

Margin benefits are expected from Q4FY23 onwards.

CMP: INR 819

Rating: BUY

Target Price: INR 1,148

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)	1,348/804
Avg Yearly Volume (in 000')	1,147.1

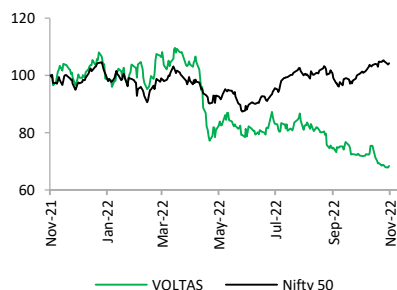
Shareholding Pattern %

(As on Sep, 2022)

Promoters	30.30
DII	29.62
FII	24.37
Public & Others	15.69

Stock Performance (%)	3m	6m	12m
VOLTAS	-15.6	-17.2	-31.7
NIFTY	4.3	12.5	4.2

Voltas Vs Nifty



Abhishek Jain

abhishek.jain@arihantcapital.com
022-422548871

Balasubramanian A

bala@arihantcapital.com

Voltas Ltd is engaged in the business of air conditioning, refrigeration, and electro-mechanical projects. The product portfolio includes Room air conditioners, Air coolers, Air purifiers, Water dispensers, Water coolers, commercial products, etc. The company is the market leader in RAC and has ~24% market share in the RAC segment as of Q2FY23. The company has a strong distribution network with more than 25,000 customer touchpoints.

Investment Rationale

Maintaining a leadership position in the RAC segment: Voltas has ~24% market share in the RAC segment and holds the No 1 position in market share and 750 bps higher than the 2nd player. The company has focused to achieve a 25% market share over the short-term to medium term. 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.

Focusing on localization and margin benefits are expected from Q4FY23 onwards: Voltas has focused on localizing around 40% of raw materials and major products such as heat exchangers, motors, and compressors to some extent. Commodity prices are softening and 50 bps to 60 bps margin benefits are expected in Q4FY23.

Continued investments and Capex for compressors: Voltas has Capex investments of around INR 500cr in FY23 to increase the Chennai plant's capacity of ACs and commercial refrigerators. The company also additionally investing INR 500cr for a compressor plant in partnership with China's Highly International. The compressor plant will reduce imports from China.

Domestic projects witnessed traction in EMP: In the Electro-Mechanical segment, the Domestic project's business witnessed better traction in order booking including potential pipeline aggregating INR 950cr. The domestic order book stood at INR 3,866cr which consists of Water, HVAC, Rural Electrification, and Urban infra. The international order book stood at INR 2,110cr. The current margin is around 2.6% and is expected to improve to 5% based on customer behavior and acceptance.

Export duty removal leads to boosting engineering products and services: The government has withdrawn export duty on Iron ore lumps and fines below 58% Fe content and iron ore pellets. Export of Iron ore lumps and fines above 58% Fe content and iron ore pellets reduced from 58% to 30%. 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 softening of RM costs will lead to margin benefits from Q4FY23 onwards. The Capex for compressors will reduce the imports and move towards localization going forward. We have a "BUY" rating at a TP of INR 1,148 per share; valued based on SOTP; an upside of 40.1%.

Financial Statements

Income statement summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	7,658	7,556	7,934	9,372	10,900	12,778
Net Raw Materials	5,555	5,578	5,897	7,142	8,121	9,418
Employee Cost	672	602	618	740	839	984
Other Expenses	745	734	739	872	972	1,140
EBITDA	687	641	682	619	968	1,237
EBITDA Margin (%)	9.0%	8.5%	8.6%	6.6%	8.9%	9.7%
Depreciation	(32)	(34)	(37)	(42)	(63)	(80)
Interest expense	(21)	(26)	(26)	(28)	(27)	(27)
Other income	231	189	189	197	183	192
Exceptional Items	(51)	-	-	(106)	-	-
Share of profits associate & JV	(69)	(61)	(110)	-	-	-
Profit before tax	744	709	697	639	1,061	1,321
Taxes	(223)	(180)	(191)	(167)	(277)	(345)
PAT	521	529	506	472	784	977
PAT Margin (%)	6.8%	7.0%	6.4%	5.0%	7.2%	7.6%
Other Comprehensive income	(190)	321	170	-	-	-
Net profit	331	850	676	472	784	977
EPS (INR)	10	26	20	14	24	30

Source: Company Reports, Arianth 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	5,797	6,346	7,029
Net worth	4,280	4,993	5,500	5,830	6,379	7,062
Minority Interest	36	36	38	38	38	38
Provisions	204	209	262	205	194	210
Debt	332	375	479	462	448	445
Other non-current liabilities	9	7	22	28	33	38
Total Liabilities	4,862	5,620	6,301	6,564	7,092	7,794
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	3,280	3,052	3,195
Other non current assets	250	176	160	216	251	294
Net working capital	1,327	1,337	1,348	1,230	1,353	1,545
Inventories	1,469	1,280	1,661	1,663	1,713	1,909
Sundry debtors	1,834	1,801	2,110	2,157	2,479	2,801
Loans & Advances	2	2	3	3	3	4
Other current assets	1,316	1,290	1,019	1,207	1,404	1,645
Sundry creditors	(2,689)	(2,465)	(2,942)	(3,238)	(3,592)	(4,047)
Other current liabilities & Prov	(605)	(571)	(503)	(562)	(654)	(767)
Cash	308	459	572	407	610	536
Other Financial Assets	656	358	514	562	654	767
Total Assets	4,862	5,620	6,301	6,564	7,092	7,794

Source: Company Reports, Arianth Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	744	709	697	639	1,061	1,321
Depreciation	32	34	37	42	63	80
Tax paid	(223)	(180)	(191)	(167)	(277)	(345)
Working capital Δ	(48)	(11)	(11)	118	(123)	(193)
Operating cashflow	505	552	533	632	724	864
Capital expenditure	(67)	(15)	(80)	(542)	(366)	(366)
Free cash flow	437	537	453	91	358	499
Equity raised	(188)	320	168	-	0	-
Investments	(702)	(990)	(376)	58	228	(143)
Others	676	373	(138)	(104)	(127)	(156)
Debt financing/disposal	(65)	42	107	(17)	(14)	(3)
Dividends paid	(163)	(136)	(168)	(142)	(235)	(293)
Other items	(9)	3	68	(51)	(7)	22
Net Δ in cash	(13)	150	113	(165)	203	(74)
Opening Cash Flow	321	308	459	572	407	610
Closing Cash Flow	308	459	572	407	610	536

Source: Company Reports, Arianth Capital Research

Ratio analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)						
Revenue growth	7.5%	-1.3%	5.0%	18.1%	16.3%	17.2%
Op profit growth	12.3%	-6.6%	6.3%	-9.2%	56.5%	27.8%
Profitability ratios (%)						
OPM	9.0%	8.5%	8.6%	6.6%	8.9%	9.7%
Net profit margin	6.8%	7.0%	6.4%	5.0%	7.2%	7.6%
RoCE	13.0%	11.4%	10.2%	9.0%	11.9%	13.5%
RoNW	12.4%	11.4%	9.6%	8.3%	12.8%	14.5%
RoA	10.7%	9.4%	8.0%	7.2%	11.1%	12.5%
Per share ratios (INR)						
EPS	10.0	25.7	20.4	14.3	23.7	29.5
Dividend per share	4.9	4.1	5.1	4.3	7.1	8.9
Cash EPS	16.7	17.0	16.4	15.5	25.6	32.0
Book value per share	129.4	150.9	166.3	176.2	192.8	213.5
Valuation ratios (x)						
P/E	81.8	31.9	40.1	57.4	34.6	27.7
P/CEPS	49.0	48.1	49.9	52.7	32.0	25.6
P/B	6.3	5.4	4.9	4.6	4.2	3.8
EV/EBITDA	36.6	37.5	34.7	38.6	24.7	19.2
Payout (%)						
Dividend payout	31.2%	25.7%	33.1%	30.0%	30.0%	30.0%
Tax payout	30.0%	25.4%	27.4%	26.1%	26.1%	26.1%
Liquidity ratios						
Debtor days	87	88	90	83	78	75
Inventory days	84	90	91	85	76	70
Creditor days	133	136	136	129	125	121
WC Days	39	42	45	39	28	25
Leverage ratios (x)						
Interest coverage	31.0	23.2	24.9	20.4	33.1	43.1
Net debt / equity	0.0	-0.0	-0.0	0.0	-0.0	-0.0
Net debt / op. profit	0.0	-0.1	-0.1	0.1	-0.2	-0.1

Source: Company Reports, Arianth Capital Research

SOTP Valuation

Voltas FY25E based implied valuation

	Electro Mechanical Projects	Engineering Products and Services	Unitary Cooling Products	Overall
FY25E EBITDA (INR cr)	106	230	1,151	
EV/EBITDA (x)	10.0x	10.0x	30.0x	
EV (INR cr)	1,058	2,300	34,520	37,879
Net Debt/(cash) (INR cr) - FY25E				-91
Market Cap (INR cr)				37,970
Share outstanding (cr)				33
Value per share (INR)				1,148
CMP (INR)				819
Upside/Downside (%)				40.1%

Rating

BUY

Source: Company Reports, Arianth Capital Research

Voltas vs Peers

Exhibit 1: Voltas and Whirlpool are expected to grow 15%-16% CAGR over the period of FY22-FY25E.

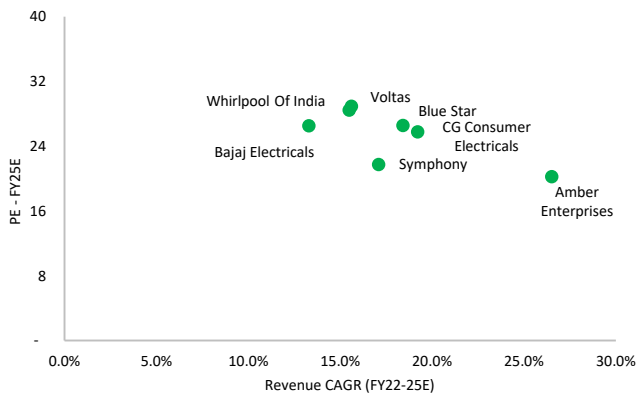


Exhibit 2: Voltas and Whirlpool are expected to reach ~10% EBITDA margin in FY25E.

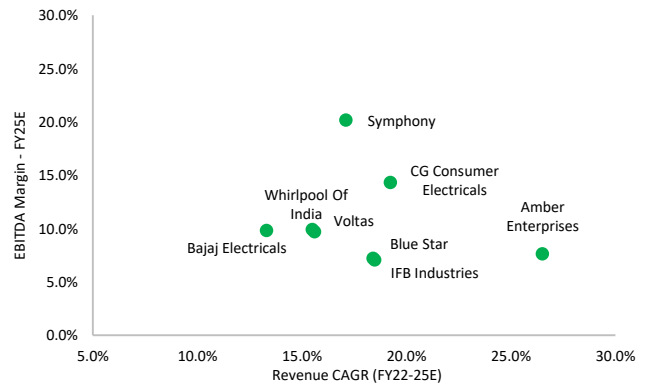


Exhibit 3: Voltas and Whirlpool margin improvements are expected going forward.

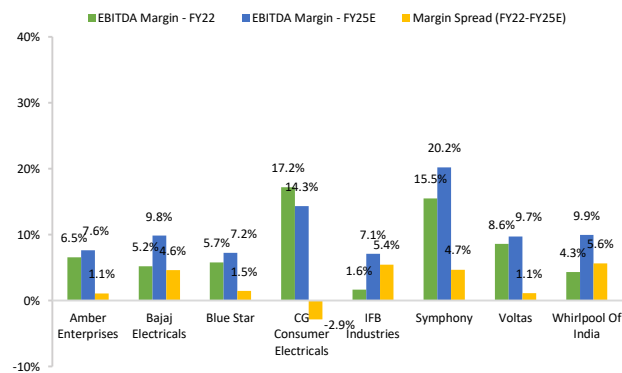
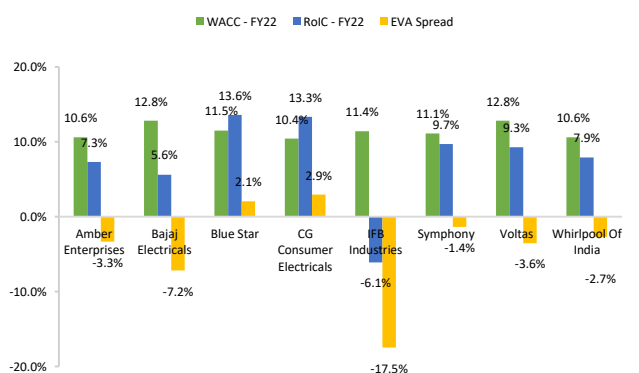


Exhibit 4: Blue Star and CG consumer has positive EVA spread in FY22. Voltas and Whirlpool's RoIC is expected to improve going forward.



Source: Bloomberg Estimates, Arianth Capital Research

Story in Charts

Exhibit 5: Revenue growth is expected to pick-up backed by Unitary cooling products.

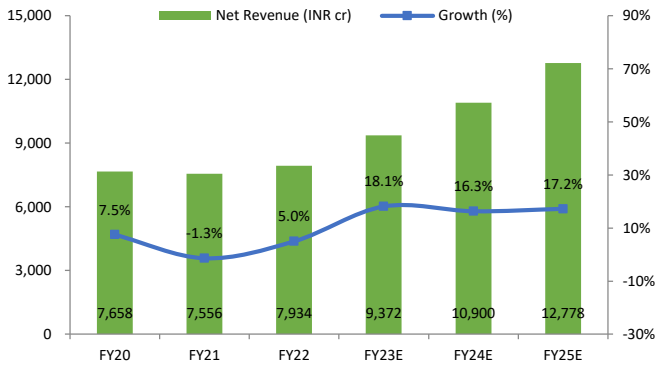


Exhibit 6: Softening of raw material prices will improve gross margins. Around 50-60 bps margin benefits are expected in Q4FY23 and margins further improve from FY24 onwards.

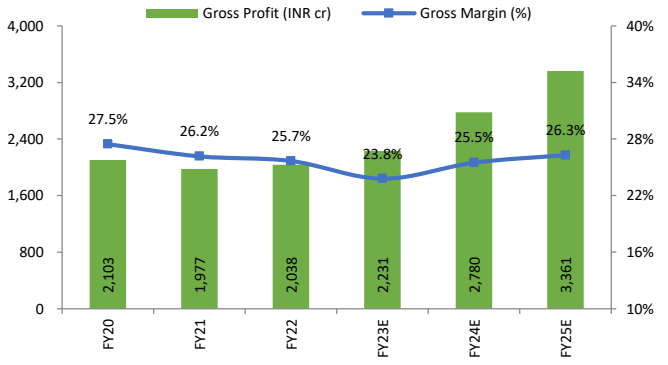


Exhibit 7: EBITDA and PAT margin is expected to improve from FY24 onwards.

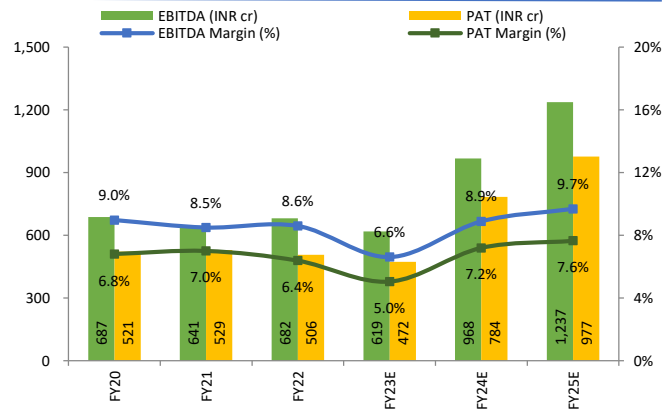


Exhibit 8: Return ratios is expected to improve from FY24 onwards.

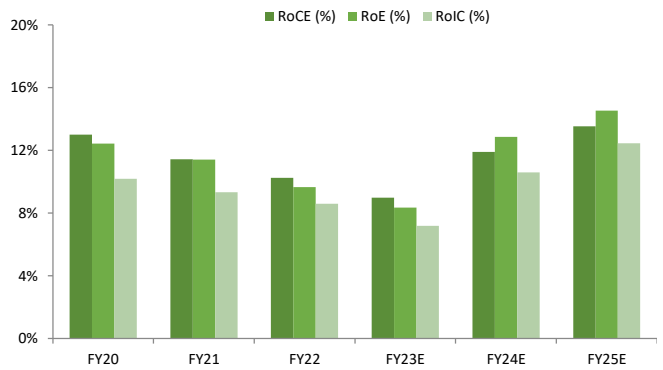


Exhibit 9: Working capital days to be improve

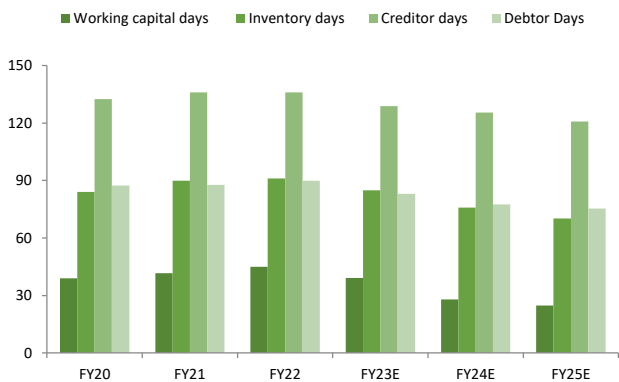
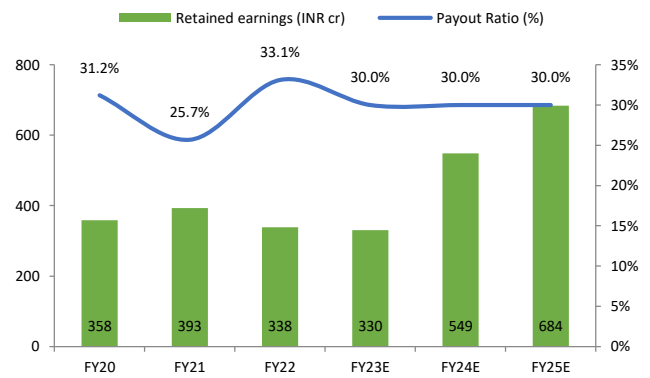


Exhibit 10: Dividend pay-out to be continue



Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 11: Working capital as % of sales is expected to reduce going forward.

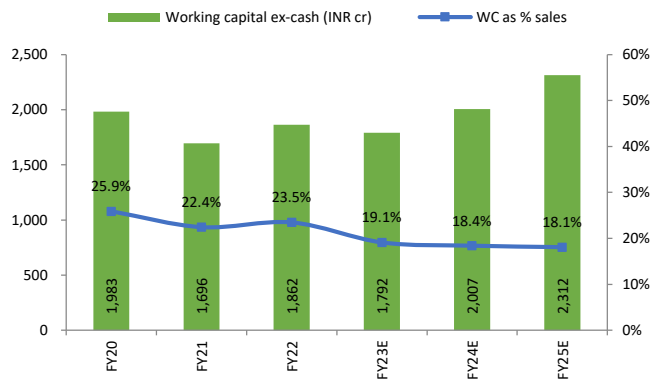


Exhibit 12: Freight & Forwarding charges are expected to be less than 2% of sales.

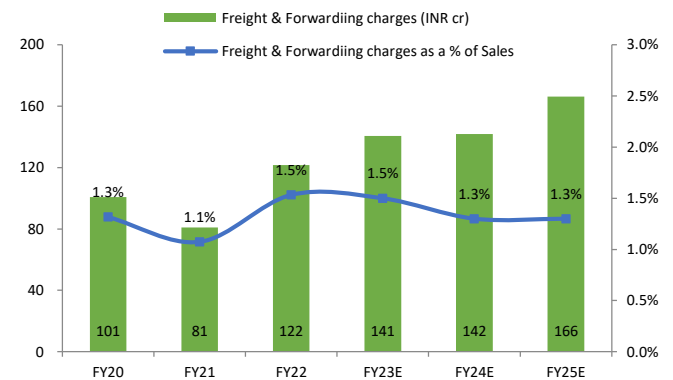


Exhibit 13: Advertising and promotion expenses are expected to be less than 1% of sales.

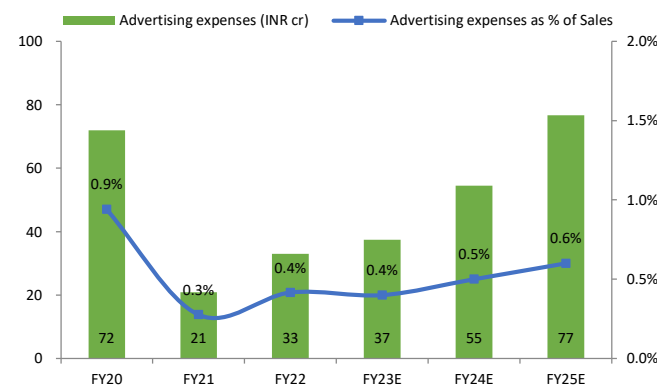


Exhibit 14: Outside service charges are expected to be less than 2% of sales.

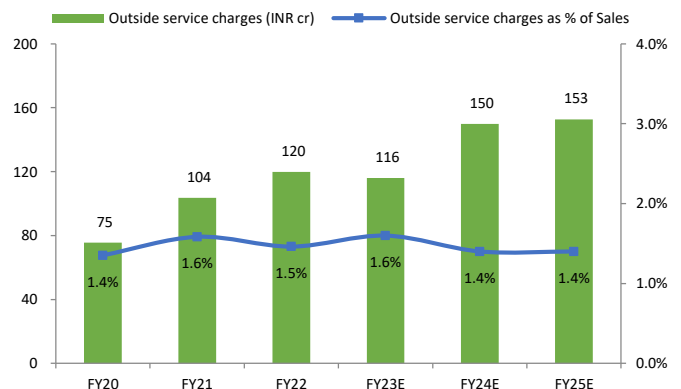


Exhibit 15: Clearing charges are expected to be less than 1% of sales.

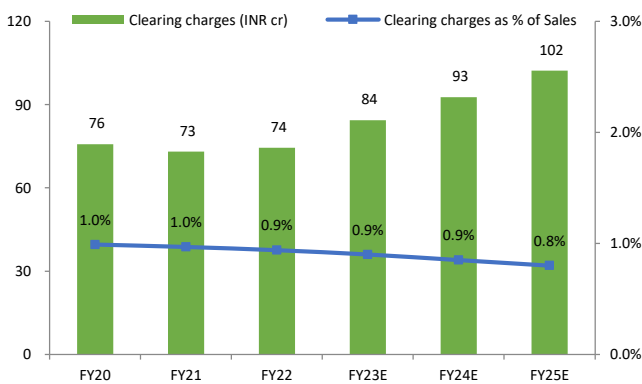
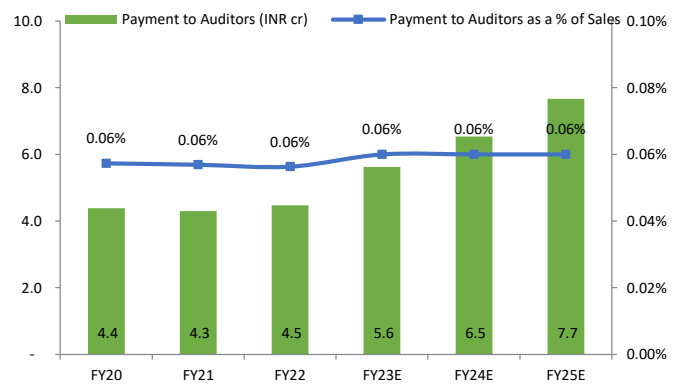


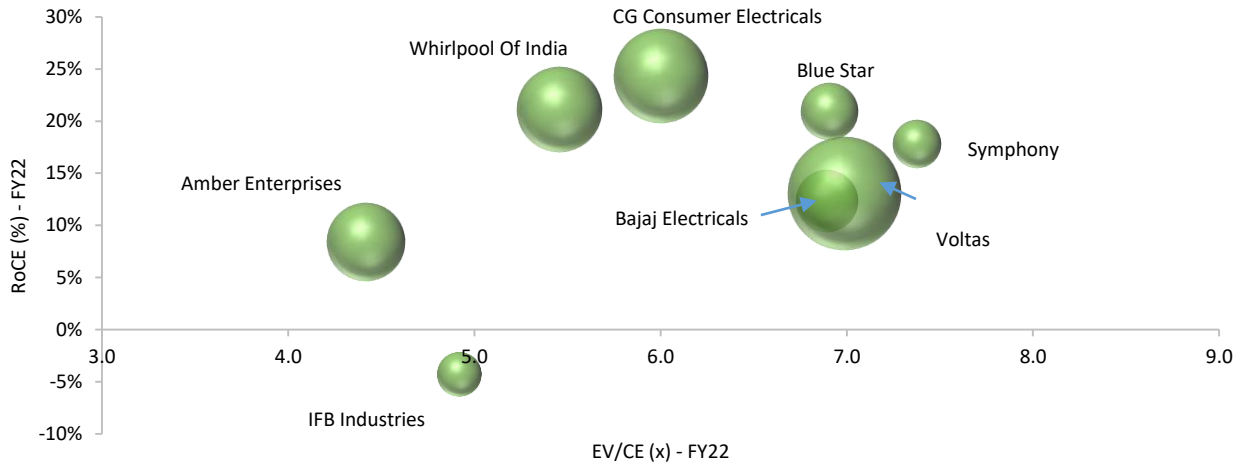
Exhibit 16: Payments to the auditors remain flat in-terms of sales.



Source: Company Reports, Arihant Capital Research

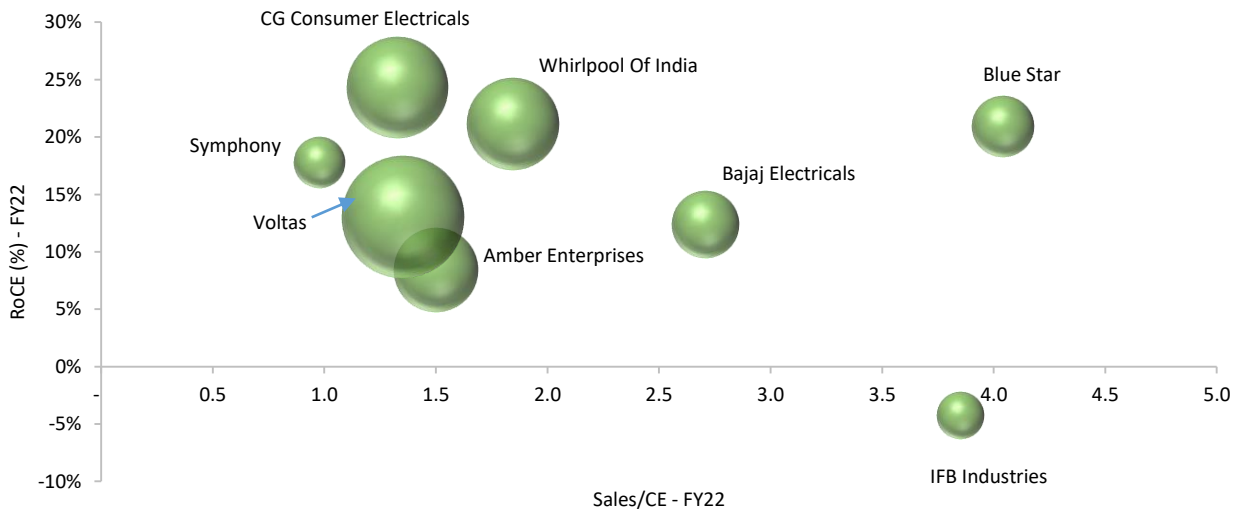
Peer Comparison

Exhibit 17: Voltas deployed lower capital in terms of Enterprise value and delivered 13% RoCE in FY22, while Whirlpool was deployed slightly higher capital in terms of Enterprise value and delivered 21% RoCE in FY22.



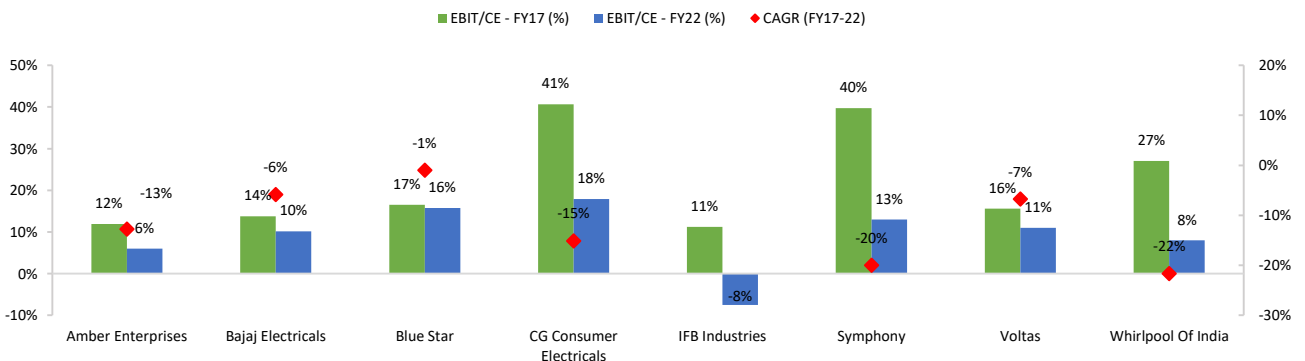
Source: Ace Equity, Arihant Capital Research; Bubble size represents Capital Employed (CE)

Exhibit 18: Blue star earned INR 4 per INR 1 of Capital Employed, While Voltas and Whirlpool earned INR 1.4 and INR 1.8 per INR 1 of Capital Employed in FY22 respectively.



Source: Ace Equity, Arihant Capital Research; Bubble size represents Capital Employed (CE)

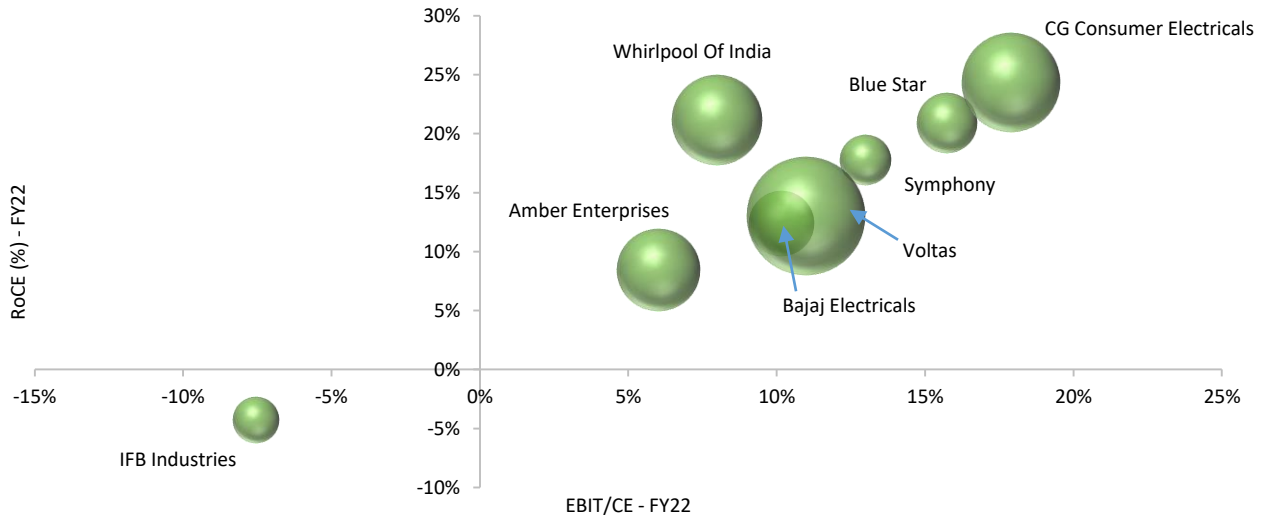
Exhibit 19: Blue Star sustained profitability in-terms of Capital Employed over the period of FY17-22. Strong recovery expected in Voltas and Whirlpool Of India going forward.



Source: Ace Equity, Arihant Capital Research

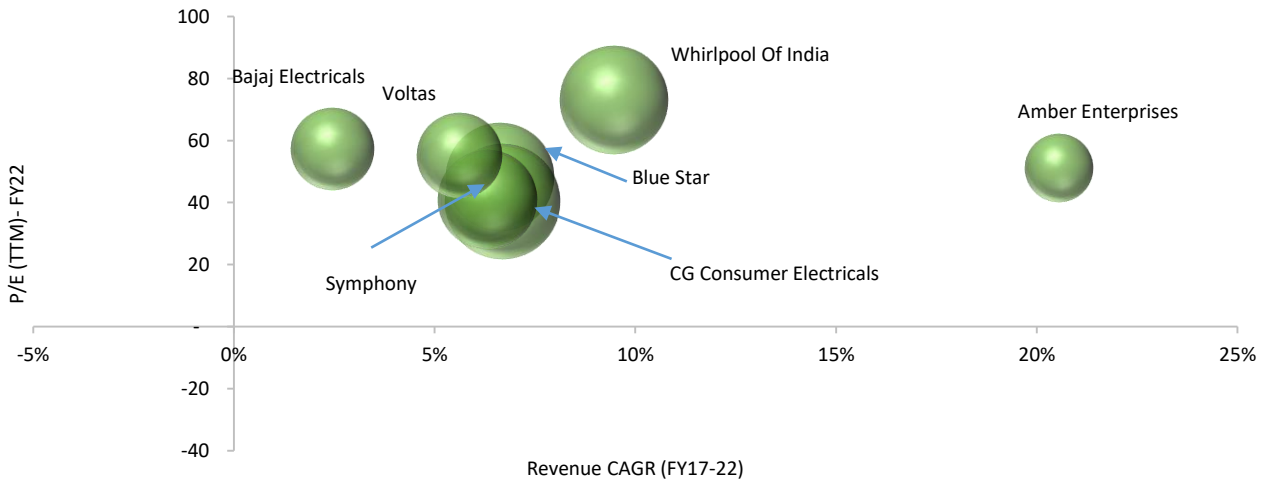
Peer Comparison

Exhibit 20: Blue Star and CG Consumer Electricals generated 16% and 18% of EBIT/CE respectively, which is healthy operating profit in the industry. Whirlpool of India generated 8% of EBIT/CE in FY22 which is expected to improve going forward.



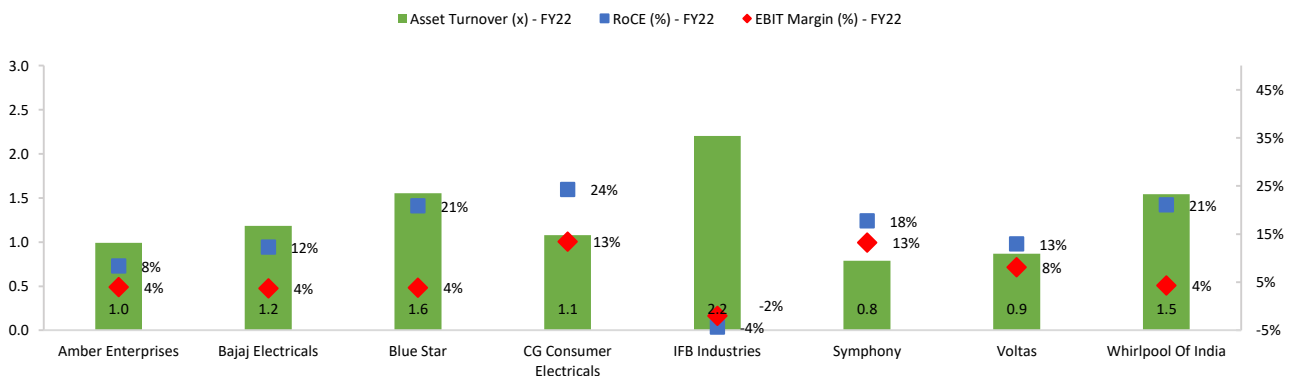
Source: Ace Equity, Arihant Capital Research; Bubble size represents Capital Employed (CE)

Exhibit 21: Voltas delivered 5.6% CAGR revenue growth over the period of FY17-22 and valued PE of 55.2x, while Whirlpool delivered 9.5% CAGR revenue growth over the same period and valued at PE of 73x.



Source: Ace Equity, Arihant Capital Research; Bubble size represents RoCE

Exhibit 22: Blue Star and Whirlpool efficiently used its assets to generate sales compared to peers.



Source: Ace Equity, Arihant Capital Research

Peer Comparison

Exhibit 23: Blue star maintained RoCE over the period of FY17-22

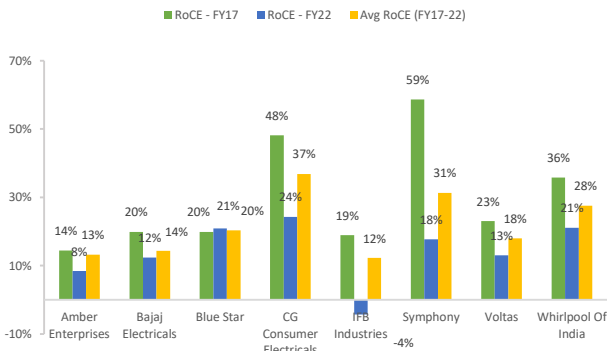


Exhibit 24: Blue star maintained RoE over the period of FY17-22

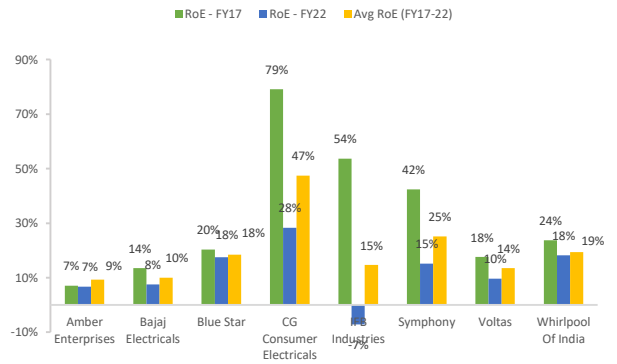


Exhibit 25: Voltas has generated 25% CAGR return over 14% of ROE during the period of FY17-FY22.

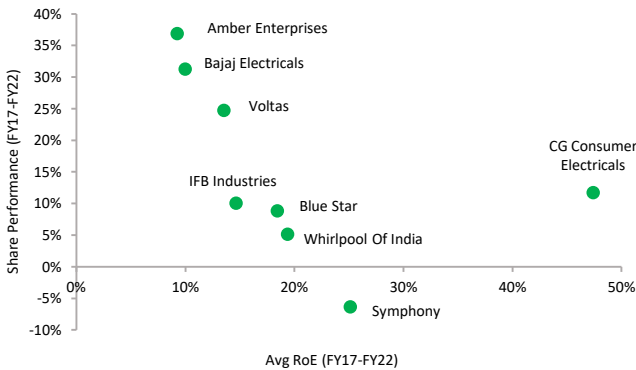


Exhibit 26: Voltas and Whirlpool was generated healthy RoA in the industry over the period of FY17-FY22.

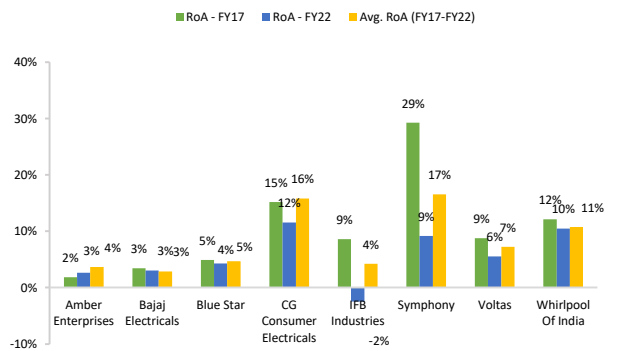


Exhibit 27: Blue Star witnessed RoCE expansion during the period of FY17-FY22.

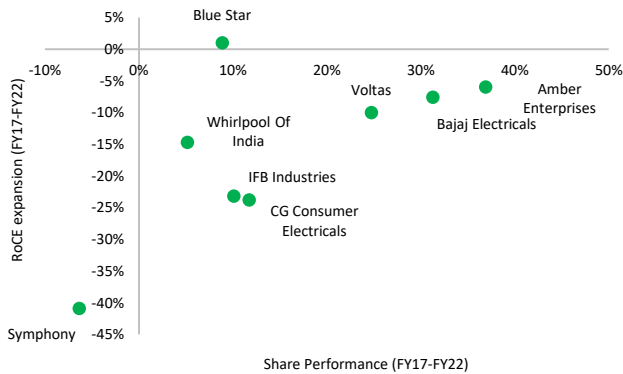
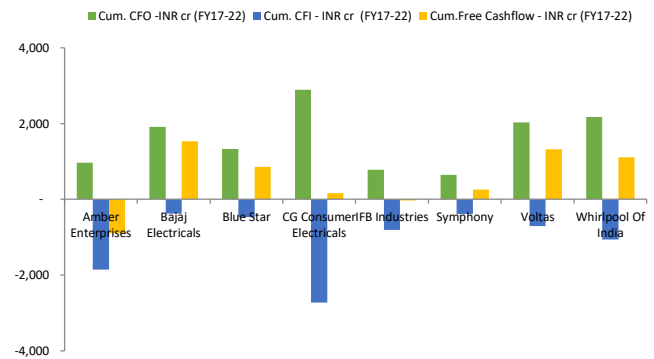


Exhibit 28: Voltas, Whirlpool, Blue Star and Bajaj Electricals generated healthy free cash flows over the period of FY17-FY22.



Source: Ace Equity, 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