

August 16, 2024

RESULT REPORT Q1 FY25 | Sector: Consumer Durables

# Voltas Ltd

## RAC outperformance continues; assign Neutral rating

### Result Synopsis

Voltas has delivered better than expected revenue growth with UCP growing by 51% (higher than peers like BLSTR and Lloyd) and EMPS segment growing 40% on improved execution as order backlog continues to be robust. Voltas has outperformed industry in terms of revenue growth in UCP. It's YTD market share of 19.5% has seen improvement of ~50bps, while its June'24 exit market share stood at 21.2%. UCP margins at 8.6% have been lower than estimates as commercial Ac and refrigeration margins were impacted on quality control orders, where company had to sell product at lower prices. Volt-Bek continues to see strong traction with washing machine and refrigerator market share standing at ~8% and 5% respectively. The projects business margins at 7.1% have been positive surprise, the company expects mid-single digit margin in the project business to be sustainable going forward. Order-booking has been subdued as company has been cautious in booking orders and there was impact of elections. The company expects order-booking to improve from 2HFY25. The company's carried forward book stands at Rs75bn which is 8% lower on yoy basis. On the positive front the arbitration verdict is in the favor of the company and there is the possibility of write-backs, however the process is time consuming. We remain positive on the stock as 1) UCP is expected to continue its outperformance given the strong distribution reach and after sales service; 2) Project business is now expected to be profitable on sustainable basis; 3) Voltas-Beko is getting prominence in the market and losses are coming down. We assign Neutral rating with PT of Rs1,675

Voltas being a market leader with solid distribution presence and increasing product offerings on the commercial refrigeration and RAC segments should further improvement in market share. Q1 has seen continuing outperformance on RAC front with market share gains. Volt-Bek JV has started gaining prominence in the market and localized production is expected to increase efficiency and bring down losses. Management is guiding for 4-5% margins in the project business to be sustainable vs the losses since past 6 quarters. We now factor in strong RAC revenue growth in FY25 with margins of 8.7%. We maintain our multiple in the products business (UCP) and project business as company has started to win back market share without significantly compromising on the margins resulting in SoTp based PT of Rs1,675 with NEUTRAL rating. We see strong momentum for RAC continuing in FY25 on low channel inventory and buoyant demand.

### Result Highlights

- Quarter summary – Voltas delivered strong revenue growth with revenue growing 46.5% yoy. UCP registered revenue growth of 51%, EMPS (Electromechanical Projects and services) registered growth of 40%.
- UCP –: Revenue grew 51% yoy. UCP business has outperformed industry and peers. UCP volumes grew by 67% in Q1. Its market share in RAC stood at 19.5% as on YTD March'24.

### Exhibit 1: Actual vs estimates

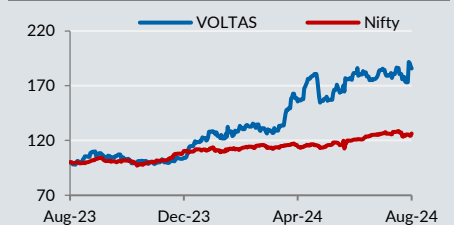
Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	49,210	48,079	45,330	2.4	8.6	Market share gains and turnaround of project business leads to outperformance
EBITDA	4,238	3,720	3,250	13.9	30.4	
EBITDA Margin (%)	8.6	7.7	7.2	90 bps	140 bps	
Adjusted PAT	3,350	2,815	2,410	19.0	39.0	

Reco	: NEUTRAL
CMP	: Rs 1,532
Target Price	: Rs 1,675
Potential Return	: +9.4%

### Stock data (as on Aug 16, 2024)

Nifty	24,541
52 Week h/l (Rs)	1599 / 794
Market cap (Rs/USD mn)	512971 / 6112
Outstanding Shares (mn)	331
6m Avg t/o (Rs mn):	2,213
Div yield (%):	0.4
Bloomberg code:	VOLT IN
NSE code:	VOLTAS

### Stock performance



	1M	3M	1Y
Absolute return	0.7%	16.0%	85.4%

### Shareholding pattern (As of Jun'23 end)

Promoter	30.3%
FII+DII	55.5%
Others	14.2%

### Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	ADD
Target Price	1,675	1,538

### Δ in earnings estimates

	FY25e	FY26e
EPS (New)	26.0	32.3
EPS (Old)	25.5	31.6
% change	2.0%	2.2%

### Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	124,812	153,632	167,420
YoY Growth	31.4%	23.1%	9.0%
EBIDTA	4,746	11,001	12,323
YoY Growth	-17.1	131.8	12.0
PAT	2,481	8,585	10,699
YoY Growth	-34.7%	246.0%	24.6%
ROE	4.4	14.0	15.7
EPS	7.5	26.0	32.3
P/E	204.3	59.0	47.4
BV	176.0	195.5	217.2
EV/EBITDA	106.5	45.6	40.3

### AAKASH FADIA

Analyst

aakash.fadia@ysil.in



- **EMPS-** Revenue grew 39.8% yoy on improved execution and robust order book. The company has registered EBIT margin of 7.1%, which has been highest since Q1FY20. The company expects mid-single digit margin to be sustainable.
- **Volt-Bek** – Voltas beko continues to see strong traction. Its market share in washing machine stands at ~8%. Volt-Bek has become one of the top three player in the semi-automatic washing machine. In Q1FY25 it has achieved more than 50% volume growth in both washers as well as refrigerators.

## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	y/y %	q/q %	FY24	FY23	y/y %
Sales	33,599	22,928	26,257	42,029	49,210	46.5	17.1	124,812	94,987	31.4
EBITDA	1854	703	284	1906	4238	128.6	122.4	4,746	5,724	-17.1
EBITDA Margin %	5.5	3.1	1.1	4.5	8.6			3.8	6.0	
Depreciation	112.6	116.8	128.4	118.1	134.3	19.3	13.7	476	396	20.1
EBIT	1741	586	156	1788	4104	135.7	129.6	4,270	5,327	-19.8
EBIT Margin %	5.2	2.6	0.6	4.3	8.3			3.4	5.6	
Interest charges	101	115	135	208	98	-3.6	-53.1	559	296	88.8
Other Income	700	710	579	544	803	14.7	47.5	2,533	1,685	50.3
PBT	2029	850	239	1741	4515	122.5	159.4	4,858	3,071	58.2
Tax	735	493	515	634	1165	58.6	83.7	2,377	1,709	39.1
Effective Tax Rate (%)	36.2	58.0	215.7	36.4	25.8			48.9	55.7	
PAT	1294	357	-276	1106	3350	158.8	202.8	2,481	1,362	82.2
PAT Margin %	3.9	1.6	-1.1	2.6	6.8			2.0	1.4	
EPS (Rs)	3.9	1.1	-0.8	3.3	10.1	158.8	202.8	7.5	4.1	82.2

Source: Company, YES Sec

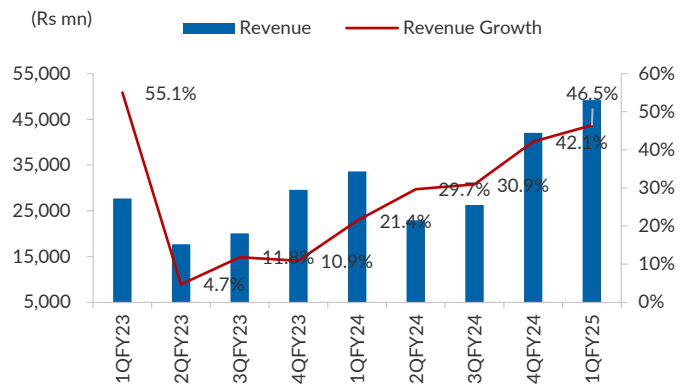
## Exhibit 3: Segmental Performance

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)	FY24	FY23	YoY (%)
EMPS	6,791	9,242	9,819	10,979	9,491	39.8	-13.6	36,830	24,029	53.3
EPS	1,423	1,344	1,548	1,564	1,608	13.0	2.8	5,879	5,220	12.6
UCP	25,140	12,088	14,756	29,551	38,022	51.2	28.7	81,535	64,745	25.9
Less: Intersegment	0	0	0	171	82	NM	NM	171	0	
Income from operations	33,353	22,674	26,123	41,923	49,039	47.0	17.0	124,244	93,994	32.2
PBIT										
EMPS	(519)	(490)	(1,200)	(1,077)	675	-230.1	-162.7	-3,285	-582	464.1
EPS	541	539	499	478	448	-17.1	-6.2	2,057	2,007	2.5
UCP	2,073	928	1,229	2,704	3,270	57.7	20.9	6,935	5,378	28.9
Total PBIT	2,096	977	528	2,105	4,394	109.6	108.7	5,707	6,803	-16.1
Less: Unallocable expense	(34)	13	154	157	(219)	539.1	-239.9	290	998	-70.9
Operating Income	2,130	964	374	1,949	4,613	116.5	136.7	5,417	5,806	-6.7
Less: Interest Expense	101	115	135	208	98	-3.6	-53.1	559	296	88.8
Exceptional	-	-	-	-	-			0	0	
PBT	2,029	850	239	1,741	4,515	122.5	159.4	4,858	5,510	-11.8
PBIT Margins (%)						(bps)	(bps)			(bps)
EMPS	(7.6)	(5.3)	(12.2)	(9.8)	7.1	1,475	1,692	(8.9)	(2.4)	(650)
EPS	38.0	40.1	32.2	30.6	27.9	(1,014)	(268)	35.0	38.5	(347)
UCP	8.2	7.7	8.3	9.2	8.6	35	(55)	8.5	8.3	20
Total PBIT	6.3	4.3	2.0	5.0	9.0	268	394	4.6	7.2	(264)

Source: Company, YES Sec

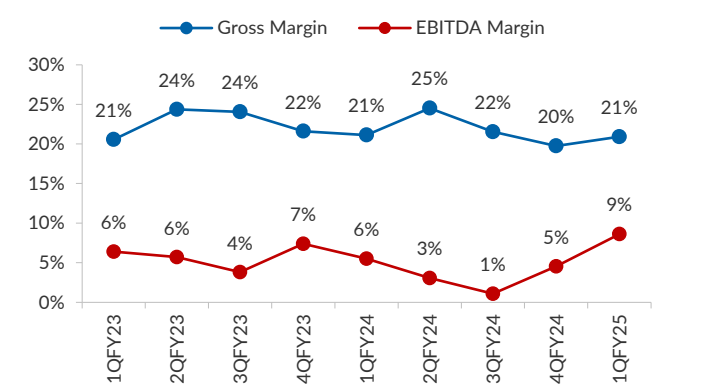
**CHARTS**

**Exhibit 4: Revenue beat is on account of strong RAC sales and improved execution**



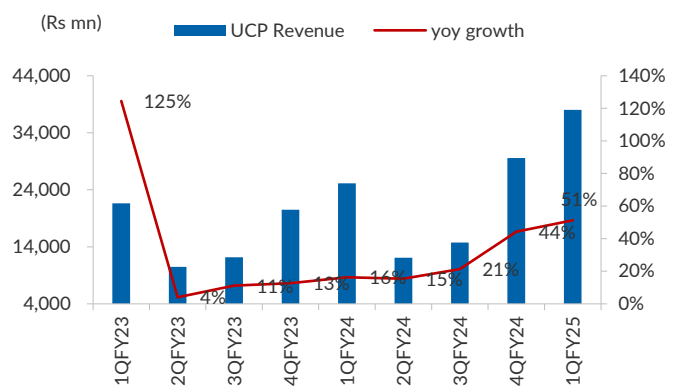
Source: Company, YES Sec

**Exhibit 5: Turnaround of EMPS business has resulted in EBITDA margin expansion**



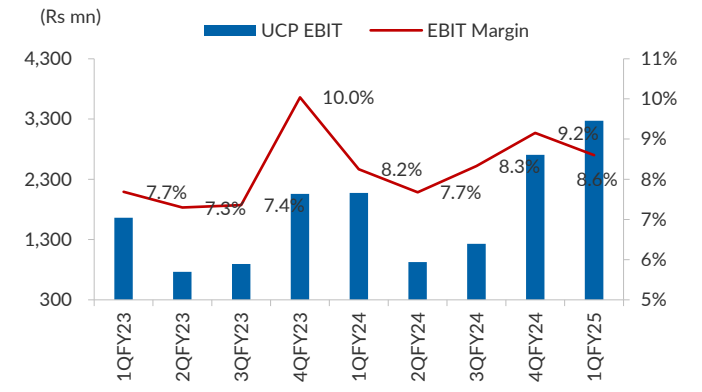
Source: Company, YES Sec

**Exhibit 6: UCP revenue growth has been better than expected**



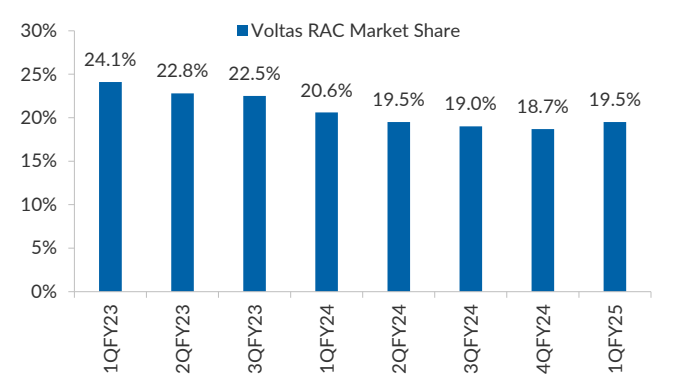
Source: Company, YES Sec

**Exhibit 7: Lower margin in commercial AC has dragged UCP margins**



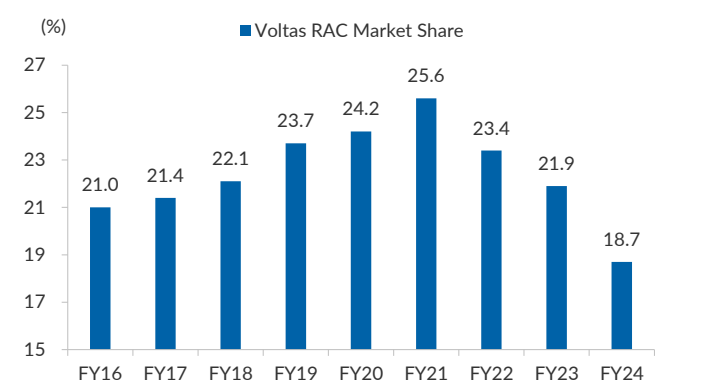
Source: Company, YES Sec

**Exhibit 8: Company has started to re-gain lost market share**



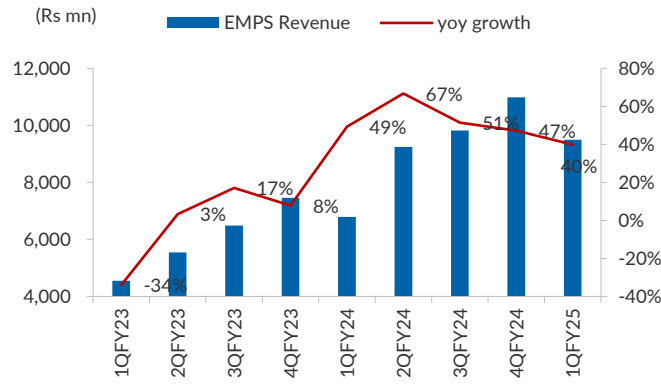
Source: Company, YES Sec

**Exhibit 9: Company has lost market share for second consecutive year**



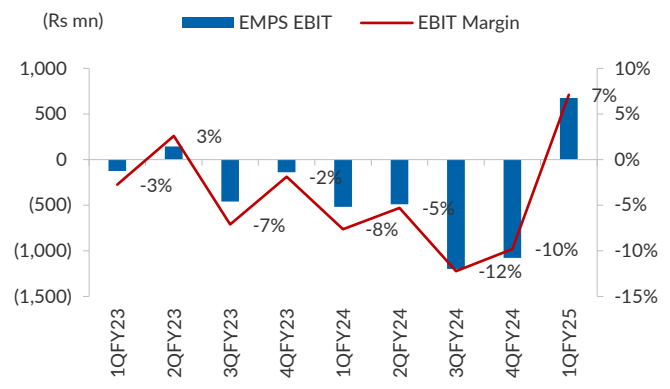
Source: Company, YES Sec

**Exhibit 10: EMPS revenue has seen strong positive traction on healthy orderbook**



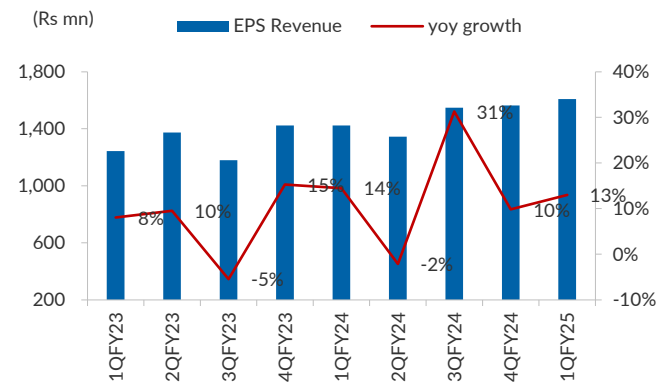
Source: Company, YES Sec

**Exhibit 11: EMPS margin are back in positive territory**



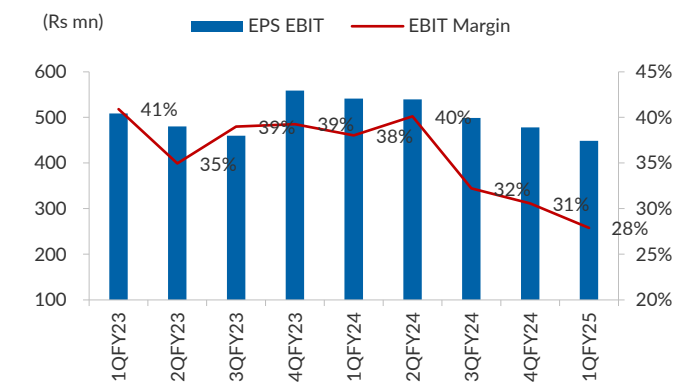
Source: Company, YES Sec

**Exhibit 12: Revenue growth has been steady**



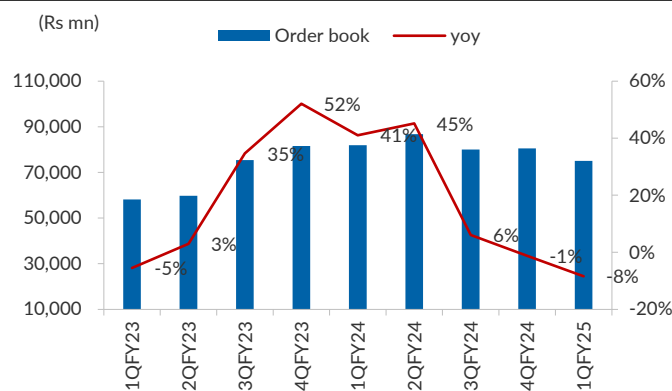
Source: Company, YES Sec

**Exhibit 13: EPS margins have been coming off**



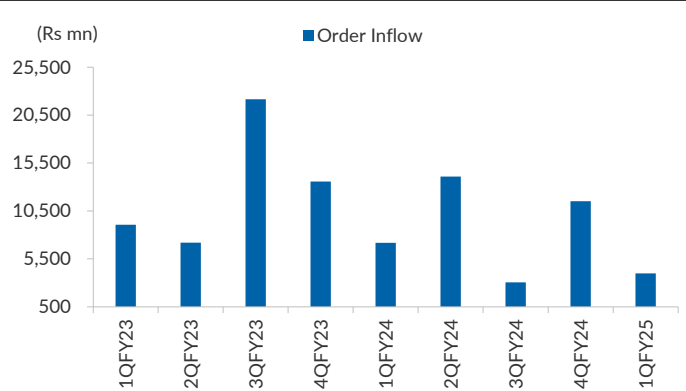
Source: Company, YES Sec

**Exhibit 14: Order-book remains healthy**



Source: Company, YES Sec

**Exhibit 15: The company is cautious in booking new orders**



Source: Company, YES Sec

## Exhibit 16: Revenue and Margin Assumption

Revenue (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
EMPS	24,705	24,029	36,830	42,620	44,975
Yoy	-14%	-3%	53%	16%	6%
Order Inflow	11,955	51,969	35,830	42,996	49,446
Yoy	-50%	335%	-31%	20%	15%
Order Book	53,600	81,540	80,540	80,916	85,387
Yoy	-19%	52%	-1%	0%	6%
EPS	4,887	5,220	5,879	6,761	7,775
Yoy	36%	7%	13%	15%	15%
UCP	48,819	64,745	81,605	103,638	114,002
Yoy	16%	33%	26%	27%	10%
Total Revenue	78,411	93,994	124,314	153,019	166,752
Yoy	5%	20%	32%	23%	9%
PBIT (Rs mn)					
EMPS	1,258	-582	-3,285	2,131	2,698
% Margin	5%	-2%	-9%	5%	6%
EPS	1,579	2,007	2,057	2,366	2,720
% Margin	32%	38%	35%	35%	35%
UCP	5,134	5,378	6,935	9,017	10,488
% Margin	10.5%	8.3%	8.5%	8.7%	9.2%
Total PBIT	7,971	6,803	5,707	13,513	15,907
% Margin	10%	7%	5%	9%	10%

## Exhibit 17: SoTP Valuation based on FY26 estimates

Segment	PAT	Multiple	Rs mn
EMPS	1,862	30	55,847
EPS	1,877	30	56,300
UCP	7,235	60	434,117
Total MCAP			546,264
Number of Shares			331
Target Price			1,652
Value of VoltBek			23
Total Value			1,675

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

### UCP

- Sold 1mn units of RAC in first 88 days of current financial year. For the quarter volume stood at 1.1mn
- In Q1FY25, UCP volume growth stood at 67%, while split air-conditioner volume growth stood at 65%.
- 5 star rated AC continues to see strong growth and mix is improving.
- Exit market share at end of June'24 stood at 21.2%. Increased YTD markets share by ~50bps and is currently at 19.5% which is higher by 450bps than the second best
- Air coolers has seen strong volume growth of 170%, with strong advance booking for he coolers for next season. There has been strong sellout of air-coolers across all the channels. Market share in air-cooler stood at 10.5% and is second best player in the industry.
- Channel inventory is very lead and inventory filling will start from Q2.
- Water heater sales continue to be good, despite this being lean season.
- Sales of commercial air-conditioner are also good with VRF and ducted AC seeing good sales
- Margins in the commercial AC's have been lower dragging overall margin. Margins of commercial AC will improve in next few months.
- Commercial operations at the Chennai plant has started with RAC capacity of 1mn units and one line of water dispenser has started with capacity of 3.5 lakh units. Commercial operations has been started from 1st week of August.
- The company is looking for technology partner to venture into compressor manufacturing and also looking for backward integration in RAC.
- A&P have been 3% for the quarter and for full year it would be in the range of 1.7% of the sales.

**EMPS** – Domestic project business grew at 50% with the carried forward order-book stood at Rs47.6bn. On the international projects front Saudi and UAE continues to deliver well. Order-book for the international front stands at Rs27.3bn. Overall order-book stood at Rs75.1bn vs 81.9bn in 1QFY4. Domestic order-booking has been slow on account of election and company being cautious on order-booking, however the company expects domestic order-booking from 2HFY25

- The company has received some arbitration in their favor and collection will take time to collect. This could result in writeback going forward, but will be time consuming process
- Margins are were healthy as orders executed reached threshold execution levels
- The company expects mid-single digit margins in EMPS segment

**Voltas-Beko** – Voltas-Beko has seen strong growth in home appliances, with volume growth of 50%. Losses per unit has been reducing. Volt-Bek is one-off the top three player in the semi-automatic market with market share of 14% and overall market share of 7.8% in washing machine category. Refrigerator volume growth also stood at 50% with YTD market share of 5.2%

## FINANCIALS

### Exhibit 18: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	331	331	331	331	331
Reserves	54,665	54,190	57,874	64,338	71,511
Net worth	54,996	54,521	58,205	64,669	71,841
Debt	3,608	6,506	7,436	9,153	9,975
Deferred tax liab (net)	272	53	589	589	589
Other non current liabilities	1,411	1,451	1,404	1,549	1,657
Total liabilities	60,287	62,530	67,634	75,960	84,063
Fixed Asset	3,173	5,012	7,980	10,034	10,141
Investments	36,687	31,581	35,532	35,532	35,532
Other Non-current Assets	3,033	4,659	4,473	5,243	5,612
Net Working Capital	11,677	14,195	11,129	11,245	12,211
Inventories	16,614	15,920	21,354	26,285	28,643
Sundry debtors	21,097	21,919	25,328	31,176	33,974
Loans and Advances	3,486	6,554	9,276	11,417	12,442
Sundry creditors	29,421	30,126	38,557	47,460	51,720
Other current liabilities	6,167	8,474	12,055	13,200	13,749
Cash & equivalents	5,717	7,084	8,521	13,906	20,567
Total Assets	60,287	62,530	67,634	75,960	84,063

Source: Company, YES Sec

### Exhibit 19: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	79,345	94,988	124,812	153,632	167,420
Operating profit	6,816	5,724	4,746	11,001	12,323
Depreciation	373	396	476	602	649
Interest expense	259	296	559	688	750
Other income	1,892	1,685	2,533	2,630	2,768
Profit before tax	8,076	6,716	6,244	12,341	13,692
Taxes	1,913	1,709	2,377	3,106	3,446
Minorities and other	1,103	1,207	1,386	650	(453)
Adj. profit	5,060	3,800	2,481	8,584	10,699
Exceptional items	-	2,438	-	-	-
Net profit	5,060	1,362	2,481	8,584	10,699

Source: Company, YES Sec

## Exhibit 20: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Profit before tax	8,335	7,012	6,803	13,028	14,442
Depreciation	373	396	476	602	649
Tax paid	(1,913)	(1,709)	(2,377)	(3,106)	(3,446)
Working capital Δ	(1,442)	(1,247)	1,123	(116)	(966)
Other operating items					
Operating cashflow	5,353	4,452	6,025	10,408	10,679
Capital expenditure	(857)	(2,235)	(3,444)	(2,656)	(756)
Free cash flow	4,496	2,217	2,581	7,752	9,923
Equity raised	1,821	(431)	3,023	650	(453)
Investments	(3,818)	3,836	(2,008)	-	-
Debt financing/disposal	1,002	2,898	931	1,717	821
Interest paid	(259)	(296)	(559)	(688)	(750)
Dividends paid	(1,819)	(1,406)	(1,819)	(2,770)	(3,074)
Net Δ in cash	1,135	1,403	1,357	5,385	6,662

Source: Company, YES Sec

## Exhibit 21: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	0.63	0.57	0.40	0.70	0.78
Interest burden (x)	0.97	0.96	0.92	0.95	0.95
EBIT margin (x)	0.11	0.07	0.05	0.08	0.09
Asset turnover (x)	0.86	0.95	1.12	1.17	1.13
Financial leverage (x)	1.75	1.83	1.98	2.13	2.17
RoE (%)	9.6	6.9	4.4	14.0	15.7

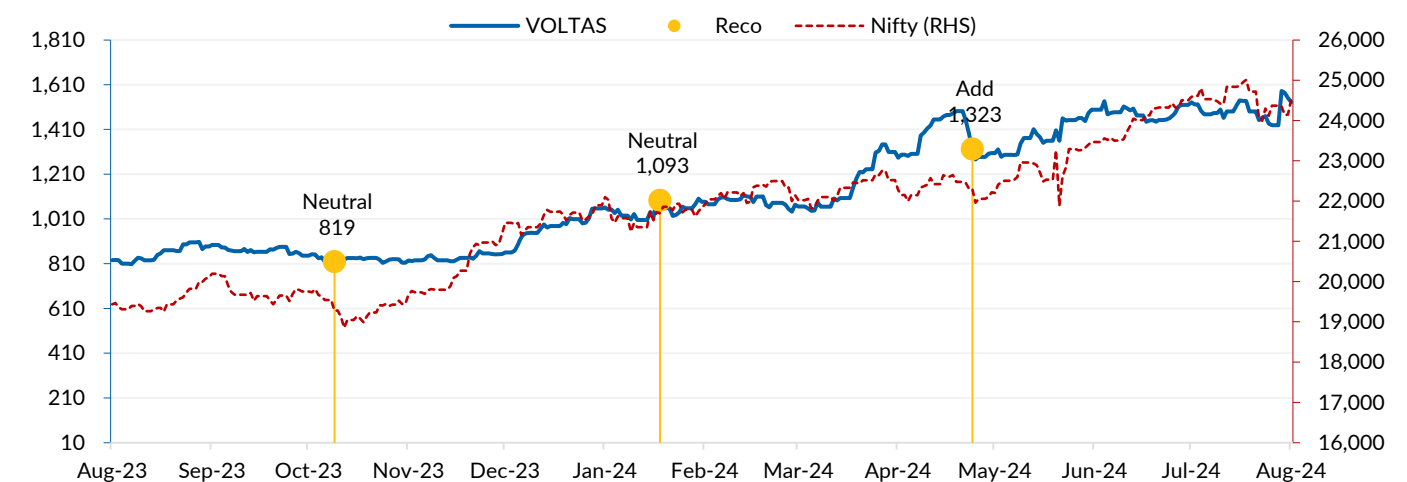
## Exhibit 22: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth matrix (%)</b>					
Revenue growth	5.0	19.7	31.4	23.1	9.0
Op profit growth	6.3	(16.0)	(17.1)	131.8	12.0
EBIT growth	4.7	(15.9)	(3.0)	91.5	10.8
Net profit growth	(4.3)	(24.9)	(34.7)	246.0	24.6
<b>Profitability ratios (%)</b>					
OPM	8.6	6.0	3.8	7.2	7.4
EBIT margin	10.5	7.4	5.5	8.5	8.6
Net profit margin	6.4	4.0	2.0	5.6	6.4
RoCE	15.0	11.7	10.7	18.7	18.6
RoNW	9.6	6.9	4.4	14.0	15.7



Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
RoA	5.5	3.8	2.2	6.6	7.2
<b>Per share ratios</b>					
EPS	15.3	11.5	7.5	26.0	32.3
Dividend per share	5.5	4.3	5.5	8.4	9.3
Cash EPS	16.4	12.7	8.9	27.8	34.3
Book value per share	166.3	164.8	176.0	195.5	217.2
<b>Valuation ratios</b>					
P/E	100.2	372.0	204.3	59.0	47.4
P/CEPS	77.5	170.9	116.7	51.5	46.5
P/B	9.2	9.3	8.7	7.8	7.1
EV/EBIDTA	74.0	88.4	106.5	45.6	40.3
<b>Payout (%)</b>					
Dividend payout	36.0	37.0	73.3	32.3	28.7
Tax payout	23.7	25.4	38.1	25.2	25.2
<b>Liquidity ratios</b>					
Debtor days	97.0	84.2	74.1	74.1	74.1
Inventory days	76.4	61.2	62.4	62.4	62.4
Creditor days	135.3	115.8	112.8	112.8	112.8

## Recommendation Tracker



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