfolio in the window category in the current season.
- Commercial refrigeration has continued growth backed by participation from retail chains and OEMs. The demand is witnessed for water coolers, water dispensers, and Visi coolers.
- The growing demand for light commercial & ductable products led to growth in commercial AC and margin improvements.

Electro-Mechanical Projects and Services (EMP)

- Domestic projects order inflow stood at INR 1,910cr (+125% YoY), due to a major order win of INR 1,200cr in Electrical.
- Domestic order book stood at INR 5,799cr which includes Water, HVAC, Rural Electrification, and Urban Infra activities. International order book stood at INR 2,356cr, majorly from UAE and Saudi Arabia regions. Total order book stood at INR 8,155cr (+52.1% YoY) as of FY23.
- The exceptional item of INR 244cr provision was made due to the termination of the contract and encashment of bank guarantees for two overseas projects in Dubai and Qatar, respectively.
- Most of the international old projects are in the completion stage and are expected to witness delays in certification and collection of the outstanding amounts.
- The company continues to focus on a risk-mitigated approach while selecting new orders.

Engineering Products and Services (EPS)

- In Mozambique, the growth is supported by a better average billing rate and a customer-focused approach.
- The removal of Iron-ore export duty and increase in Infra will lead to demand for crushing and screening equipment.
- The textile sector remains challenging due to the lower utilization of spinning mills because of lower export orders and high raw material prices.
- After-sales services supported overall growth and various innovative products introduced in FY23.

Other highlights

- China is the biggest manufacturer of compressors and has 90% of capacity at global levels. India is manufacturing less than 2.5 mn compressors, while the compressors requirement is around 10mn units.
- Voltas has terminated JV with Highly International, because it could not obtain the necessary government approvals.
- Air coolers revenue is less than 5%.
- The AC volumes units around 1.4mn units.
- The provisions might reverse in the next 18-24 months, if the legal case is in favor of the Voltas.

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	11,005	12,772	14,607
Net Raw Materials	5,555	5,578	5,897	7,378	8,298	9,592	10,911
Employee Cost	672	602	618	667	825	958	1,096
Other Expenses	745	734	739	881	1,012	1,139	1,303
EBITDA	687	641	682	572	869	1,083	1,297
EBITDA Margin (%)	9.0%	8.5%	8.6%	6.0%	7.9%	8.5%	8.9%
Depreciation	(32)	(34)	(37)	(40)	(46)	(61)	(76)
Interest expense	(21)	(26)	(26)	(30)	(51)	(51)	(50)
Other income	231	189	189	168	149	160	183
Exceptional Items	(51)	-	-	(244)	-	-	-
Share of profits associate & JV	(69)	(61)	(110)	(121)	-	-	-
Profit before tax	744	709	697	307	921	1,132	1,353
Taxes	(223)	(180)	(191)	(171)	(252)	(297)	(355)
Net profit	521	529	506	136	668	835	999
Reported Netprofit Margin (%)	6.8%	7.0%	6.4%	1.4%	6.1%	6.5%	6.8%
Other Comprehensive income	(190)	321	170	(38)	-	-	-
Net profit	331	850	676	98	668	835	999
EPS (INR)	10.0	25.7	20.4	3.0	20.2	25.2	30.2

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	5,863	6,419	7,083
Net worth	4,280	4,993	5,500	5,452	5,896	6,452	7,116
Minority Interest	36	36	38	42	42	42	42
Provisions	204	209	262	258	241	227	240
Debt	332	375	479	1,288	1,271	1,257	1,254
Other non-current liabilities	9	7	22	9	33	38	44
Total Liabilities	4,862	5,620	6,301	7,049	7,483	8,016	8,695
Fixed assets	240	238	230	361	813	1,109	1,423
Capital Work In Progress	26	9	59	98	46	61	38
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	3,302	3,193	3,652
Other non current assets	250	176	160	172	253	294	336
Net working capital	1,327	1,337	1,348	1,848	1,587	1,676	1,682
Inventories	1,469	1,280	1,661	1,592	1,796	2,024	2,212
Sundry debtors	1,834	1,801	2,110	2,192	2,503	2,869	3,201
Loans & Advances	2	2	3	1	3	4	4
Other current assets	1,316	1,290	1,019	1,294	1,417	1,645	1,881
Sundry creditors	(2,689)	(2,465)	(2,942)	(3,013)	(3,471)	(4,099)	(4,740)
Other current liabilities & Prov	(605)	(571)	(503)	(218)	(660)	(766)	(876)
Cash	308	459	572	708	743	839	609
Other Financial Assets	656	358	514	660	660	766	876
Total Assets	4,862	5,620	6,301	7,049	7,483	8,016	8,695

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	921	1,132	1,353
Depreciation	32	34	37	40	46	61	76
Tax paid	(223)	(180)	(191)	(171)	(252)	(297)	(355)
Working capital Δ	(48)	(11)	(11)	(500)	260	(88)	(6)
Operating cashflow	505	552	533	(324)	975	807	1,069
Capital expenditure	(67)	(15)	(80)	(209)	(446)	(371)	(368)
Free cash flow	437	537	453	(533)	529	437	701
Equity raised	(188)	320	168	(1)	(41)	(56)	(55)
Investments	(702)	(990)	(376)	216	(179)	108	(459)
Others	676	373	(138)	(157)	(82)	(147)	(152)
Debt financing/disposal	(65)	42	107	812	(17)	(14)	(3)
Dividends paid	(163)	(136)	(168)	(183)	(183)	(224)	(280)
Other items	(9)	3	68	(17)	7	(8)	18
Net Δ in cash	(13)	150	113	137	34	96	(230)
Opening Cash Flow	321	308	459	572	708	743	839
Closing Cash Flow	308	459	572	708	743	839	609

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%	15.9%	16.1%	14.4%
Op profit growth	12.3%	-6.6%	6.3%	-16.0%	51.9%	24.6%	19.8%
Profitability ratios (%)							
OPM	9.0%	8.5%	8.6%	6.0%	7.9%	8.5%	8.9%
Net profit margin	6.8%	7.0%	6.4%	1.4%	6.1%	6.5%	6.8%
RoCE	13.0%	11.4%	10.2%	4.7%	10.3%	11.4%	12.5%
RoNW	12.4%	11.4%	9.6%	2.5%	11.9%	13.5%	14.7%
RoA	10.7%	9.4%	8.0%	1.9%	8.9%	10.4%	11.5%
Per share ratios (INR)							
EPS	10.0	25.7	20.4	3.0	20.2	25.2	30.2
Dividend per share	4.9	4.1	5.1	5.5	5.5	6.8	8.5
Cash EPS	16.7	17.0	16.4	5.3	21.6	27.1	32.5
Book value per share	129.4	150.9	166.3	164.8	178.2	195.0	215.1
Valuation ratios (x)							
P/E	80.7	31.4	39.5	273.2	40.0	32.0	26.8
P/CEPS	48.3	47.5	49.2	152.0	37.4	29.8	24.9
P/B	6.2	5.4	4.9	4.9	4.5	4.1	3.8
EV/EBITDA	36.1	36.9	34.2	42.3	27.6	22.1	18.3
Payout (%)							
Dividend payout	31.2%	25.7%	33.1%	134.2%	27.4%	26.8%	28.0%
Tax payout	30.0%	25.4%	27.4%	55.6%	27.4%	26.2%	26.2%
Liquidity ratios							
Debtor days	87	88	90	83	78	77	76
Inventory days	84	90	91	80	75	73	71
Creditor days	133	136	136	122	117	118	121
WC Days	39	42	45	41	36	31	25
Leverage ratios (x)							
Interest coverage	31.0	23.2	24.9	18.0	16.1	20.2	24.3
Net debt / equity	0.0	-0.0	-0.0	0.1	0.1	0.1	0.1
Net debt / op. profit	0.0	-0.1	-0.1	1.0	0.6	0.4	0.5

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)	81	222	1,002	
EV/EBITDA (x)	5.0x	10.0x	35.0x	
EV (INR cr)	403	2,223	35,069	37,695
Net Debt/(cash) (INR cr) - FY25E				345
Market Cap (INR cr)				37,350
Share outstanding (cr)				33
Value per share (INR)				1,129
CMP (INR)				808
Upside/Downside (%)				39.7%

Rating

BUY

Source: Company Reports, Arianth Capital Research

Voltas vs Peers

Exhibit 3: Voltas is expected to grow 18%-20% CAGR over the period of FY23-FY25E.

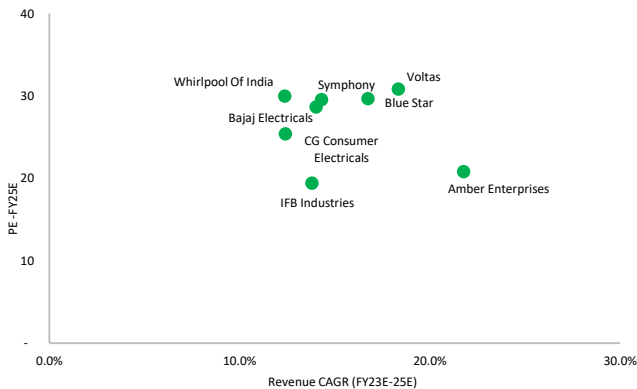


Exhibit 4: Voltas is expected to reach 9%-9.5% EBITDA margin by FY25E.

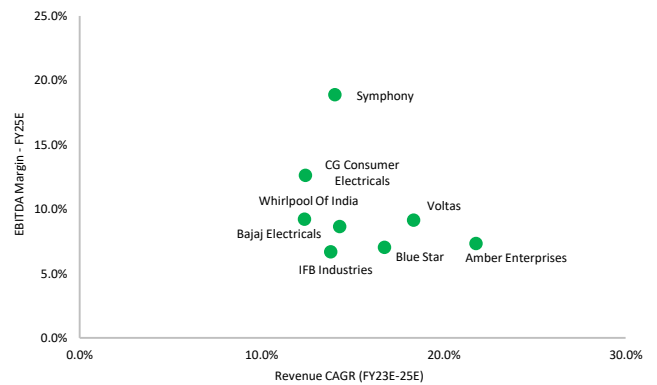


Exhibit 5: Margin improvements are expected in consumer durable companies going forward.

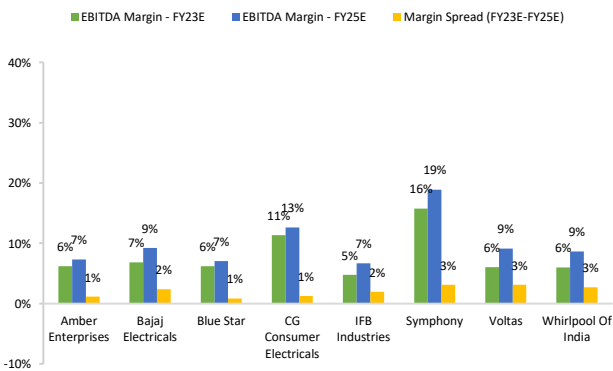
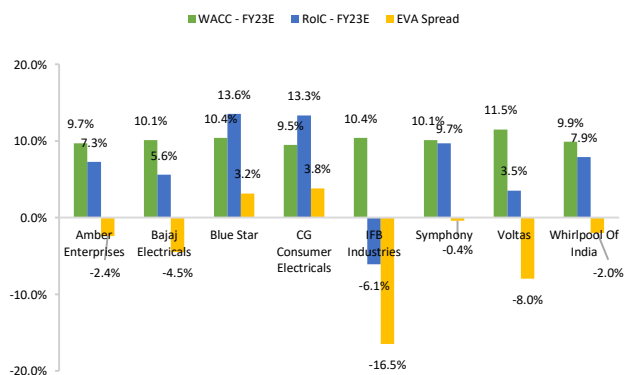


Exhibit 6: Blue Star and CG consumer has positive EVA spread in FY23E. Voltas and Whirlpool's RoIC is expected to improve going forward.



Source: Bloomberg Estimates, Arianth Capital Research

Story in Charts

Exhibit 7: UCP is expected to grow at a CAGR of 23% over the period of FY23-FY25E. Margins are expected to normalise over medium term.

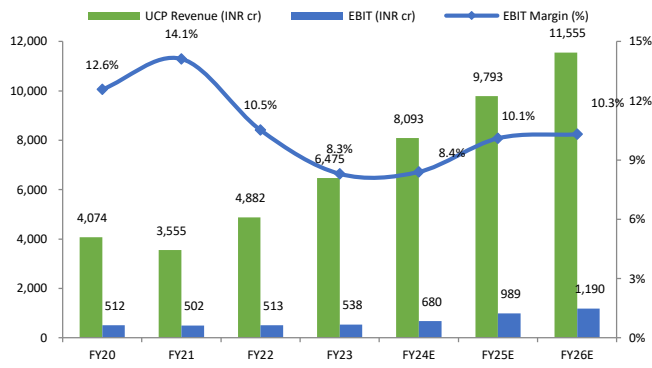


Exhibit 8: RAC market share stood at 21.9% as of Feb-23. Voltas focused to bring back the market share to previous levels.

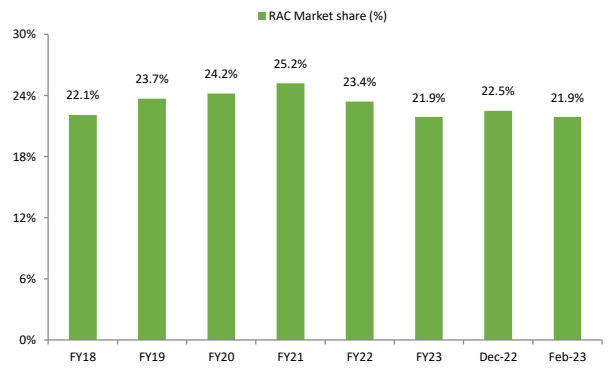


Exhibit 9: EMP profitability impacted due to provisions and expected to normalise going forward.

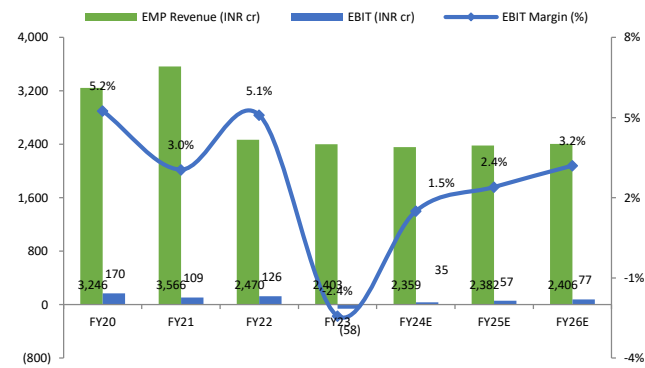


Exhibit 10: Export duty removal will boost EPS segment.

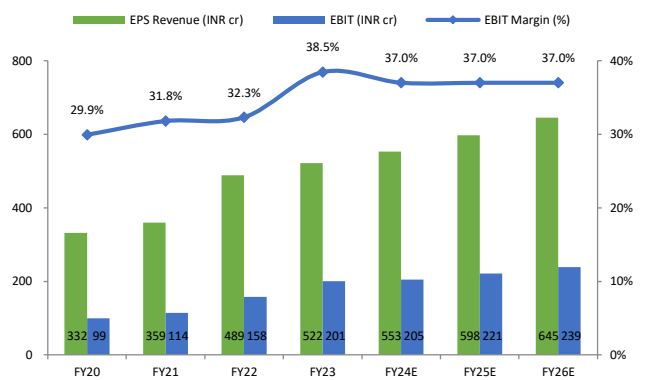


Exhibit 11: EMP business has a healthy order book as of FY23. Domestic order-book witnessed all-time high over past 6 years.

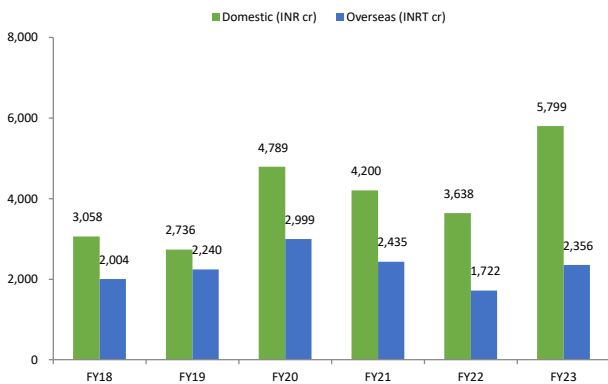
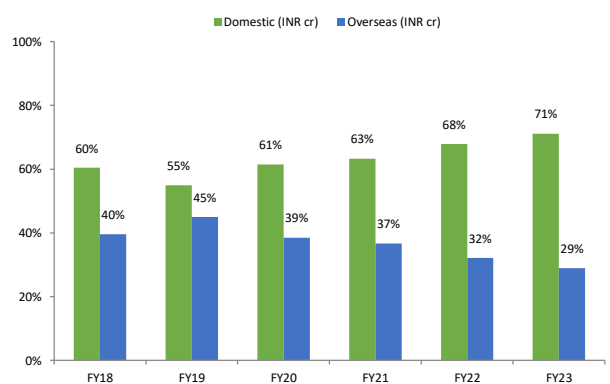


Exhibit 12: In EMP, Overseas projects accounted 29% and most of the old projects are completion stage in near future. The company has reduced order inflows in overseas projects due to risk policy.



Source: Company Reports, Arianth Capital Research

Story in Charts

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

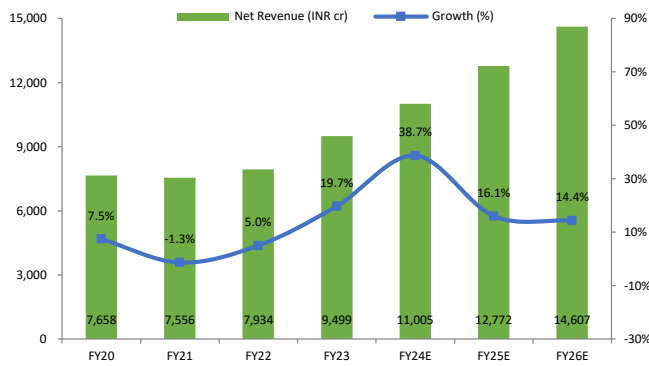


Exhibit 14: Commodity prices remain volatile, outsourcing has helped reduce costs to some extent. Softening of raw material prices will improve gross margins.

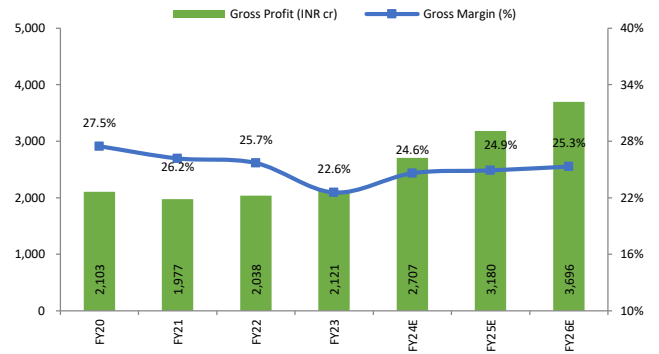


Exhibit 15: EBITDA and PAT margin is expected to improve from FY24 onwards.

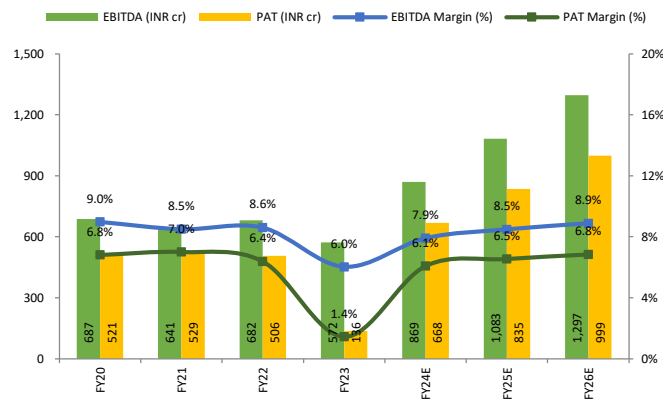


Exhibit 16: Return ratios is expected to improve from FY24 onwards.

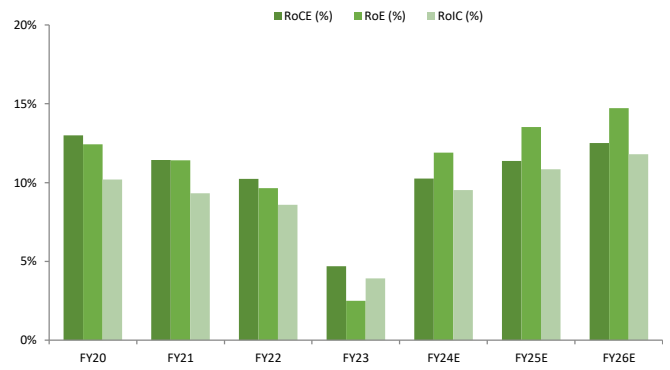


Exhibit 17: Working capital days to be improve

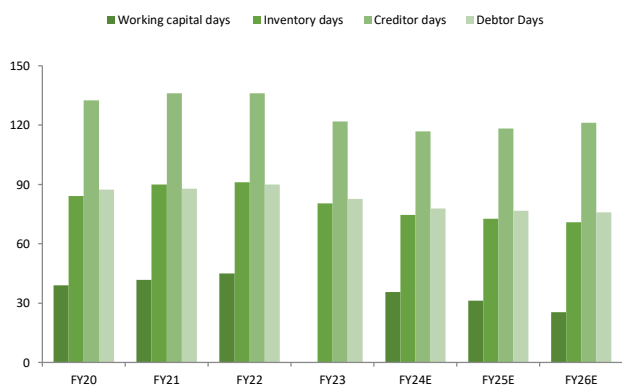
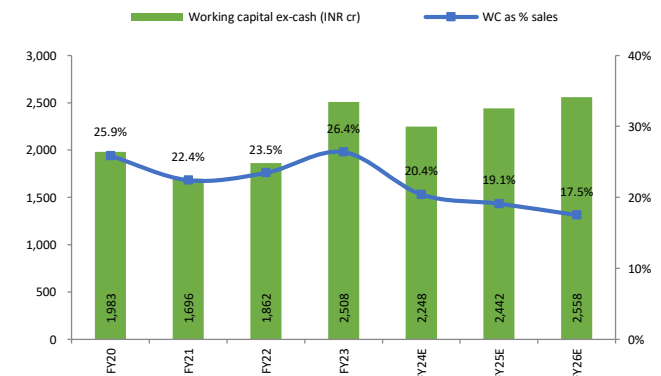


Exhibit 18: Working capital as % of sales is expected to reduce going forward.



Source: Company Reports, Arianth Capital Research

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

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